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CTBT: NEW DELHI WORKS AGAINST ITS OWN TREATY

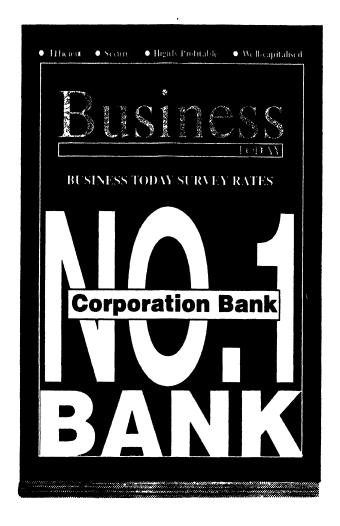
WHITHER RURAL FINANCIAL INSTITUTIONS?

KASHMIR: ELECTIONS UNDER GOVERNMENT-SPONSORED TERRORISTS

EDUCATING THE NATIONAL IMAGINATION

WALKING ON ONE LEG: INDIA'S SOFTWARE INDUSTRY

- **BUDGET 1996-97: GIFT-WRAPPING**THE REFORMS
- **GANDHI-AMBEDKAR INTERFACE:** WHEN SHALL THE TWAIN MEET?
- SOCIAL SECURITY IN UNORGANISED SECTOR: KERALA'S EXPERIENCE
- **EXTREMIST CHALLENGE AND INDIAN STATE: CASE OF ASSAM**



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ECONOMIC AND POLITICAL WEEKLY

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Education and Nation-Building

The structuring of knowledge is intimately linked to the structuring of power. In India, since 1947, the project of nation-building has lain at the heart of educational policy. It has been an uneasy and sharply contested process, however. Education has been the site of multiple definitions of the nation as various claimants to power have attempted to lay their imprint upon it.

Rural Financial Institutions

After the initiation of the economic reforms in 1991 several formal and informal proposals have emerged for the restructuring of the existing rural financial institutions (RFIs), questioning both their developmental objectives and their financial viability. With few exceptions, however, none of these proposals has been based on a sound understanding of the working and problems of the RFIs.

2083

Social Security in Unorganised Sector

In Kerala the government has initiated several measures to provide social security to workers in the unorganised sector. Welfare funds have been created and administered through tripartite statutory welfare boards. A study of the working of the Kerala Headload Workers Welfare Scheme.

India and CTBT

It is altogether illegitimate to support the government's rejection of the Comprehensive Test Ban Treaty (CTBT) while domestically opposing pressures for the exercise of the nuclear option. The calculations that drive the one are completely identical with those that sustain the other.

2061

Reforms Gift-Wrapped

It is remarkable that without resiling from any of the reform commitments or conceding anything substantial to the victims of the reform programme in the last five years, finance minister Chidambaram has been able to disarm his critics in the United Front, including the Left parties, and even to persuade them to applaud his budget.

2064

ULFA and Assamese Nationalism

The ULFA phenomenon is the product of the total alienation of frustrated Assamese youth from the Indian state. But the weakness of the Assamese national base, with numerous ethnic groups suspicious of Assamese hegemony and no longer willing to find a greater common identity in Assamese nationality and vast numbers of immigrants disturbed by the ambiguity of their situation, has made it impossible for the ULFA to formulate a programme of national reconstruction.

Export and Perish

The mainstream software industry in India has deliberately neglected the domestic market in favour of exports. The dangers of walking on one leg have been convincingly analysed in a recently published book.

207

Pacification of Kashmir

State-sponsored terrorist outfits have been used by Latin American dictators to put down popular dissent. The technique is being used in Kashmir by a democratic government in New Delhi — "to create conditions for a free election" there. 2059

Emancipatory Discourse

The Gandhian and Ambedkarian discourses are not antithetical. Both are concerned with the issue of emancipation. Today when the legitimacy of the emancipatory discourse is being challenged and the dominant discourse upholds capitalism, it is all the more necessary to broaden the scope of the Gandhian and Ambedkarian discourses.

'.Justice'

After 19 years Archana Guha who barely survived police torture as a suspected naxalite has received 'justice' — her torturer has been sentenced to a year's simple imprisonment.

LETTERS TO EDITOR

Oilseeds: Self-Sufficiency and Allocative Efficiency

THE article on oilseeds by Ashok Gulati et al (March 30) raises a number of questions.

- (1) Looking at Table 1 of the study from a different angle one can say that imports of edible oil during 1976-77 to 1987-88 accounted for about 43 per cent of domestic production on an average as compared to only 3 per cent during the preceding period, i.e., 1971-72 to 1975-76. This happened despite the fact that production was up by 13 per cent. In the record crop year of 1983-84, imports also reached a record level. According to the authors, it was the rising demand that led to massive imports. Or had the imports actually artificially hiked up the demand?
- (2) My contention is that these excessive imports led to depressed prices of oilseeds for a fairly long period of time. And obviously it led to allocative inefficiency. The authors are silent about this. Whether the present price rise is a correction factor or not I would leave to the authors to ponder.
- (3) The authors' contention is that a rise of oilseeds area, as a result of high prices, has led to allocative inefficiency. After the green revolution, the area under wheat and rice rose at a tremendous pace, at the cost of oilseeds, pulses and coarse cereals. Did allocative inefficiency arise at that time or not?
- (4) Who raised the prices of oilseeds/ edible oils recently? The MIO of the NDDB with a small per cent share (about 2 per cent) in the edible oil business cannot do it. The authors seem to be very biased against the MIO. We all know that support prices of oilseeds have remained on paper, but still they have been mentioned while quoting the MIO operations. At another place, instead of comparing the farm prices of oilseeds, the authors have compared edible oil prices to bring home their point. I don't know what they mean "by overplaying with the price entrument". Edible oil prices are not administrated prices like those of mineral oil.

 They are influenced by government operations as in the case of sugar. Then how did it happen? Due to the MIO? It is a farfetched conclusion; any student of economics can argue it out.

A time series analysis of groundnut oil prices for the last 5/6 months reveals 49 months' price cycles. These cycles broke their rhythm during 1976-77 to 1987-88 but the pattern revived after that. It means that

prices are on their normal path of behaviour. These price movements are now obviously related to supply and demand, and to say that they have been manipulated is meaningless.

- (5) How far can the macro-level factor of the NPC be relevant in such an analysis? Or does it mean turning a blind eye to the micro-level foundations. Which is the better alternative? NPC or the relation of domestic prices of oilseeds to their cost of production? The authors haye not perhaps studied the Farm Management Study of Groundnut in Tamil Nadu. They seem to assume that all the regions of the country and all the crops have equal physical endowments like fertile soil, assured rainfall, etc, and infrastructural facilities like irrigation, procurement operations of the government, etc, and also that substitution is easy.
- (6) The article by Mishra and Hazell (in the same issue of the EPW) as well as by other experts on terms of trade seems to suggest that it is not the barter terms of trade between the crops but income terms of trade (that is relative price variations corrected by relative productivity variations) which are more important in explaining relative acreage changes. I would be the first person to accept the conclusion of the authors if it is substantiated by such studies rather than on the basis of the NPC or barter terms of trade

roughly worked out as by the authors.

The impression is created that the author support the levels of imports as experience in the period 1976-77 to 1987-88. With my little experience with the oilseed sector, suspect the death-knell of the oilseed growe in the dry and semi-dry regions of the country if such a policy of massive imports of ediblioil is revived again.

Any short-period study devoid of it historical perspective and any macro-leve study devoid of its micro-level foundation are bound to reach some misleading conclusions. If we have failed to augmen productivity of some of our major traditions oilseeds like groundnut, sesame, coconut etc, at par with the 'green revolution' crop we have no right to snatch away whateve little gain the farmer has acquired as a resul of price rise from normal forces of suppl and demand, undisturbed by excessiv import. In the end, it may be stated that ther is no overplaying with the price instrumer now, but it was definitely underplayin with the price instrument during 1976-77 t 1987-88. It is just that we are compensatin the poor oilseed grower for his cumulativ loss of around 12 years inflicted deliberatel by the government.

M L JHAL

Vallabh Vidyanagar

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Folklore of 'Budget Deficit'

MONG the many elements of continuity in the fiscal A strategies adopted by finance minister P Chidambaram and his predecessor, that relating to their attitude towards the level and mode of financing of the budgetary deficit deserves comment. Chidambaram has stuck by Manmohan Singh's unrealised 'commitment' to a lower fiscal deficit, with the promise of bringing it down immediately from 5.9 per cent of GDP to 5 per cent in this financial year and to less than 4 per cent in course of time. However, their joint commitment to a programme of 'reform' based on the provision of incentives and shunning of disincentives to private investment has meant that the tax-GDP ratio continues to remain extremely low in India. At present it stands at less than 16 per cent (taking the centre and the states together) compared with levels varying between 19 and 38 per cent in the developed capitalist nations. As a result, the adjustment in the fiscal deficit does not involve any, or at best only a marginal, reduction in the revenue deficit. The casualty is capital expenditure, which this year is projected to rise by just 9 per cent in nominal terms or by 2-3 per cent in real terms, even though revenues are assumed to go up by around 18 per cent in nominal terms.

But the similarity does not end here. To finance even the lower projected fiscal deficit the finance minister has chosen to hold to a minimum his borrowing from the RBI through the issue of ad hoc treasury bills. In keeping with the failed objective of the previous government, the official 'budget deficit', denoting borrowing from the RBI against treasury bills, is to be reduced from last year's level of Rs 7,600 crore to a hoped for Rs 6,578 crore, which is close to the Rs 6,000 crore ceiling set in an MoU between the finance ministry and the Reserve Bank of India last year. Chidambaram has further declared that he intends pursuing the strategy of reducing such borrowing against ad hocs to zero within a suitable time frame.

The reasoning underlying this initiative is that the right to issue ad hocs whenever required results in two objectionable trends. First, it ostensibly encourages fiscal indiscipline, since the finance ministry is never seen as short of funds, which are treated as equivalent to newly printed money. Second, it increases reserve money in the form of central bank credit to the government and therefore contributes to an 'automatic' increase in money supply, which undermines the monetary authorities' control over the financial and economic system. On both these counts the initiative is misplaced.

As the reference above to the tax-GDP ratio indicates, the fundamental element of 'indiscipline' in fiscal management in India is that surplus earners in a society characterised by extreme inequality are able to influence tax policy and resort to tax avoidance and evasion to an extent where the share of the national cake mobilised by the state to meet its commitments

is abysmally low when compared to most 'market-friendly' capitalist countries. The glaring instance of 'zero-tax companies' which rake in huge profits, which the finance minister has attempted to partially deal with this time, is just one of the innumerable consequences of the inadequacies of the direct tax regime and its administration. Unfortunately, the thrust of tax reform has been to reduce tax rates rather than do something about the massive shortfall in the tax-GDP ratio.

As for its effects on money supply, experience suggests that controlling the official 'budget deficit' as a means to strengthen monetary management is by no means effective. An obvious consequence of capping the issue of ad hocs is that the government has to turn to the open market to meet the large borrowing requirement resulting from low tax revenues. Assuming that the contribution of other sources of reserve money expansion (such as the net foreign assets of the central bank) remain constant, such a shift in the source of borrowing results in a stringent liquidity situation and a sharp rise in interest rates, since the government competes with the private sector to garner lendable resources. This not only increases the interest liability associated with borrowing at the margin, but also makes it difficult for the government to find takers for its securities to an extent greater than warranted by devices of pre-emption of financial sector resources such as the statutory liquidity ratio. Since the central bank normally underwrites government securities, this soon results in a situation where large chunks of government bonds devolve on the RBI for lack of sufficient 'public' interest. Thus central bank credit to the government (and, therefore, reserve money) does rise, though a large part of this additional credit is at market related interest rates rather than the low 4.6 per cent rate on ad hocs. For example. net RBI credit to the central government increased by close to Rs 20,000 crore in the financial year 1995-96, when the budget deficit stood at just Rs 7,600 crore. The implication is that so long as resources are not mobilised the tendency for fiscal management to force increases in money supply and reduce the 'independence' of the monetary authority will persist.

What does change, however, is the interest liability on the revenue side of the budget, which begins to reflect the effects of high cost borrowing, increases substantially every year and renders the task of reducing the revenue deficit increasingly difficult. Thus the strategy of capping ad hocs erodes the ability of the government to sustain capital expenditures without sharply increasing the fiscal deficit. If yet the government persists with this measure, it possibly is because it strengthens the material ground for those who argue that the state is in no position to finance needed capital expenditures and must let them devolve on a private sector which is induced to invest with even more concessions.

UTTAR PRADESH

Private Agendas

THE Uttar Pradesh electoral scene is getting murkier, with the anti-BJP forces hopelessly divided and their votes likely to be disssipated in triangular contexts. The BJP may have the last laugh, unless the CPI(M)'s desperate efforts to avoid mutual confrontation between the BSP and the United Front candidates really succeed in bringing about some last-minute adjustments.

For those among the electorate seeking a viable political alternative there is hardly any choice. None of the political parties in the fray had covered itself with glory during their respective tenures in office. The BJP which is the most despicable of the lot, by demolishing the Babri Masjid and unleashing widespsread riots under its administration in the state, created a nation-wide atmosphere of communal terror from which India is yet to recover. Mulayam Singh Yadav's Samajwadi Party (SP) and Kanshi Ram's Bahujan Samaj Party (BSP), riding on the wave of backward caste and 'dalit' solidarity and Muslim support, came to power soon after. But lacking any wider political perspective and programme of socioeconomic change, the provincial 'satraps' of both the parties of the SP-BSP coalition government got embroiled in clashes over personal one-upmanship, reinforced by their respective casteist loyalties. The SP-BSP coalition government's emergence reflected in a large measure the hopes and aspirations of the majority consisting of the socially backward and oppressed castes and classes, as well as the persecuted minority communities, of Uttar Pradesh. But the leaders whom they voted to power betrayed their hopes. The Mulayam Singh-led SP behaved like a big brother, antagonising the BSP and in the process fuelling the careerist ambitions of the leaders of the latter. In order to oust Mulayam Singh from power, the Kanshi Ram-Mayavati duo of the BSP had no compunctions in allying with the BJP which till the other day they had denounced as 'Manuwadi' or subscribing to the brahminical anti-dalit values of the Hindu upper castes - and coming to power. The political vendetta that Mayavati as the chief minister followed against officers who had worked under Mulayam Singh by ousting and replacing them with her own favoured bureaucrats was as bad as Mulayam Singh's policy of appointing and protecting officials of his own choice to key posts in the administration. This practice of political manipulation of the administration all these years has now come home to roost, with the bureaucracy losing all credibility. While Mulayam Singh has been indicted by the Ramesh Chandra committee as the main accused behind the alleged attack on BSP leader Mayavati at a guest house in June last year, Mulayam's supporters are quick to point out that Ramesh Chandra had signed the report indicting Mulayam Singh after he had been promised re-employment by the then chief minister Mayavati as chairperson of the UP Public Service Commission. Who are we to believe?

The electoral battle is being fought out against this sordid background of mudslinging between the SP and the BSP. Both parties appear to be determined to give the elections a violent twist, with Mulayam Singh asking his followers to form themselves into an armed battalion called, of all things, the 'Red Brigade' and Kanshi Ram retaliating with the threat to organise his followers into a 'Blue Brigade'. Given this mood of bitter confrontation between the two camps, the CPI(M)'s hopes of persuading them to agree to electoral adjustments seem to be doomed to failure.

The role of prime minister Deve Gowda in this dismal scene in UP is even more curious. First, he appointed as the state's governor Ramesh Bhandari who had earlier acquired considerable notoriety as a hatchet man of the ruling Congress wherever he had been posted, most notably in Tripura some years ago. Second, Deve Gowda sent disturbing signals to his partners in the central coalition by choosing to hob-nob with Congress politicians during his recent public meeting at Rampur in UP totally ignoring Mulayam Singh Yadav and his SP. Is he in favour of a Congress-BSP victory in UP, that could help him in clipping the wings of Mulayam Singh?

FINANCIAL SYSTEM

Further Push to Cost of Funds

THE phenomenal growth of non-banking financial companies (NBFCs) and unincorporated enterprises in the financial area has focused attention on the need for regulation of their activities. After the 1991-92 financial scam in which some NBFCs were involved, the Joint Parliamentary Committee (JPC) had recommended the strengthening of legislative provisions to ensure proper functioning of NBFCs and in particular protection of depositors. Even as the finance ministry has been getting ready to introduce the legislative changes for compulsory registration and better regulation, the Reserve Bank has been using the already existing powers to enforce a modicum of discipline on the NBFCs. Armed with the A C Shah Committee's recommendations, the RBI has been issuing guidelines covering different aspects of the working of NBFCs. Among the more important measures taken by the RBI are the requirement that NBFCs with net owned funds (NOFs) of Rs 50 lakh and above must get themselves registered with the RBI, the enlargement of the definition of regulated deposits to include inter-corporate loans and borrowings from shareholders by private limited NBFCs, the prescription of prudential guidelines for registered NBFCs for income recognition, accounting standards, provisioning for bad and doubtful debts, capital adequacy norms and concentration of credit and investments, the requirement that registered NBFCs get themselves rated by one of the three rating agencies at least once a year and curtailment of bank finance available to NBFCs on a selective basis. Very recently the RBI has brought within its regulatory framework the activities of 'nidhis', imposing on them the 15 per cent ceiling on their deposits and preventing them from issuing advertisements.

However, as the authorities are aware, the objective of effective regulation and supervision of the activities of NBFCs and particularly those of the massive number of unincorporated enterprises involved in financial intermediation remains elusive. Of the 2,49,181 joint-stock companies at work as of March 1992, 35,832 were financial companies - a quantum jump from 7,063 in March 1981; now financial companies are said to number about 40,700. Of them only 745 are registered with the RBI. In the absence of a size distribution of NBFCs, it is difficult to say if all those qualifying for registration have in fact registered themselves. If the AC Shah Committee's assessment that some 500 companies which controlled more than 85 per cent of all deposits of NBFCs would qualify for compulsory registration was correct, almost all the companies would seem to have been covered. But of the 745 NBFCs registered with the RBI, as of September 30, 1995 only 255 had submitted the required half-yearly returns on their prudential performance and only 121 companies had reported their credit ratings.

Apart from the NBFCs, there are hundreds of thousands of unincorporated enterprises carrying on financial activities in different nooks and corners of the country. Recognising that it was well-nigh impossible to bring them under any direction and control, the legislative provisions contented themselves with prescribing the maximum number of depositors per firm of individuals (25 depositors) and per partnership and unincorporated association of persons (a range of 25 to 250 depositors). No limit on the amount of deposit has been prescribed nor is there any specific institutional arrangement for the enforcement of even these provisions, though nominally the RBI and the state governments possess statutory powers of prosecution for violation of the law. There are not even any guestimates of the funds mobilised by these enterprises, though their annual turnover

would undoubtedly add up to a mindboggling figure.

In the case of NBFCs, there is some information available from the annual surveys conducted by the RBI. The NBFCs have to report data on two types of deposits accepted by them: regulated deposits that are subjected to certain ceilings and other restrictions and exempted deposits such as funds obtained from the government, security deposits, intercompany borrowings and funds mobilised from directors and shareholders in the case of private limited companies which are not subject to ceiling regulations. Effective from April 1993, inter-company borrowings and funds received from directors and shareholders also come under regulated deposits. Taking all financial and non-financial companies together, the share of regulated deposits has come down from about 32.4 per cent in March 1981 to 14.6 per cent in March 1992, suggesting that now as much as 85 per cent of non-banking deposits (Rs 43,688 crore out of Rs 51,185 crore) come from sources not subject to any ceiling regulation (these do not include borrowings from banks and financial institutions as per the surveys up to 1992). Regulated deposits of all nonbanking companies constituted about 3.6 per cent of the aggregate deposits of scheduled commercial banks in the early 1980s and rose to around 4 per cent in the second half of the 1980s; since then the proportion has come down to 3.2 per cent. If we consider the regulated deposits of only the NBFCs, they were Rs 2,823.5 crore or just 1.2 per cent of aggregate bank deposits in March 1992, According to the RBI, though 7,556 NBFCs reported deposit-acceptance activities, only about 700 companies were active participants in these activities and almost 97 per cent of the deposits raised by NBFCs were in the names of just about 25 companies. While this may be correct insofar as the reporting companies are concerned, deposit-acceptance activities appear to be much more widespread among both corporate bodies and unincorporated enterprises.

Data for the post-reform period suggest that deposits attracted by financial companies have tended to dwarf those attracted by manufacturing or trading firms. For instance, in 1991-92 the entire expansion of Rs 750 crore under regulated deposits took place with financial companies, with non-financial companies showing a negative flow of Rs 41 crore. An ICICI study suggests that deposits and unsecured loans of 150 NBFCs jumped from Rs 4,999 crore at the end of March 1992 to Rs 6,830 crore (a rise of 36.6 per cent) in March 1993 and to Rs 8,640 crore (26.5 per cent) in March 1994. Subsequent indicators suggest that financial companies have grown at a considerably faster rate than non-financial companies. Also, though data are not available for the most recent period, the

growth of NBFCs has outpaced that of the banking sector.

Against this background, the RBI's latest package of liberalisation measures in the form of lifting the interest rate ceiling of 15 per cent on deposits accepted by equipment leasing (EL) and hire purchase (HP) finance companies as well as loan and investment companies which are registered with the RBI and which comply with both prudential norms and credit rating requirements give rise to serious misgivings. The same is true of the removal of the ceiling on deposits hitherto kept at 10 times net owned funds (paid-up capital and free reserves net of accumulated losses) in respect of registered EL and HP companies and the raising of the ceiling on deposits of registered loan and investment companies from equal to NOF to twice NOF.

These measures may result in the tail wagging the dog, that is, the operations of the registered NBFCs influencing the working of the entire financial system. The PR Khanna Committee on monitoring of finance companies, on whose recommendations these relaxations have been effected, appears to have mixed up the question of supervision with monetary policy issues. The removal of the interest rate ceiling or the ceiling on borrowings through public deposits by NBFCs constitutes a major monetary policy issue the importance of which goes far beyond the question of supervision. The new policy also goes counter to the RBI's approach spelt out only last year which considered it necessary to moderate borrowing by NBFCs from banks and financial institutions. The A C Shah Committee had stressed that the RBI should shift its emphasis from regulating deposits to monitoring the NBFCs' assets and end-use of funds. The quality of assets of NBFCs, it is well known, leaves much to be desired particularly in the context of their role in the capital market. Therefore, the enlargement of the scope available to them to mobilise resources, even if they satisfy creditrating norms, will have implications for financial stability. Registration with the RBI. credit rating and satisfying prudential norms at a given point in time cannot be enough of a guarantee against undestrable asset management by NBFCs.

Finally, registered NBFCs will in future influence the interest rate structure for bank deposits and lending. Though the funds mobilised by NBFCs constitute only a small proportion of bank funds and though banks enjoy certain institutional and fiscal advantages, the NBFCs' ability to influence the interest rate structure on bank deposits and credit at the margin should not be underestimated. As it is, the freeing of interest rates on banks' fixed deposits beyond one year has pushed up the average cost of funds for banks following competition among banks themselves. Now banks will have to

face competition from big-size NBFCs as well which will further push up the average cost of funds to productive enterprises all over the country. A major factor responsible for the high interest rates on the borrowings and debt instruments of manufacturing firms is the competition they face from banks, financial institutions and NBFCs which have sought to mobilise funds at very high rates of interest. This phenomenon will be further reinforced with the freedom which the RBI has now extended to registered NBFCs.

WOMEN

Haphazard Inputs

'IMPROVEMENT of women's status' and consequently women's issues have become part of the acknowledged and well-projected agenda of the state over the last couple of decades. Over a period of time efforts to institutionalise these concerns have led to the establishment of departments and the constitution of permanent commissions and services. But what is increasingly becoming clear is that even after all these years, women have remained an agenda item and concern for women and their status in society has not permeated the state's consciousness. The self-evident truth is that while women's issues need to be provided space in some sectors, they have not substantially influenced the overall perspectives. The central budget for 1996-97 may be read as an indicator of this, showing as it does the haphazard nature of the state's concern for women.

Take for instance, the health sector allocations. For decades the only component specifically addressed to women has been the maternal and health programme. Much has been written about the narrow perspective of the programme and how it does not produce the results that it seeks. For over two decades now the MCH programme has formed a much-neglected component of the family planning programme. It was introduced with the specific purpose of bringing in more family planning acceptors. In the last few years with a plateau having been reached by the family planning programme, there has been increased attention and allocations for the MCH programme. This year for instance. the central budget allocates an increase of 25 per cent for the scheme, making it the only component of the entire family welfare programme (comprising urban and rural family welfare services and MCH) which has seen any substantial rise. Interestingly, however, the budget documents continue to delineate the objective of the programme as being "to enhance the acceptability of the family planning programme...to enhance chances of child survival". That this is not simply a lack of attention to textual detail is shown by the fact that the components of the programme have shown a narrowing of attention on the mother - prophylaxis against anaemia among lactating mothers and among children for Vitamin A deficiency, 'dai' training and oral rehydration therapy. In short, the considerable literature on what must be the most effective components of the MCH programme has been selectively incorporated. For example, literature showing that the nutritional supplements to pregnant mothers do not influence birth-weight has led to the abandonment of the approach and now the narrow objective is to prevent anaemia among lactating mothers. Moreover, notwithstanding the adoption of the reproductive health strategy, whatever its merits and demerits, the central health budget does not record a separate component for it.

That different departments and even components of the same department dance to different tunes is evident at other places. The women and child development department's budget records a small increase in its allocation for women's welfare budget, which includes such components as assistance for hostels for working women, the National Commission for Women, short-stay homes, etc. which means only that the funds available this year, accounting for inflation, will be much the same as last year. Under the same department fall the Integrated Child Development Services, which has seen considerable success in some states, the day care centres scheme which provides for the setting up these centres for the children of weaker sections and the 'balwadi' nutrition programme which provides grants-in-aid to voluntary organisations to run balwadis for children between three and five years. All these are run by the central government departments and none have been provided with additional allocations, which means that they will actually be making do with much less than last year. It is hardly necessary to point out that schemes such as the day care centres are vital for releasing not only women for income generation but also young girls, who are often the substitute care-givers, for perhaps some schooling.

As a result of a grant from the World Bank, the ministry of labour has initiated a plan for establishing new industrial training institutes (ITI) or new women's wings in existing ITIs. For now, it is a centrally sponsored scheme with 50 per cent contribution from the states. Just how it will be affected once the World Bank assistance ceases is yet to be seen. A case in point is the upgrading of PHCs in low development districts which included technical aid and the appointment of a specialist obstetrician with the objective that high risk births could be conducted safely. But once the 'upgradation' took place and the external assistance ceased, the government has been content to give only a small 'token' assistance and the budget for these

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will be drawn from the existing already . stretched PHC budgets. In other words, the influx of funds at any point of time is no indicator of the government's long-term intentions or plans.

All this is not to say that these schemes directed at women's well-being, for however short a period, have not resulted in gains for women. But there is a big leap yet between small gains and concessions and a perspective which includes women as equal and participatory recipients of the development process.

HEALTH

'Safety Net' Approach

THE unvoiced assumptions prompting a state health programme are these: that the major co-ordinates of people's health lie outside interventions by the medical system; that health is rooted in the well-being of the people which is an outcome of having adequate access to work, food, shelter, safe water supply and a sense of socio-cultural and economic security. Health programmes assist in supplying the medico-social inputs - prevention of communicable diseases through health education, perhaps immunisation where necessary, early detection and efficient, effective and ethical medicare for the range of illnesses and problems which are difficult to prevent. Increasingly, with the breakdowns in the social and economic conditions, it is obvious that the health system and health programmes are increasingly being viewed as repair shops for the foot soldiers of capitalism - some have to be discarded, others may be put together and sent out into the field again. Thus an efficient health-system-as-repairshop becomes an urgent necessity. In such a context the efficiency or otherwise of the state's health programme is a somewhat irrelevant issue. Its reach is defined only in terms of minimal prevention of epidemic spread - preventable diseases must be prevented from spreading to the upper echelons of the social system. Thus malaria, a direct consequence of ill planned irrigation projects, urban spread and rural decay, must indeed be contained; the growing menace of tuberculosis, rooted in the rootless lives of migrant labour desperately seeking work, living in deprivation and working under atrocious conditions, must be tackled too through public health measures.

In such circumstances is it surprising that some 7 per cent of the central budget allocations last year for disease programmes were unspent? As unutilised funds go it is not a large amount, but it is indicative of the fact that providing larger sums for public health is not the only answer to the country's health problems. It is perhaps a result of the sense of futility which has gripped health

planners that the increases and decreases in the budgets every year appear to have little to do with the current health picture. For instance, year after year for the last four years the textual explanations for the heads under the department of health carry the same figures of disease incidence. The budget papers have told us repeatedly for the last four years of the great success of the malaria programme in the 1950s with no mention of its spread currently. But there is no indication why the malaria control programme receives only 28 per cent of the budget this year against 35 per cent in 1993-94. We are also told that the aim of the trachoma and blindness control programme is to "reduce blindness in the country from 1.4 per cent to 0.3 per cent by the year 2000 AD". There is no indication whatsoever about the achievements of the programme or why increasing proportions of the disease programme budget - from 9.7 per cent in 1993-94 to over 15 per cent this year are being spent on the programme. Most distressing is the fact that our elected representatives are so caught up in the major components of the annual budgets, both at the centre and the states, that no issues are raised about the health programmes before the budgets are passed. This too perhaps is indicative of the fact that the public health programme is seen as a 'safety net' to catch those who can be caught and bounced back, while others are lost. The fact that centrallysponsored disease control programmes take away more than a third of the health budget, after some 50 years of a state public health programme, is not so much an indication of the inefficiency of the health system as of the inability of the socio-economic system to support a healthy society.

In such a context the proposal to set up a national illness assistance fund, for which a small provision has been made in the central budget, needs to examined closely. What, for instance, is the nature and proportion of morbidity which requires hospitalisation? How much of it is an outcome of or associated with communicable preventable diseases, a consequence of the failed prevention programmes? What would it really mean in the many states which have poor medicare infrastructures? While there are obvious merits in the scheme, it would rapidly deteriorate into a corruption-ridden top-down scheme, without a vigorous people's movement to ensure accountability. This is what has largely happened with the ESIS.

Again, of course, it is expedient for the political parties in power to implement such a scheme; it is after all another 'safety net' and it allows for the obliteration of the need to ensure that a society is inherently safe and healthy. If this is not to happen then the initiative for propelling the scheme through must be usurped by people's groups and the state must be forced to expand it over time.

COMPANIES EPW Research Foundation

GRASIM INDUSTRIES

Expansion Programme

PLAGUED by intermittent power cuts and a fire that threatened production, performance of Grasim Industries, the flagship company of the Kumaramangalam Birla group for the year ended March 1996 was less than satisfactory. Grasim Industries has diversified interests ranging from textiles and chemicals to viscose staple fibre (VSF) and cement. Turnover for the year ended March 1996 rose from Rs 2,061 crore to Rs 2,742 crore in the previous year, a rise of 33 per cent. Other income was up by 95 per cent. Interest costs moved up by 62 per cent. Provision for depreciation was up by 65 per cent while that for tax moved up by 174 per cent. Profits were up by 8 per cent from Rs 309 crore to Rs 332 crore. The company stepped up dividend payment from 57.50 per cent paid last year to 62.50 per cent.

Performance of the VSF division with a 43 per cent share in the company's turnover was the only bright spot in the otherwise bleak performance. Production of VSF stood at 1,62,470 tonnes during the year against 1,43,421 tonnes in the preceding year. Through the export of pure and blended yarn, fabrics and made-ups the division contributed substantially to the company's foreign exchange earnings. Over a period of four years from 1991-92 to the year under review, exports from the division have increased to Rs 1,136 from Rs 523 crore, a rise of 118 per cent.

Hampered by problems of transportation, heavy load shedding and power cuts production at the cement plants was not as expected. Capacity realisation was low at all the main plants. Though total cement capacity was raised to 45 lakh tonnes, cement production was marginally above 30 lakh tonnes.

A fire at the sponge iron plant in December 1995 put it out of commission till March this year, and production stood at 3.74 lakh tonnes at Vikram Ispat, short of the targeted 5 lakh tonnes.

Major modifications at Harihar, a major overhauling at the Mavoor plant and severe power cuts by the Kerala State Electricity Board led to a fall in the production of rayon grade wood pulp from 1,16,212 tonnes to 1,06,946 tonnes. The contribution from the textile division which manufactures blended yarns and fabrics was down from 15 per cent to 9 per cent.

The company has a major expansion plan on the anvil and is coming out with a \$125 million GDR issue to fund it. A 70,000 tonnes per annum greenfield rayon grade wood pulp plant is to be set up in Punjab. Rayon grade wood pulp is a major raw material for VSF. To meet the future requirements of VSF, the company is constructing a new plant with a capacity of 60,000 tpa in Gujarat, with the first phase to go on stream by December this year and the second by September 1997. Rs 10 crore

are to be invested for setting up captive power plants at the existing cement plants which would ensure uninterrupted power supply. With production problems under control and realisations from its expansion projects due in the near future, Grasim Industries can look forward to a better 1997-98.

GRINDWELL NORTON

Growing Market

The first unit in the industry to be awarded the ISO 9000 certification, Grindwell Norton is a market leader in bonded abrasives used in the auto, steel and forging industry. It has moved into coated abrasives and industrial ceramics, also known as engineered ceramics. Offering a range of super abrasive products and metal working fluids to suit a variety of applications like grinding, honing, general purpose cutting and the like, the company has introduced basic raw material used for specific abrasives and fused cast refractories. An advantage comes to it in the form of technical support from its parent company, Norton USA which holds a 40 per cent equity stake and is a world leader in grinding technology

Grindwell Norton closed the year ended March 1996 with a sales turnover of Rs 130 crore, up by 31 per cent over the previous year. Other income moved up by 28 per cent. Interest costs were up by 128 per cent. Provision for depreciation moved up by 32 per cent while that for tax was down by 22 per cent. The company ended up with a net profit of Rs 8 crore, up by 32 per cent from Rs 6 crore in the previous year. A dividend of 45 per cent has been supplemented with a bonus in the ratio of 1:1. Exports grew by 50 per cent while imports were up by 87 per cent.

The domestic market for bonded abrasives has been placed at Rs 145 crore, that for coated abrasives at Rs 85 and at Rs 40 crore for super abrasives. The company with a 45 per cent market share is ahead of Universal Carborundum which is in the second place with a 40 per cent market share.

The demand for abrasives has been on the rise in keeping with the boom in the user industries. This segment is slated to grow at a rate of 10 per cent in the coming years. Apart from automobiles and auto ancillaries, which constitute about 40 per cent of the abrasives market, demand from alloy and steel plants, ball bearing and the engineering sector which is picking up is to provide the required boost.

The company has two plants in southern India and one in Maharashtra. The company set up an aluminium oxide plant at Tirupati and a silicon plant at Bangalore, half of the production of which is used for captive consumption.

Grindwell Norton spent Rs 7 crore on modernisation and capacity expansion in September 1995. Capacity was doubled to 3 million square metres. The funds for the

project came through debt and internal accruals. A capacity expansion programme in the bonded abrasives segment seeks to increase it by 30 to 40 per cent from the current 6,500. The company has a Rs 6 crore expansion programme in its industrial ceramics division.

One of the important achievements of the year has been the commissioning of the plant to manufacture fused cast refractories in technical collaboration with SEPR, a Saint-Gobain group company. At present Carborundum is the only company making fused cast refractories in India. The company set up a new plant for manufacture of non-woven abrasives in March 1996 in Bangalore, the first of its kind in the country.

The company plans to introduce a wide range of engineered ceramics for use in the ceramic and glass industries, foundries and steel plants. Several new products were introduced in the market, resulting in a 40 per cent increase in sales. The company is now looking at exports as a thrust area. Norton is to help Grindwell export to emerging West Asian markets in both bonded and coated abrasives.

GLOBAL TELESYSTEMS

Rapid Growth

Engaged in the business of marketing and servicing of telecommunications products, Global Telesystems was set up in 1988. Starting off with a capital of Rs 25 lakh and by distributing telephone instruments, it graduated to fax machines and then diversified into servicing and became a dealer for various telecommunications companies. In 1991, the company went public to raise resources for its expansion and since then two more companies have been added, Global Wireless Technology and Global Telecom Services. In 1994 the company entered telesolutions, offering the customers the entire spectrum of services ranging from system solutions to maintenance. Today the company, one of the fastest growing in the industry, is a leading telecommunications group with expertise in a wide spectrum of activities including marketing, manufacturing and value added services. Its products range from fax machines and cordless phones to pagers, automated fingerprint identification systems and conferencing equipment.

Global Telesystems closed the year ended March 1996 with a sales turnover of Rs 332 crore, up by 58 per cent from Rs 210 crore recorded in the previous year. Other income moved up by 168 per cent. Interest costs were up by 140 per cent. Provision for depreciation and tax moved up by 443 per cent and 198 per cent, respectively, doing little harm to the net profit which was up from Rs 16 crore to Rs 48 crore. Dividend payment has been raised by 0.50 percentage points to 22.50 per cent for the year under review.

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23 Gross fixed assets 302380 254775 13861 4560 6808 24 Accumulated depreciation 77156 64767 1273 268 2772 25 Inventories 58059 42815 9940 3666 1793 26 Total assets/liabilities 432450 378014 43051 20416 9542 Miscellaneous items 2 Excise duty 45719 33804 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to stales (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	1891
24 Accumulated depreciation 77156 64767 1273 268 2772 25 Inventories 58059 42815 9940 3666 1793 26 Total assets/liabilities 432450 378014 43051 20416 9542 Miscellaneous items 27 Excise duty 45719 33804 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6	1591
25 Inventories 58059 42815 9940 3666 1793 26 Total assets/liabilities 432450 378014 43051 20416 9542 Miscellaneous items 27 Excise duty 45719 33804 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to total assets (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	5898
26 Total assets/liabilities 432450 378014 43051 20416 9542 Miscellaneous items 27 Excise duty 45719 33804 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to total assets) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	2583
Miscellaneous items 27 Excise duty 45719 33804 0 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	1633
27 Excise duty 45719 33804 0 0 2413 28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 <td>8247</td>	8247
28 Gross value added 84768 62751 8392 3059 4069 29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	2006
29 Total foreign exchange income 17500 9386 0 0 562 30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to total assets) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	3270
30 Total foreign exchange outgo 39346 24753 4715 870 1003 Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	381
Key financial and performance ratios 31 Turnover ratio (sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8	518
31 Turnover ratio (sales to total assets) (%) 32 Sales to total net assets (%) 33 Gross value added to gross fixed assets (%) 34 Return on investment (gross profit to total assets) (%) 35 Gross profit to total assets) (%) 36 Gross profit to sales (gross margin) (%) 37 Profit before tax to sales (%) 38 Tax provision to profit before tax (%) 39 Profit after tax to net worth	5.0
(sales to total assets) (%) 63.4 54.5 77.0 103.0 136.5 32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	
32 Sales to total net assets (%) 70.6 60.0 129.7 212.8 179.9 33 Gross value added to gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	120.3
gross fixed assets (%) 28.0 24.6 60.5 67.1 59.8 34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	153.9
34 Return on investment (gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	
(gross profit to total assets) (%) 12.6 11.0 13.8 8.9 14.3 35 Gross profit to sales (gross margin) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	55.4
35 Gross profit to sales (gross margin) (%) 19.8 20.2 17.9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	
(gross margin) (%) 19.8 20.2 17 9 8.7 10.5 36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	14.1
36 Operating profit to sales (%) 27.5 26.3 22.8 11.9 16.5 37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	
37 Profit before tax to sales (%) 15.3 16.5 14.8 7.8 8.1 38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	11.7
38 Tax provision to profit before tax (%) 20.9 9.4 2.7 2.8 23.7 39 Profit after tax to net worth	17.8
39 Profit after tax to net worth	9.4
	34.4
(1610) ON CHUNEY (70) 1/U 161 41/ 41/8 /3	22.0
	22.0 30.00
	13.20
42 Book value per share (Rs) 269.4 225.0 56.2 41.4 69.4	59.9
43 P/E ratio (based on latest and	39.9
corresponding last year's price) 10.7 15.2 3.7 5.1 21.2	18.2
44 Debt-equity ratio	
(adjusted for revaluation) (%) 81.7 100.7 62.7 133.5 53.4	64.2
45 Short term bank borrowings	
to inventories (%) 59.2 30.5 63.4 46.3 128.8	97.4
46 Sundry creditors to	
sundry debtors (%) 45.2 59.4 63.9 71.6 84.6	67.1
47 Total remuneration to employees	
to gross value added (%) 22.1 22.1 8.0 12.3 46.0	43.8
48 Total remuneration to employees	
to value of production (%) 6.8, 6.7 2.0 1.8 14.3	
49 Gross fixed assets formation (%) 18.7 - 204.0 - 15.4	14.3
50 Growth in inventories (%) 35.60 - 171.14 - 9.80	14.3

he company has a Rs 250 crore expansion gramme on the anvil for which in addition proposed Euro issue it has tied up loans m ICICI and SCICI, EXIM bank and vate finance companies. It has earmarked 32 crore for beefing up of Enterprise work and Software, its division which lertakes turnkey projects and provides sultancy services for systems integrato other companies. Rs 10 crore is to invested in International Global, the npany's fully-owned subsidiary based in uritius, which will help the parent npany in sourcing international business also aid in the export of the company's ducts and services.

Blobal Telesystems plans to sell telecom ducts at a retail level through the tele ps that it plans to set up. It has allocated 30 crore for funding its clients through lease and hire-purchase route while Rs crore and Rs 11 crore have been earmarked working capital margin and repayment existing term loans, respectively.

During the year under review, the company up the Global Telecom Academy to offer hly specialised training in telecommunions and in related activities. The company tied up with Northern Telecom to provide erprise networking and with international npanies like Atlas Telecom and ISOCOR technology transfer of services like ctronic mail, fax store and forward and ctronic data interchange.

NA BANK

ıblic İssue

na Bank is coming out with a Rs 175crore equity issue at a premium of Rs 20 share. The issue, aimed at bolstering the k's capital adequacy ratio from the present 7 to around 12 per cent, is to be launched the third quarter of 1996-97. Pending arance from the government and the BI, the issue is to be lead managed by SBI oital Markets.

he Dena Bank issue follows similar plans four nationalised banks to tap the domestic ital markets to raise equity funds in the rent financial year. These include Bank Baroda, Canara Bank, Corporation Bank Bank of India. GDR issue from the State nk of India and Canara Bank are in the cess of being finalised.

Dena Bank could maintain the 8 per cent oital adequacy ratio on account of two sons. First, a Rs 92 crore bond issue in previous year and second, a waiver of idend payment which helped it to plough k profits and boost its capital. The bank's nity base was reduced to Rs 147 crore after a Rs 136 crore write-off of accumulated losses against capital allowed by the government in the previous year, thus providing a boost to its earning per share. The bank's EPS currently stands at Rs 3.50 and the price/earnings ratio is 8.8. Getting into leasing and hire purchase and introduction of anywhere banking through smart cards are some of the bank's future plans.

CURRENT STATISTICS

EPW Research Foundation

Reflecting the steep hike in petroleum prices, the annual inflation rate, after remaining below the 5 per cent level for 23 weeks in succession, jumped from 4.2 per cent to 5.2 per cent in the week ended July 13. The rise is not RBI credit to the centre shot up to Rs 20,191 crore essentially due to a whopping Rs 22,095 crore rise in ad hocs. The year 1995-96 concluded with 12.1 per cent industrial growth (against 9.4 per cent in 1994-95); the manufacturing sector registered a record 13.7 per cent growth, but mining and electricity showed moderate growth rates. The mid-season credit policy injecting an additional Rs 4,100 crore into the system saw call money rates at historically low levels in July. The easing of liquidity resulted in significant lowering of yield on 91-day TBs from a high of 12.41 per cent in June to 9.21 per cent and then rising marginally to 9 46 per cent in the last auction in July; the yield rate on 364-day TBs also declined.

Macroeconomic Indicators

Macroeconomic I	ndicat	ors							,			
	W	eights J	uly 13,			V	ariation (Per Cent):	Point-to-P	oint	***************************************	
Index Numbers of Wholesal	e		1996	Over						1994-95	993-94 1	992-93
Prices (1981-82 = 100)				Month	Latest	Previous	1996-97	1995-96				
All Commodities		100.0	309.3	1.0	5.2	8.4	3.4			10.4 .	10.8	7.0
Primary Articles		32.3 17.4	321.8 364.2	-0.2 -0.1	6.4 9.6	7.2 4.6	4.4 5.8			12.7 11.9	11.5 4.4	3.0 5.4
Food Articles Non-Food Articles		10.1	328.4	-0.1	1.9	12.0			-1.1	15.5	24.9	-1.4
Fuel, Power, Light and Lubric	cants	10.7	322.3	9.2	13.4	1.8	12.7	-0.1	-0.1	2.4	13.1	15.2
Manufactured Products		57.0	299.8	0.2	3.0	10.5	1.1				9.9	7.9
Food Products Food Index (computed)		10.1 27.5	285.6 335.3	1.9 0.5	2.1 7.1	3.3 4.2	4.8 5.5			8.1 10.6	12.3 7.0	6.8 5.8
All Commodities (Average B	asis)	27.5		0.5								
(April 1-July 13, 1996)	•	100.0	305.0	-	6.2	10.1	4.7	6.0	7.7	10.9	8.3	10.1
			Latest			V	ariation (Per Cent):	Point-to-P	oint		
Cost of Living Indices		1	Month	Over					1995-96	1994-95	993-94 1	992-93.
-				Month	Latest	Previous	1996-97	1995-96				
Industrial Workers (1982=100	0)		328.05	1.2	9.3	10.3	2.8	2.4	8.9	9.7	9.9	6.1
Urban Non-Man Emp (1984-	B5=100)*		261.0°		9.7	9.7	7.0	7.2	-	9.9	8 3	68
Agri Lab (July 60 to June 61=	=100) @	_	1431.35		8.8	12.0	2.5	1.2	7.4	10.6	11.6	0.7
@ Derived: based on	linking fa	ctor betwe	en old a	nd new se	eries (1986	5-87=100)	*]	For 1995-9	6			
								/ariation				
Manay and Danking (D. and	\#	July 5,	Over 1	fonth -	Fisc 1996-9	al Year So	Par 995-96	1005	06	1994-95	10	02.04
Money and Banking (Rs cro	ге) -	סצעו	Over M	10NN	1770-7	<i>,</i>	777-70	1995-		1774-70	19	93-94
Money Supply (M ₃)		626976	6146	(1.0)	25140 (4.		16 (1.6)	69696 (8617 (17.4)		7 (19.3)
Currency with Public	-		-3420 (8218 (7.	0) 99	66 (9.9)	17464 (8806 (22.9)		(20.9)
Deposits with Banks Net Bank Credit to Govt		492576 280724		i (1.4) i (2.6)	12241 (2. 23314 (9.	.3) -3/1 1) 215	6 (-1.3) 03 (9.7)	52176 (40252 (8956 (16.0) 16325 (7.9)		5 (18.7) 5 (16.3)
Bank Credit to Comml Sector	•	340772		(0.9)	-130 (0,		46 (1.8)	48984 (4991 (18.4)		51 (7.5)
Net Foreign Exchange Assets		80838		(3.5)	3681 (4.	.8) -50	8 (~0.7)	-514 (-0.7) 2	3298 (44.3)		(110.9)
Reserve Money		193751		S (0.9)	-584 (-0.		25 (5.5)	25056 (0608 (22.1)		2 (25.2)
Net RBI Credit to Centre Ad-hoc Treasury Bills		138960 51540	7255		20191 (17. 22095	.0) 2058 1666	3 (20.8) 0	19855 (5965	20.1)	2130 (2.2) 1750		50 (0 3) 00
Scheduled Commercial Banks	s	.,,,,,,	12.7.7	•	.2075	1000	·	370.		17.50	03	00
Deposits		442411		(1.2)	10066 (2.		4 (-2.1)	45486 (3630 (16.1)		4 (18.6)
Advances		251451		(0.3)	-649 (-0.		00 (0.4)	40540 (0638 (23.8)		56 (7.3)
Non-Food Advances Investments		239830 169020) (0.5)	.2479 (1 .4879 (3		2 (-1.1) 55 (2.0)	43024 (14887 (7797 (23.4) 4172 (10.5)		75 (5.8) 1 (26.9)
* Based on March 31 figures	after clos		vernmen	t accoun	is, except	for 1995-	96 (full ye	ear) and 19	96-97 wh	ere the ban	king data	relate to
March 29, 1996.		_			•		. •				_	
Index Numbers of Industria	l Weights							ear Avera				
Production (1980-81=100)		1996	1995-9	96 19	94-95	1993-94	1992-9	3 1991-	92 199	0-91 198	19-90	988-89
General Index	100.0	332.9	284.3(1	2.1) 253	7(9 4) 2	31.1(5.6)	218.9(2.3	213.9(0.	.6) 212.6	(8.2) 196.4	(8.6) 180	0.9(8.7)
Mining and Quarrying	11.5	340.4	265.70	6.9) 248	.5(7.3) 2:	31.2(3.4)	223.7(0.6) 222.5(4.	.5) 221.2((63) 211.6	(7.9) 199	9.1(3.7)
Manufacturing	77.1									(8.9) 190.7		
Electricity	11.4			8.1) 314	.6(8.5) 29	90.0(7.4)	269.9(5.0	257.0(8.	.5) 236.80	7 8) 219.7(10.9) 19	3.2(9.5)
0		July 20				-97 So Far				ind of Fisca		
Capital Market		1996	Ago	Ag	o i roi	rgh Peal	lrough	Peak	1995-96	5 1994-	95 15	93-94
BSE Sensitive Index (1978-79		3560(0.1	3813	3555(-		367 4069				3261(-13.		(65.7)
National Index (1983-84=100))	1627(-1.0		1643(-		549 1835				1606(-12		(7 9.2)
BSE-200 (1989-90=100) NSE (Nov 5, 1995=100)		365(-2.1 105				345 413 107 1196		385 3	345 (-6.3)	368(-18.	2) 450	(92.3)
Skindia GDR Index (April 15	. 1994=10					79 90		91	79(1.3)		78	_
Foreign Trade	May Cu	mulative	for Fisco	l Year Sc	Far							
	1996	1996-9		995-96		5-96	1994-9	5 19	93-94	1992-93	199	1-92
		9080 (26.	1) 151	28 (27.1)			2330 (18.		7 (30.4)	53688 (21.		
	2705	5510 (14.	.4) 48	115 (27.0)	31831	(21.4) 2	6233 (18.	3) 22173	(20.4)	18537 (3.		
Imports: Rs crore		21751 (36.	0) 159	94 (31.3)	121647		8705 (21.	8) 72806	(15.7)	63375 (32.	4) 4785	1 (10.8)
	3301 2541	6282 (23. 4751 (17.	.4) 50 2) 20)91 (31.1))82 (35,4)	36370 29214		8251 (21. 2538 (29.		12 (6.8) 5 (10.6)	21882 (12. 15782 (12.		
Balance of Trade: Rs crore -		-26°		184 (33,4) 1866 -		(29.6) 2 15182	.233 6 (29. -637		-3259	-96 -96		-3809
	-596	-7		-204		-4539	-20		-1039	-33		-1545
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Foreign Exchange Reserves		1995	1996		th Yes	r Fisc	al Year So		5-96 19	94-95 19	93-94 1	992-93
(excluding gold)	•			Ago				95-96			_	
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US \$ mn	17819	19793	17128	56					3688		724	731

Money Market Rate	S OI	mere	SL					,	• 5		(p	èr cent por	annum,
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Instruments	20	17(81)		5(141)	20	(,		,,,,,	٥.	(101)	••	io(m)	3.
Call money rate													
(weekly weighted average: RBI)	na	na	1.66	5.14	10.94	10.89	10.10	10.75	10.87	10.84	10.94	10.84	10.8
Call money rate	2.00	0.10	0.75	0.00	10.50	0.05	10.70	0.10	10.00	0.06	10.00	0.00	10.0
(Range:weekly)	3.00- 10.50	0.10- 1.25	0.75- 5.00	0.05- 10.85	10.50-	0.25- 11.05	10.70- 11.50	0.10- 11.00	10.80- 11.25	0.25- 11.25	10.65- 11.25	0.25- 11.25	10.2
Treasury Bills:	10.50	1.23	3.00	10.03	11.00	11.05	1170	,11.00	11.23	11.23	11.23	11.23	
91-Day (On tap or ad hoc)	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.6
91-Day (RBI Auction):													
Primary	9.46	9.21	9.88	11.86	12.41	12.41	12.41	12.41	12.41	12.37	12.37	12.37	12.4
Secondary: DFHI	8.31	5.84	9.96	11.62	12.04	12.01	12.04	12.03	12.05	12.05	12.05	12.06	12.0
(mid-point of bid and offer) All SGL trading	0.31	3.64	9.90	11.02	12.04	12.01	12.04	12,03	12.03	12.03	12.03	12.05	12.0
(Weighted YTM)	8.01	6.64	7.91	7.58	10.83	11.14	10.67	10.94	10.68	10.22	13.56	10.80	11.0
364-Day (RBI Auction)		5.4		*****								10.50	••••
Primary Primar	*	12.61	*	12.87	*	12.97		12.94		12.94		12.94	
Secondary: DFHI (mid-point)	11.14	10.90	11.08	11.42	11.48	11.45	11.45	11.39	11.36	11.41	11.41	11.41	11.7
All SGL trading	10.63	10.50		11.20	12.00	12.04	12.22	12.22	1271	12.24	12.00	10.40	
(Weighted YTM) State Govt loans (Coupon rates)	10.63	10.59	11.61	11.29	12.08	12.06	12.22	12.27	12.71	12.34	13.89	10.48	10.4 13.1
All SGL trading			_	_			_	-		_		- (1	0 year
(Weighted YTM)	13.76	14.05	13.71	13.84	13.82	14.16	12.64	13.88	14.02	13.70		13.56	13.4
GOI Securities:													
Primary Auctions			13.72		13.85		*.	13.70		13.75	*		
Constant All CCA and the		(-	4 years)	(10 years	;)	(3 years)		(5 years)			
Secondary: All SGL trading (Weighted YTM)	12.53	12.52	12.60	12.74	13.88	12.93	13.61	13.13	13.44	13.75	13.74	13.49	13.1
PSU Bonds yield:-	12.55	12.32	12.00	12.74	13.00	12.73	15.01	15.15	1,7.44	13.73	13.74	13.47	1,5,1
Tax free: NSE													
(traded, weighted)	13.77	13.44	14.01	13.98	12.40	13.60	13.32	12.74	13.82	13.04	13.14	12.91	
NSE (Range: weekly)		12.95-		13.35-	12.40	12.57-		12.74	13.40-	12.55-	13.13-	12.87-	
	14 22	13.64	14.08	14.48		14.01	13.45		14.16	14.06	13.14	13.29	
Taxable: NSE (traded,	17 21	17.05	14.00	17.60	17 10	10 64	17 90	16 00		10.02	10 47	10.02	
weighted) NSE (Range: weekly	17.31	17.95 16.61-	16.00 11.85-	17.59 16.98-	17.18 14.62-	18.54 17.17-	17.80 16.85-	16.82 16.25-	•••	18.92 17.61-	18.67 18.17-	18.02 16.46-	
NSE (Range, weekly) (7.31	18.33	18.3	18.33	19.03	18.93	18.49	17.68	•••	19.80	18.91	19.15	
Commercial Bills:						10.22							
DFHI (Rediscount rate)	13.00	13.00	13.00-	14.00-	15 00	15.00	15.00	15.00	15.00	15.50	15.50	15.50	15.5
			14.00	15.00									16.0
CP:Primary market (90 days)	12.00-	13.00-		14.50-	15.50-		15.50-	15.50-	16.00-	16.00-	16.00-	16.00-	17.0
Secondary: DFH1	13.50	15.50	15.50	15.50	16.00	16.00	17.00	15.85	17.00	17.00	17 00	17.50	18.0
(Discount rate)	14.00	14 00	14.00-	15.00-	16.00	16.00	16.00	16.00	16.00	16.50	16.50	16.50	16.5
(Discoult late)	14.00	14.00	15.00	16.00	10.00	10.00	10.00		10.00	10.50	10.50	10.50	17.0
Market/NSE		13.50				•••	14.00	14-50-	•••	15.00-	11.83		
								15.00		15.75			
CDs: Primary market (one year)	10.00-		13.00-	12.50-		13.50-	13.50-	13.00-	13.00-	13.00-	13.00-	14.00-	14.0
Considerati DEIII (Discount auto)	13.00	13.00		17.00	16.00		16.00	16.00	16.00	16.00	16.00	16.00	16.6
Secondary: DFHI (Discount rate)	13.00	13.00	14.00		15.00	15.00	15.00	15.00	15.00	15.50	15.50	15.50	15.5 16.0
Inter-corporate deposits	17.00-	16.00-			19.00-	19.00-	20.00-	20.00-	20.00-	20.00-	20.00-	21.00-	21.0
(30/90/180 days)		19.00+		20.00+	21.00		22.00		24.00	24.00	24.00	24.00	24.0
		(22.00-	(22.00-	(22.00-									
	.00)++	26.00)++	26.00)+	+26.00)	++								
UTI-1964 Units (Week-end													
secondary market price in rupees)	13.60	13.60	13.50	12.50	20	na	na	16.25	15.65	15.65	15.65	15.80	15.
Hundi Rate	24.00-	24.00-			na 24.00-			24 00-		24.00-	24.00-	24.00-	24.0
Thinks Nate	30.00		30.00							30.00	30.00	30.00	30.0
Memorandum Items:													
(i) Forward premia on the US do													
in the domestic inter-bank m													
(annualised in per cent per ar	nnum)												
(Weekly average)@ Spot/Cash	7.51	0.96	-0.97	2.28	€.32	8.07	7.12	6.68	7.56	9.65	6.52	9.15	11.
One-month	6.74	1.93	2.00		7.05		9.92	10.37	12.00	12.92	11.63	12.91	11.
Three-month	8.51	5.73	5.62				12.09	12.84	14.08	15.10	13.85	14.55	12.
Six-month	9.63	8.46	8.56	9.40	11.15		13.16	13.95		16.17	15.16	15.41	13.
(ii) RBI Reference Rate (Rs/US\$)		35 70	35.53	35.13	35.06	34.99	35.03	34.86	35.09	35.07	35.20	35.43	35.
(iii) Havala Rate (Rs/US\$) (Dubai		39 00	38 90	39.00	39.00	39.00	39.00	39.00	38.65*	38.65	38.65	38.65	38.:

^{..} no trading
** For may 27

^{..} no trading * no auction na not available (-) no floatation YTM = yield to maturity \$ Friday being holiday, Thursday data.

** For may 27 + For the top rated companies ++ Other than top rated companies

RF means Reporting Friday for fortnightly reporting of conditions of banking business and the fortnight serves as the reserve maintenance period for scheduled commercial banks. @ Based on daily quotations supplied by Mecklai Financial and Commercial Services Ltd, Bombay.

Kashmir Elections under Delhi-Sponsored Terrorists

A G Noorani

State-sponsored terrorist groups have been used by Latin American dictators to put down dissent. The technique is being used in Kashmir by a democratic government in New Delhi – "to create conditions for a free election" there.

ON July 15, two leading dailies published reports of pronouncements on Kashmir by two politicians neither of whom can be criticised as hostile to the government of India, let alone to Kashmir's accession to the union of India. The Indian Express published the National Conference president Faroog Abdullah's interview to Ritu Sarin in which he roundly denounced the parliamentary poll in the state as "a concocted and rigged exercise". The Times of India published a report of a press conference in Srinagar, on July 14, by Mohammed Maqbool Dar, union minister of state for home, in which he said that "the situation in Kashmir would not have improved to the extent it has but for the contribution of these counter-insurgent groups" - a cuphemism for the state-sponsored terrorist groups who have wreaked havoc in the state. Dar himself admitted that they had "committed gross excesses on the common people". They were sponsored with the specific purpose of making it possible to hold at least a rigged election.

Where this leaves the credibility of the Election Commission and its chief, the Magsaysay award winner T N Seshan, is another matter. But it is stupid of anyone in the country to imagine that the world at large is ignorant - quite regardless of what some ambassadors in New Delhi think it politic to say. It has been a sordid exercise altogether. As the insurgency erupted, albeit aided by Pak-supplied arms, even the proestablishment journalists began lamenting the rigged polls of the past. A good many of them were silent when those frauds were perpetrated. But their lament did not signify genuine repentance. They are back to the old game now, lauding the rigged polls.

Herein lies the relevance of a well documented report by Human Rights Watch/ Asia in May 1996. It is entitled 'India's Secret Army in Kashmir: New Patterns of Abuse Emerge in the Conflict' and is priced at a mere \$ 5. For reasons not difficult to guess, very few copies could reach addressees in the country. It deserves a wide readership in India. (Human Rights Watch,

1522 K Street, NW, Apartment 910, Washington, DC 20005-1202, USA.) The report is based on research undertaken by a lawyer, James A Goldston, who visited Kashmir in January 1996. It is written by Patricia Gossman, a senior researcher for Human Rights Watch/Asia.

The report does not spare either Pakistan or the pro-Pak or pro-independence militant groups, militarily aided by Pakistan. Their excesses are condemned in unequivocal terms, as in all Asia Watch Reports. It is with the new element that we are now concerned. In all more than 60 interviews were conducted including with army, government and police officials. Wherever possible the sites of reported incidents were inspected. The union home ministry and the National Human Rights Commission were provided details of the cases investigated and their response was requested. The ministry's response on individual cases and issues is included in chapter V on State-Sponsored 'Renegade' Militants.

Chapter I provides a summary of the Report, II the recommendations, III the background (it also describes how these renegades came to be used), IV sets out the applicable international law, V documents abuses by uniformed security personnel and an entire Chapter VII is devoted to violations by militant organisations. Important as they all are, it is Chapter V on the state-sponsored militants that deserves particular attention. Apparently, in 1995 the Special Task Force (STF) a counter-insurgency division of the Jammu and Kashmir police, was formed. It is "made up mainly of non-Muslim, non-Kashmiri recruits" and "was formed apparently to create the impression that the counter-insurgency effort had local support". The local Jammu and Kashmir policemen are not involved "largely because they are believed to be sympathetic to the insurgency".

The STF began using surrendered militants. The report's findings bear quotation *in extenso* especially the parts based on actual observation. Chief among the renegade groups is Ikhwan-ul Muslimoon, led by one Koka Parrey. These groups are aided by

Rashtriya Rifles, an army unit set up to fight insurgency. The Report says:

In an interview with Human Rights Watch/ Asia, Gopal Sharma, Inspector General (IG) of police, acknowledged that since August 15, 1995, the government has agreed to pay Rs 5,000 [\$ 143] to any militant who surrendered AK-series assault rifles and varying amounts for other small arms. Sharma also stated that upon surrendering their weapons, the militants were supposed to be sent to designated rehabilitation centres where they would be paid Rs 2,000 [\$ 57] a month for six months. At the time that Human Rights Watch/Asia met with IG Sharma, he claimed that one such centre had been established in Jammu and another was to be created in Srinagar. However, a report by India Today, published in March 1996, noted that no one was lodged at the Jammu centre. Sharma admitted: "There could be some militants working with the security forces as gatherers of information. Koka Parrey's group is 30 strong, may be 100 strong. Militants are 8,000-9,000 strong. Some militants who split with their former allies may be able to get the protection of the security forces'

During the Human Rights Watch/Asia visit to Kashmir in January 1996, we were informed that these groups have been armed by the government. On several occasions, Human Rights Watch/Asia observed members of these groups moving about openly carrying automatic weapons, in full view of security personnel, even though under the government's rehabilitation programme, all surrendered militants are required to hand over their weapons...

The state-sponsored groups operate with impunity. In an interview with Human Rights Watch/Asia, Police Inspector General Gopal Sharma claimed that "surrendering [did] not relieve [former militants] of legal responsibility for their crimes", and that some had been prosecuted, "but convictions [were] hard to come by". However, another police officer responsible for investigating the activities of these groups contradicted Sharma's assertion, complaining that Army and BSF officers had also secured the release of paramilitary force members when they had been arrested by local police. He told Human Rights Watch/Asia: "The government has recruited criminals who loot and steal and extort and these criminals are living in security force camps. This is the third force the renegades. It is completely true that they exist. ... It is 100 per cent true that police investigate crime, arrest individuals and then the army interferes and lets them go so they can work with the army as renegade forces

A witness who was abducted by Ikhwanul Muslimoon forces told. Human Rights Watch that he was detained at a house adjacent to an army Rashtriya Rifles camp at Umarheer, Ahmed Nagar, Baspara, three kilometres from Soura hospital. A Rashtriya KHISS DUNKET STANDS At the entrance to the house. The local Ikhwan-ul Muslimoon commander, Mohammad Ramzan, who had interrogated the witness, apparently lived in the house. Ikhwan-ul-Muslimoon forces identified two women who were cooking in the house as Ramzan's wife and sister-in-law..."

Human rights activists have increasingly come under attack in Kashmir. Between April 1995 and April 1996, two human rights monitors were killed and one critically injured. The impact on Kashmir's human rights community has been devastating. Lawyers who had formerly taken up petitions on behalf of victims of abuses no longer do so out of fear of reprisals, particularly from the mercenary groups. Many have left Kashmir...

Kashmir is an integral part of India, we proclaim incessantly. Why is the Indian Bar silent on these outrages perpetrated on their colleagues in Kashmir? The same can be said about the Indian medical profession. The report says:

Ikhwan-ul Muslimoon forces have been patrolling the Soura Institute and the Bone and Joint Hospital since mid-1995. The local commander is Mohammad Ramzan, a former member of the JKLF who had been arrested by the Rashtriya Rifles in 1995. After that,

companied by other gummen and by army a soldiers wearing Rashtriya Riffee uniforms. Ramzan were a bullet-proof jacket under his pheran [long cloak], as did some others. He told hospital staff that he "wanted to bring discipline to the Institute".

Ikhwan-ul Muslimoon patrols are sometimes carried out jointly with other security forces. Their activities inside the hospitals, including assaults on staff and detentions of staff, patients and visitors, are carried out with the knowledge of BSF forces. who maintain bunkers at the entrances of the hospitals. A Jammu and Kashmir police station is also located at the entrances of the hospitals. A Jammu and Kashmir police station is also located at the entrance to the Soura Institute. Ikhwan-ul Muslimoon forces enter the hospital on a regular basis and patrol in groups of twelve, armed with automatic weapons. They often carry walkietalkies and speak into them in the course of their searches and patrols. They have threatened and harassed hospital staff and patients, looking for militants, and have taken suspects away to 'camps'. One such camp is said to be located near the hospital. at an army base three kilometres away at Bachapora, Srinagar.

Before mid-1995, BSF forces themselves used to patrol the hospital, looking for

militinate. They would combine some superations, known in Region's assessment of the upland be searched. Any staff member or patient who is suspected of being involved with the militants is taken away; sayone who resists or objects is threatened or bestes. In November, Ikhwan-ul Muslimoon forces dragged a surgeon out of his office and kicked and punched him.

At 2.30 pm on January 19, 1996, the day that Human Rights Watch/Asia visited the institute, Ikhwan forces were patrolling the main gate of Soura. Hospital employees stated that their presence was routine and that they usually atood only a few yards from the security bunker. Many hospital employees were unwilling to speak to Human Rights Watch/Asia out of fear. Doctors at the Bone and Joint Hospital complained that they were frequently searched by either armed paramilitary forces, while uniformed forces ringed the outside of the hospital, or by both paramilitary and uniformed Rashtriya Rifles forces.

This technique was tried out by Latin American dictators. It is being used in Kashmir by a democratic government in New Delhi in the name of democracy – in order to "create conditions for a free election" in the state.



Differences within Consensus

The Left-Right divide in the Congress, 1929-39 Reba Som

The book focuses on the Left-Right encounter, identifies the composition of the two groups, studies the social background of the chief spokesmen on both sides, distinguishes their broad points of view on key issues, and analyses their interaction within the overall consensus framework of the Congress.

The Course of My Life

Rs 320.00

Rs 250.00

C.D. Deshmukh

This work is neither an autobiography nor a memoir. It is a judicious combination of both, which records the main events of C.D. Deshmukh's life and career. As a career his is, perhaps, without equal in modern India and must have few parellels elsewhere in the world.



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The End-Game in Geneva New Delhi Works against Its Own Treaty

Prafal Bidwai

It is totally illegitimate to disconnect New Delhi's external and domestic discourses and support or acquiesce in the government's disingenuous stand at the CTBT talks while domestically opposing pressures for expansion and exercise of the nuclear option. The calculations that drive the one are completely identical with those that sustain the other. In fact the debate in influential circles in India is no longer about whether or not to sign the CTBT but, after refusing to sign it, how far to move towards developing and exercising the nuclear option.

WHEN the UN Conference on Disarmament (CD) resumed its session on July 29 at Geneva, it became clear that New Delhi had made yet another leap away from its professed commitment to nuclear restraint and disarmament. It threatened that it would block the final 'Ramaker text' (named after the chair of the Comprehensive Test Ban Treaty - CTBT - negotiating committee). unless an article (XIV) in it pertaining to the treaty's 'Entry into Force' was dropped. Blocking the treaty (or walking out of the Geneva talks altogether) has been a demand of India's domestic CTBT opponents and advocates of an exercise of India's nuclear weapons option (non-pejoratively called nuclear hawks here) for some time. It precedes the tabling of the Ramaker text on June 28 and is therefore independent of Article XIV.

The presence of this Article—which makes the treaty's 'Entry into Porce' conditional upon the CTBT's ratification by 44 states, including the five nuclear weapon-states (NWSs or P-5) and the three threshold states (T-3) of India, Pakistan and Israel—1s thus merely a convenient excuse for resorting to the extraordinary action of blocking. The plain truth is that South Bloc has once again succumbed to hawkish pressure. In doing so, it found a crutch: viz, Article XIV. The article is indeed unprecedented in that it imposes obligations on specifically named states, which must be fulfilled before the CTBT comes into force.

It is legitimate to criticise it for making the CTBT a hostage to the possible reluctance of any or some states to sign or ratify it: an inherently worthy measure should not be made hostage in such a way. However, it is not very credible to argue, as India has done, that this necessitates its blocking the treaty, or else it stands to be 'punished' at a future date in keeping with the Article's provision that in case the 44 states have not

signed after four years, the conference will reconvene to "decide by consensus what measures consistent with international law may be taken to accelerate the ratification process".

New Delhi could not be unaware that reading 'measures' as sanctions is at best a dubious legal interpretation inconsistent with the rights of sovereign states under international treaty law. Hence to cover its flanks, it proposed on July 30 an amendment to Article XIV that would free itself and the P-5 and T-3 from an obligation to ratify the CTBT. While unexceptionable in some ways, this is highly unlikely to carry any weight: why should India's amendment be taken seriously when India has declared that it won't sign the treaty even with such an amendment?

By offering this paltry, ever-so-slight figleaf of an amendment, New Delhi seems to have lost an opportunity to drive a package deal: further improvements in treaty text and an explicit commitment from the P-5 that they will not develop or make qualitative improvements in nuclear weapons, in return for amending Article XIV and India's accession to the CTBT. The idea of such a package, according to peace NGOs closely monitoring the negotiations, is by no means far-fetched. In recent weeks, the Non-Aligned Group of 21 at the CD has repeatedly invited India to help harmonise and strengthen the treaty text to secure just such a package. New Delhi haughtily refused, saying it would only talk to the P-5, thus inviting castigation for doing what it often stridently accused the P-5 of doing, viz, negotiating behind closed doors.

IMPROVED TEXT

The Ramaker text already represents a distinct improvement over past drafts. It can be convincingly argued that while it has some unresolved problems, e.g., on veri-

fication, the CTBT in its present form largely meets reasonable concerns that the treaty be located in a strong disarmament context and that it effectively prevent nuclear weapon development and qualitative improvement, i e, that it fulfils its legitimate purpose as a significant restraint measure that could end the nuclear arms race. (See, for instance, articles by T T Poulose, Achin Vanaik and me in Seminar, No 444, my articles in Frontline, October 20, 1995 and March 8 and July 26, 1996, and T B Cochran and C E Paine, The Role of Hydronuclear Tests and Other Low-Yield Nuclear Explosions and Their Status under a Comprehensive Test Ban, Natural Resources Defence Council, Washington, 1995, and various issues of the Bulletin of the Atomic Scientists.) In view of this, New Delhi's objections to the treaty are fundamentally invalid and misconceived, if not downright disingenuous and an excuse for not signing a good treaty.

New Delhi's negotiating tactics and its post-June 20 stand (following the announcement that it won't sign the CTBT in its present form) call into question its seriousness about securing a good, genuinely non-discriminatory and comprehensive test ban. Its move to block the CTBT can provide other CD members too with an excuse to block it - for exactly the opposite reason, viz, to retain the present Article XIV. After all, under the CD's rules of business, all members have veto power and can block any agreement. This would produce discord, chaos and possibly lead to a collapse of the CTBT negotiations. Alternatively, hamhanded US tactics and arrogant official statements could provoke a hostile reaction in India, as seems to be happening following Warren Christopher's July 31 pledge to push the CTBT through. This too could complicate and introduce rancour into the Geneva talks, jeopardising them at a crucial stage.

Unless New Delhi wants precisely this to happen - so that the blame for wrecking the CTBT is not exclusively attached to it - it is difficult to see why it resorted to blocking. That logic would, of course, be perfectly, indeed uniquely, consistent with the role of the spoiler, although I K Guiral has said for the record that India does not want to be a spoiler and ambassador Arundhati Ghose is clear that "we have been trying to be sensitive to those countries who want to go forward". However, our policy-makers are probably underrating the likely consequences of attracting universal scorn and disgust, especially from the G-21 and other nonnuclear states.

Let there be no mistake. However unfair or inappropriate Article XIV might be, India

was in no small way responsible for creating and contributing to the cynicism and despair at Geneva that heightened suspicions and promoted the most narrow-minded and myopic national-chauvinist calculations amongst states such as Russia, Britain, China. Pakistan and Iran which led them to demand that all significant nuclear-capable states be a party to an effective and "global, universal, non-discriminatory" treaty (this being New Delhi's own stated criterion for all good agreements!); that unless all the P-5 and T-3 were on board, the significance of the CTBT would be reduced - in which case, they would seek to retain their own 'national security' options through Article XIV or other means.

India is the only state not to have moderated its stand or offered compromises or concessions on substantive issues during 31 months of CD negotiations. Reprehensible as the NWSs are for inflicting these weapons of mass destruction and a nuclear arms race upon the world, even the US, UK and China climbed down - e g, from exempting lowyield testing to a 'zero-yield' position, or giving up insistence on peaceful nuclear explosions (PNEs). Many other states similarly moderated their once-rigid positions on scope, preamble, verification, etc. India distinguished itself as the only country to have made no such effort. Instead, it hardened its stance in January by moving three extreme amendments which found no takers. India is also the only state at the CD to have opportunistically and suddenly switched the rationale of its reservations on the CTBT on June 20 - from 'universal', 'global' grounds related to the alleged inadequacies of the treaty text to 'national security' considerations as a 'key factor', without explaining what those might be.

This gives India an indelibly unique position as a spoiler of the treaty it itself pioneered in 1954, a status which cannot be whitewashed by belated, paltry concessions of the kind offered on July 30 or by pious homilies about India's 'historic' commitment to disarmament. True, India can cite its role in many initiatives for step-by-step nuclear disarmament: the 1954 'Standstill Agreement', 1963-67 UN disarmament talks, the Five-Continent Initiative of 1986, Rajiv Gandhi Plan of 1988, or sponsorship of numerous UN General Assembly resolutions. However, in each one of them, the CTBT figured prominently as an early, and major, step. In several UN resolutions, the call to end 'all nuclear test explosions' was for decades an integral ingredient of Indian proposals. It is precisely this CTBT - yes, explicitly aiming to end "all nuclear test explosions" in conformity with the Ramaker draft - that India has now turned against.

INTEGRAL LINK

India's stated reasons for so doing are located in 'national security' (Natsec) considerations as well as technical objections to the CTBT, however sincere. This should at once alert all those who have refused or are reluctant to take a stand on the CTBT issue, but who oppose the development or exercise of the Indian nuclear weapons option as well as the domestic hawkish agenda, and who do not wish to see nuclear rivalry grow between India and Pakistan/China. There is an integral link between India's stand on accommodating the CTBT at Geneva and 'Natsec' calculations which have to do with retaining and developing the nuclear option. You cannot oppose the latter without criticising the former.

Regrettably, many peace- and disarmament-minded sections or currents of opinion, including those on the Left, have introduced a false disjunction between India's 'external' stance, at Geneva, and the 'internal' or 'Natsec' logic that favours a movement away from nuclear restraint and accommodation to pressures for developing, deepening, even exercising the nuclear option.

Few such currents have interrogated the 'national security' considerations that South Bloc had in mind and even fewer admit that the term in its present context can only denote a desire to move away from nuclear ambiguity and execute a shift in security doctrines in such a way that the deterrent use of nuclear weapons — which India has traditionally, and rightly, condemned as 'abhorrent' and 'repugnant' — is seen as necessary to national defence, although it was not so seen until just a year ago. (Surely, it is hard to argue that things have changed so qualitatively and rapidly in the past year, but let that pass)

The absence of such interrogation and critical discussion has meant that large numbers of pro-disarmament and antihawkish people have gone along passively with the official, increasingly hawkish, stance and have accepted publicly stated official positions as the sole discourse on the CTBT and nuclear issues. This has resulted in a considerable pressure on, and narrowing of, the 'middle ground' or the position of ambiguity - don't sign the CTBT, but don't test and develop or exercise the nuclear option either. This narrowing is in a sense artificial, but it has created the impression of a strong, across-the-board consensus in favour of the official position, which has now become indistinguishable from the Bharatiya Janata Party line on the subject. Witness the BJP's statements on the issue on June 19, June 20, July 27, etc.

Indeed, there is a clear pattern of the BJP calling the shots. Official statements, whether

opposing the treaty or blocking it, have followed, not preceded, the BJP's own pronouncements and demands. In reality, it is hard to talk of informed consensus on the CTBT issue, much less one shared by the entire political spectrum. But the Left has largely failed to demarcate itself from the Right here and has been reluctant to question the 'Natsec' mindset. Peace and disarmament have only weak, amorphous, ill-defined constituencies — unlike sabre-rattling nationalism, and 'we-must-have-the-Bomb' paranoid chauvinism. The official discourse appears to be dominant, indeed overwhelming so.

Two Discourses

In reality, there is not one but two discourses: the public, rhetorical, elevated discourse that seeks the moral high ground of universal, global disarmament; and the 'realist', 'hard-nosed', 'Natsec'-guided, 'nonattributable', 'deep-background', serious, private, secretive, 'adults-only' or 'menonly' cynical discourse. The two discourses are intimately connected. One can often snatch glimpses of the second in the first. And in the conference circuit of the capital, with its arcane rights of passage and rules of conduct, or in 'private briefings' (on an issue of such obvious public importance!), one confronts it directly, if with some embarrassment, because of its purely cynical, easy resort to deviousness, deception and lack of morality.

Often, the links between the two discourses are directly personal; among the most vociferous opponents of the CTBT and among those who have used every which argument, half-baked fact or excuse to damn the treaty and call for blocking it, are none other than our best known self-confessed hawks, who have for years campaigned 'hat India should exercise its nuclear weapons option. Yet other links can be discovered from a critical look at official statements themselves. For instance, foreign secretary Salman Haider condemned the NWSs on June 20 for their insincerity about banning testing comprehensively, although he admitted that they had committed themselves at least to prohibiting nuclear test explosions. However, he also simultaneously asserted that India won't accept any "constraints on the nuclear option", clarifying that this includes the option to conduct nuclear test explosions! So India wants the freedom to do precisely what it vociferously condemns the NWSs for doing.

New Delhi's criticism of the NWSs belongs to the first discourse, the assertion of India's, right to conduct full-fledged explosions of the Pokharan type is part of the second discourse, even if in an attenuated form. Another giveaway is Gujral's statement on July 8 that our "security authorities do not

hink they need nuclear weapons for the noment". He also told parliament on July 22: 'We do not need nuclear weapons now. Fomorrow, I don't know..."

In its full-blown form, the second, crude-Realist' discourse presents India as a beleaguered state and also as a nation with ispecial destiny, which must play its assigned ole as a superpower in the future, to which ole nuclear weapons are essential. This urnishes the rationale for rejecting the CTBT. The logic runs broadly as follows. India does not receive its due from the world, from the Big Powers in particular. It has to plough i lonely furrow. It is wholly despondent about the prospect of early global disirmament. It sees nuclear weapons remaining currency of power for a long time to come. t must acquire that currency too.

DOCTRINAL BREAKS

The first major break or violent shift of loctrine occurs here: India must 'realistically' accept nuclear weapons as a legitimate currency of power if it wants to emerge as i force to reckon with, with a supra-regional f not global reach, and to be recognised as one of the Six Great Powers of the 21st entury, a la Kissinger, Further, India is arrounded by competing or potentially nostile states, one of which (Pakistan) leveloped broad nuclear symmetry with ndia right under our nose, so to speak. This outs India in a different regional configuration rom, say, South Africa or Brazil (never nind the wars in Angola and Mozambique or the presence of Cuban troops in southern Africa while Pretoria dismantled its nuclear apability, and never mind Argentina, in the second case!)

Given this adversarial security environnent, India has to have a nuclear capability it least strong enough to deter China, despite her geographical advantage of being far closer o main population centres in India than vice versa. Such deterrence is justified. This is where the second big doctrinal break occurs: India must embrace the doctrine of nuclear deterrence which she has always publicly rejected as 'abhorrent' - a doctrine that has fuelled the very arms race it claims to be committed to bringing to an end.

This is followed by yet another doctrinal jump, from 'non-weaponised' or 'minimal' deterrence to unbounded or full-fledged, maximal, deterrence. 'Minimal deterrence' is possible even with India's accession to a CTBT. It is simply indisputable that a CTBT. however stringent, cannot eliminate, even limit, India's proven capability to produce a large number of first generation fission bombs, of the Hiroshima or Nagasaki type. These do not need testing at all. The Hiroshima bomb was never tested. Israel's 100-200 bomb-strong arsenal, widely believed to be effective, has never been tested. Even a self-confessed hawk like Gen K Sundarji is explicit that India can have a "minimal deterrent" effective against China as well as Pakistan even if it signs the CTBT, which he advocates India does.

New Delhi's reluctance to sign the CTBT can be explained only as a consequence of an irrational fear - that the CTBT is the thin end of the wedge with which to destroy India's well-established capability - or an obsessive-compulsive desire to broaden and deepen the nuclear option to include thermonuclear weapons and a full-scale arsenal to match, say, China's, and thus put India in the 'Primary' Nuclear Club, way above the mere threshold level. The first speaks poorly of our diplomacy and quality of political assessment. The second speaks of a collapse into grandiose self-delusion as well as a perverse notion of power projection, for which India has always castigated the superpowers.

It needs no argument to show that developing a full-fledged nuclear arsenal with second-generation (boosted-fission and thermonuclear) warheads and numerous, long-range delivery systems, with all their attendant command, control, communications and intelligence (C-cube-I), infrastructure, will be economically ruinous, socially and politically destructive and will seriously militarise this society, while undermining democracy. Above all, it will lead to a degradation of our security, by driving India into open nuclear rivalry with China (which has been absent so far) as well as potentially with the other nuclear powers. And it will ensure that Pakistan goes in for overt nuclearisation with possible sympathy, if not active support, from the Great Powers. And yet, it is just such a trajectory that our policy-makers have at the back of their minds when they dream their long-term dream about India's evolution into a superpower and invent specious arguments to resist every measure for nuclear arms control, reduction and disarmament.

The third jump, from the actual practice of 'recessed' or 'non-weaponised' deterrence to maximalism, may appear the most violent of all. But the other two doctrinal shifts are no less irrational and dangerous. They mean consciously repeating every horrendous error the NWSs committed while embarking on a nuclear arms race for 'Natsec' considerations which has brought the world to its present overkill capacity and sorry pass. They involve rapturously embracing every single bankrupt, even dangerous, high cold war doctrine to create and inflict upon oneself new insecurities. As Achin Vanaik and I, who share this column, argue in our little book, Testing Times: The Global Stake in a Nuclear Test Ban (published by the Dag Hammarskjold Foundation, Sweden, and Churchquite, Bombay-400 020 available from Madinion Bhota. Rublic Libraty

Maitri Apartments, Plot No. 28, Patpargani, Delhi 110 092, Phone 222 42 33, 243 20 54, Fax 222 42 33), nuclear weapons are a highly devalued, degraded currency of power.

Nuclear deterrence is unstable and degenerative and bound up with a classic buildretaliate-further build vicious circle typical of the arms race. It would be suicidal for New Delhi to adopt it in vainglorious pursuit of superpower status. The unspeakable gutter-level ethics of promoting wholly warped nuclear-military priorities in a country which has the largest number of the world's poor and destitutes and which has an ever-expanding backlog of unfulfilled social agendas, needs no comment.

The short point is this. It is totally illegitimate and illogical to disconnect the two official discourses and support or acquiesce in New Delhi's disingenuous stand at the CTBT talks while domestically opposing pressures for expansion and exercise of the nuclear option. The calculations that drive the one are completely identical with those that sustain the other. That is precisely why the middle ground of ambiguity and 'minimal deterrence'/'nonweaponised deterrence' has shrunk so rapidly in the past few months. The debate in influential circles in India is no longer about whether to sign the CTBT or not, but how far to move towards developing and exercising the nuclear option after having decided not to sign the treaty for questionable and devious, it not wholly spurious,

If the debate is to be brought to a rational plane, and made accessible to popular comprehension and concerns, Indian ambiguists cannot afford to sit idle while the hawks, led by the BJP, run away with the agenda in a blitz of national-chauvinist hysteria and 'Natsec'-driven belligerency. They must take a clear stand critical of New Delhi's external and domestic stands and indeed of all hawks, whether in New Delhi, Washington, Islamabad or Beijing. They have to make an alliance with the only trend of principled opinion that exists here and globally - viz, the disarmers and peaceniks who repudiate the convoluted logic of nuclear deterrence, of security through weapons of mass destruction and of the 'right' to retain them as a legitimate 'option' unrelated to self-defence.

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Gift-Wrapping the Reforms Budget 1996-97

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It is remarkable that without resiling from any of the reform commitments or conceding anything substantive to the victims of the reform programme in the last five years, Chidambaram has been able to disarm his critics in the United Front, including the Left parties, and even to persuade them to applaud his budget.

P CHIDAMBARAM, union finance minister, is being acclaimed for his skill in packaging in bright and attractive colours his product, the budget of the UF government for 1996-97. He is being complimented for scoring over his predecessor, Manmohan Singh, who let himself be bogged down by following the straight and narrow path ordained by his mentors, the IMF/World Bank combine, and his political master, P V Narasimha Rao. Chidambaram is being given credit for political dexterity, if not economic expertise, in pushing ahead on the same road with greater success.

The Economic Survey Update of the finance ministry released before the presentation of the budget had made the 'reform' commitments of the Deve Gowda government quite clear and explicit. The left component or the UF, already agitated over the austerity measures proposed for government employees and the hike in the prices of petroleum products, condemned the Survey as a slap on the face of the Indian electorate. Chidambaram took the hint and quickly adjusted his stance and related his budget to the complexity of the popular mandate and the Common Minimum Programme of the UF which provides room enough for the 'reformers' to advance their cause. It is quite remarkable that without resiling from the reform commitments or conceding anything substantive to the victims of the reform programme in the last five years, it has not been very difficult for him to disarm his detractors in the UF who have allowed themselves to be persuaded even to pat him warmly for his labours.

The budget for 1996-97 was awaited with much apprehension by a variety of interest groups, economic and political. There was much excited media speculation about the possible rift in the UF. The tension disappeared suddenly after the presentation of the budget. This has established the fact, without question, that the reformers enjoy the upper hand in UF. Those who may have had reservations on the economic policies and objectives of the UF have evidently allowed themselves to be cornered and have acquiesced to the leadership position of the reformers in the government. The Left parties seem to have been left with nothing in their armoury except populist pretensions which they may put on display occasionally to protest against direct attacks on their already small mass support base which is bound, therefore, to shrink further when their responses on economic policy issues are seen even by their followers to be ambivalent and equivocal. Also bound to be weakened is their ability and will to mobilise the masses for struggles even as the fundamental contradictions between the interests of the working people and entrenched vested interests, Indian and foreign, who exploit them become more sharp.

The multinational corporations and Indian big business too, after securing many advantages from Chidambaram's budget, have some grouses and there is no let up in their pressure for more incentives. They evidently regard the cuts in customs and excise duties proposed in the budget without the conventional condition of passing on the benefits to the consumer, which has never been observed or enforced in practice, as their inalienable right in the liberalisationglobalisation era. But they are vigorously questioning the proposal for a modest tax on the fast-growing zero-tax corporations and the 2 per cent increase in customs duties to collect funds for improving infrastructural facilities. Chidambaram is, therefore, already under intense pressure to show more accommodation to the interests of business corporations, Indian and foreign. The talk of a level-playing field is indeed irrelevant in the context of the proposed international investment treaty which stipulates conformity to "national treatment in respect of market access and security for international investors".

It is not without significance either that even though Chidambaram has not brought down the peak rate of customs duty he has made wide-ranging cuts in tariff on import of material inputs and services which will be taken full advantage of for increasing the profitability of established industries in which foreign interests have significantly enlarged their stake in the last five years. The objective of the tariff reform is to promote at a fast pace integration of the Indian market with the global market. The misgivings of sections of Indian industry on unfair exposure to competition of multinational corporations in the domestic market have not been as rudely brushed aside as Manmohan Singh was wont to do. But Chidambaram is not letting such sentiments override the globali-

sation objectives of the reform process. The cuts in customs duties add up to much more than what a reduction of peak rates overall by 10 per cent could have achieved. It is also significant that even as Chidambaram has taken credit for additional resource mobilisation for the government of about Rs 2,500 crore and marginal increases in central budgetary provisions for rural development, social sector and welfare measures and proposed large excise concessions for industry, the drive for promoting the market to meet the consumption demand of the elite in Indian society and for multinational corporations and their Indian partners to exploit has not slackened and should actually be expected to gather momentum even as the mass of the people with poor purchasing power will be squeezed out. The only merit of the tax proposals is that large-scale loss of revenue for the government has been avoided so that the revenue deficit may not be enlarged.

Rural development has been fervently proclaimed as the first priority of the UF government. But what has been really aimed at is promotion of commercial agriculture with attention focused on large landholdings and gentlemen farmers and the entry of Indian business corporations and MNCs into agriculture. A series of measures have been taken in this direction. For Chidambaram coolly to extend, in the name of assisting the poorest of the poor, the subsidy on tractors which was so far limited to small and marginal farmers, who could not have taken advantage of it anyway, to all farmers and thus legitimise tractor purchases at subsidised prices is really remarkable. The zeal with which the reform process is being attempted to be extended to agriculture is further emphasised, above all, by the credit facilities which are proposed for the 'humble farmers' which is really a cuphemism for the commercial farmer. If the IMF/World Bank reforms for the industry sector initially subdued the domestic impulses for industrial growth and subsequently, with multinational corporations invited to be the main players, distorted the growth profile based on a shrinking soical base, the extension of these reforms to the farm sector is bound to be disastrous on all counts, economic, social and political. Already in 1995-96, a year of a good monsoon, growth of agricultural production was down to 2.4 per cent and crop production to as low as 0.9 per cent which is way below the rate of growth of population. This should bring home to all concerned that the socalled green revolution based on irrigated areas, viable farmers and subsidised chemical fertilisers has touched a plateau and has played itself out so far as further growth of agricultural production and productivity is concerned. The shrinking of the social base of farming on which small and marginal farmers subsist, and strengthening the role of gentlemen farmers and their nexus with business corporations, including MNCs, in the farm sector will disrupt the rural economy and hit hard the poor farmers, farm workers and artisans. It will aggravate economic

leprivation and social tensions beyond the endurance of the patient and long-suffering people in the rural areas. The idea that credit available through NABARD and small private banks to rich farmers for commercial farming will give a boost to agricultural production is fanciful. The majority of the rural population will not enjoy access to credit from these institutions. There is no significant step up in budgetary allocations for rural development and welfare schemes either. What has been done is to rearrange schemes and budgetary allocations in the hope of deriving political gains. Chidambaram concluded his budget speech by a call for more reforms and more growth, albeit with more compassion. Translated into policy terms, it actually means more vigorous effort to attract foreign capital on a scale far larger than in the last five years of reforms and extension of the reforms to the rural sector to promote commercial farming. Compassion in this reckoning is surely not the empowerment of the people with right to the land they till and gainful employment opportunities for farm labourers and artisans. The ruling elite seems to be excited only by the familiar paternalist-populist impulses for inconsequential give-aways of public funds to selected groups which simply do not reach them and are picked up on the way by persons in authority and influence-peddlers. Look at the pitiful provision in the budget of Rs 5 crore each for porters, old age homes and residential schools for the poor.

The question of rebuilding the economic intrastructure and modernising it is supposed to have been a priority for Chidambaram's budget. To the already existing financial institutions, two more are proposed to be added to facilitate the inflow of foreign investment for the development of modern infrastructure. The experience of the last five years, however, is that MNCs are interested essentially in the exploitation of Indian labour and consumers. The inflow of direct foreign investment to set up production capacities and infrastructural facilities has been tardy and on terms and conditions (such as guarantees of security, counterguarantees for high rates of return and their quick repatriation) which eliminate all risks for foreign investors and the costs tend to be even higher than of commercial borrowing. While direct foreign investment has been eagerly awaited, further policy adjustments have now been made for the inflow of hot money for speculative trading in stocks and shares. But lags in the development of economic infrastructure have only become more and more intolerable in the last five years.

In the scheme of Chidambaram for building and strengthening infrastructure for economic growth, the role of industrial enterprise in the public sector is totally missing. The dilution and eventual elimination of public sector industrial and commercial enterprises is indeed the major aim of the IMF/World Bank reform programme. It seems to be beyond the comprehension of the IMF/World Bank tutored reformers in India that direct investment by the Indian state in industrial and commercial enterprises in the planning era pioneered the establishment of modern

infrastructural facilities and capacities. The production of vital inputs, such as heavy engineering and machine-making, intermediate goods, among them steel, aluminium and metals, oil exploration, refining and marketing of petroleum products were taken up on this basis. This was indeed the only option available and a solid basis for industrial development in India. Further expansion of industrial enterprise in the public sector, nursing of its managerial abilities and technical expertise, removal of bureaucratic control and interference which could have enabled its full potential to be exploited for the rapid development and modernisation of the Indian economy are, however, no part of the economic reforms launched in 1991. On the contrary, industrial enterprise in public sector has been attempted to be smothered. It may not be amiss either to mention that investment in public sector industrial undertakings and public financial institutions played a major role in the development of private industry, both large-scale corporate and small-scale, as well through the supply of first rate inputs at subsidised prices. Those who condemn the inefficiency of industry in the public sector for not making high profits forget that but for price controls, strictly observed, for the supply of goods and services in the domestic market at cheap rates, often at less than the cost of production, public sector undertakings could have extracted huge profits from private industry and Indian consumers. Even in the so-called reformera of liberalisation and globalisation, the public sector is still being decreed to supply its goods and services at controlled prices for lower than what is allowed to private Indian and foreign suppliers. The price of crude oil for ONGC and electricity from the State Electricity Boards are cases in point. The past five years, however show that while waiting for MNCs to invest in the development of infrastructure, including the critical energy sector, public sector capacities have been kept idle even while their profits as well as funds raised by selling their shares at throwaway prices have been used for the current consumption of the government. Chidambaram has chosen to tread the beaten track by further cuts in public investment and squandering the existing productive assets for current consumption of the government. He has not honoured even the stipulation in the Common Minimum Programme to use the Rs 5,000 crore to be raised by disinvestment of the shares of public sector specifically for technologically upgrading the public sector and for education and health services. The starting point really for any meaningful effort to develop and revamp infrastructure for economic development is to utilise the full potential of the public sector industrial undertakings. The private industrial enterprise and foreign capital has to be drawn in for only a supplemental role.

The inflationary pressures which have been dormant for some time will admittedly be felt strongly in the current year. The finance ministry officials expect that the inflation rate will rise to 6 to 7 per cent in the coming few months. This seems to be an optimistic assumption. More significant, however, is

that a rise in the inflation rate has been proclaimed by them to be a concomitant of the growth process in the market economy and as unavoidable. But the position of the Left parties on the question of prices, in particular their more articulate trade unions, is curious. They are clamouring for price controls for all essential commodities of mass consumption. This presupposes an elaborate system of administered prices which totally contradicts the philosophy and concerns of the market-oriented economic reforms to which the Deve Gowda government is unreservedly committed.

The question of inflationary pressures and management of the structure of relative prices is, therefore, bound to cause much triction between the constituents of the United Front in the coming months. But what must not be attempted to be obfuscated is that the official policy prescription for promoting economic growth also requires active measure for the development of the market for goods and services of elitist interest which alone can attract foreign capital. Investment priorities, price adjustments and fiscal incentives will be accordingly determined. The selective reduction in customs and excise duties proposed in the budget only emphasises this position. The protests of the Left parties and TUs against the 'antipeople' austerity measures and the price adjustments have been weak and ineffective and will remain so if they remain associated

with the UF government.

Mindful of the resources constraint and political fragility of the Deve Gowda government, Chidambaram had to do a lot of tightrope walking. His options were limited and he has wisely chosen to put off more complex issues by the time-honoured method of appointing an Expenditure Commission, a Tariff Commission and a Disinvestment Commission for public sector enterprises. In addition he proposes to come forth with a paper for discussion on subsidies and hold fresh consultations with the Reserve Bank of India on the elimination of ad hoc treasury bills, that is created money, to finance the expenditure of the government. The opening of the insurance sector for multinational corporations too has been deferred. In many ways, therefore, Chidambaram has presented what may be called another 'interim budget' to be updated as he goes along during 1996-97 and beyond. That Indian economy will grow at 7 per cent and the rate of inflation contained at 6-7 per cent should be treated as only hopeful projections. The estimates of revenue and expenditure, with the fiscal deficit at 5 per cent GDP, need not be given much credence either. Chidambaram has been well-advised not to say or do anything which may endanger the survival of the Deve Gowda government. But he is neither willing nor able to weaken or disrupt the ongoing economic reform programme to which he is fully and firmly committed. The question before those, including the Left, who are associated with the Deve Gowda government, however, is whether they have been wise to hitch their wagon to a rickety political arrangement and in the process marginalise their relevance, especially in the vital economic policy-making arena.

Extremist Challenge and Indian State

Case of Assam

Hiren Gohain

The ULFA phenomenon is the product of the total alienation of Assamese youth from the Indian state. The vast majority of young people find in the Indian Constitution no guarantee of a right to a reasonably decent life. But the support for ULFA does not mean necessarily support for secession from India. The weakness of the Assamese national base has made it impossible for the ULFA to formulate a programme for national reconstruction. And in the past, it was easy for Congress(I) governments at the centre to find support among the conglomeration of ethnic groups and maintain a semi-Fascist regime by suppressing the Assamese with virtual army rule. Given this, talks initiated by a genuinely democratic government sympathetically aware of the crisis of the Assamese nationality but capable of firmness when it degenerates into chauvinism is the best hope of solution to the problem posed by ULFA.

THE hottest question in Assam today is whether talks between the government and the ULFA will materialise. The AGP ministry has time and again offered to talk to the militants without pre-conditions, only to come up against a deafening silence. From the very beginning the ULFA did not appear keen on talks, partly because a section among them considered any kind of talks a sell-out, partly because the last time such talks were held the negotiations seemed only to advance the personal interests of the 'surrendered' (sic!) ULFA. Yet the people of Assam are overwhelmingly in favour of a dialogue between the government and the extremist organisation, and sharply hostile to the line of extermination popular with certain sections of the central government and the army. That does not mean that they are eager to endorse widespread extortions and sundry killings by ULFA in the name of revolution. Now it is this ambiguity in the Assamese response to the extremist challenge that outsiders, whether resident in Assam or not, find exasperating.

To the common man in Assam the machinery of the state appears only as an instrument of repression and exploitation, and the ULFA enjoys grass roots support to the extent the expectations from the state are frustrated. Most of the primary health centres of the state are without any stock of medicine. The harassed doctor prefers leaving the PHC in the lurch to facing the wrath of deprived villagers. Annually gastro-enteritis claims hundreds of lives among the poorer sections of the people. In the tea-gardens healthservices are not under the health department of the state government, but under the labour department, which happily ignores the fact that in certain gardens making crores of rupees in profit there is no qualified physician in charge of the garden hospital! This year, as on earlier occasions, floods have affected the lives 30 lakh people, destroyed standing crops on two lakh hectares of land, and taken a heavy toll of human lives and livestock. When floods recede, the rural economy over large parts of the state seems to be devastated. Nearly one-third of the industries in the state are 'sick', and lakhs of unemployed youths who cannot afford the high price of jobs in the informal job-market managed by corrupt politicians, officials and their brokers, and who lack even the small capital required in small business, look up to the ULFA. Some of them join in sheer desperation. An unexpected fall-out of this situation has been the phenomenal increase in criminal activity among youths and adolescents. Recently the police foiled the grandiose plans of nearly a dozen school students who planned to leave home under the pretext of joining the ULFA only to receive training in the use of fire-arms from professionals with the eventual objective of setting up a gang of robbers. The incident was reported from the oil-town Duliajan, but it might have happened anywhere in Assam.

It is no surprise therefore that funeral ceremonies of ULFA cadres killed by the army or the police are attended by thousands of people in the countryside. Recently when the police killed a member of the ULFA from upper Assam in a shoot-out near Nalhari in lower Assam and took his dead body to the local police station, thousands of villagers milled around the police station and forced the OC to hand over the body to supporters of the ULFA. One is not certain what proportion of such supporters will go the whole hog, to the point of supporting secession from

India. Since a referendum is at this stage impracticable, the question remains academic.

This bleak scenario is unknown to the outsiders, even those settled in Assam, who make it good in trade and business. Using a very simple logic they reason that the local people fail because they are lazy and drawn by prospects of easy money, leaving out the question of social milieu and training that motivate individual behaviour. The nature of the economy, dominated by outside capital and skills in tea and wholesale business and in industries that thrive on plunder of natural resources of the state, does little to foster local initiative and industry, as the local people play only a marginal role in them. The state government, dominated in its turn by a bureaucratic and feudal ethos, also does precious little to change the mind-set of the people. The centre-state relations, as they have developed so far, leave little scope for efforts to lift the state up by the boot-straps. In any case, the political culture of the state in an environment of persistent stagnation tends towards plunder and nepotism rather than development. The frustration of the youths has naturally found expression in acts of violent rebellion and terrorism. Pace the favourite line of government propaganda, the ULFA simply cannot be dismissed as a band of anti-socials and goons. (To cite an instance of the way present-day political culture subverts development in the state, the AGP government is reportedly proposing to appoint as chairmen of the scores of semigovernment and autonomous development corporations in the state all their MLAs who have been denied a ministerial berth, even though many of them have not the faintest idea of the work in which they are supposed to provide leadership!)

The ideological immaturity of the ULFA, which had carried away the dying embers of the militancy of the Assam movement, has attracted the scorn and ridicule of established Left parties. They are now waking up to the necessity of ideological orientation, and in the process of acquiring the trappings of a Marxist-Leninist system of ideas. To some extent they have received help from Naxalite splinter groups, though they try to adapt Marxist ideas to the overriding goal of 'liberating Assam from Indian imperialists'. For some time there was even division of labour between city-based journalists taking charge of the ideological work and militant activists carrying out concrete revolutionary tasks - a patently unmarxist idea. Unfortunately its revolutionary activity appears to be largely confined to political assassinations, abductions for hefty ransoms, extortions and intimidations. Only occasionally have there been attacks mounted on the Indian army. The army in its turn has cast wide its intelligence net, and it often gathers accurate information about the whereabouts of the ULFA cadres. Several middle-level ULFA leaders have been caught or killed with a view to putting the fear of the state in the minds of the local people. People deeply resent the combing operations of the army which treat them as already guilty of treason. Now and then there are also confirmed reports of rape and torture of innocent suspects. Political parties dislike the whole business but prefer to keep quiet as they themselves are repeatedly threatened by the ULFA for siding with 'the Indians'.

Shortly before elections the district SP of the Tinsukia district travelling with a heavily armed escort was gunned down by the ULFA in a well-planned guerilla-style operation, though the reasons for the attack are still not clear. The Congress candidate from the same constituency was also killed a little later. Likewise, a former minister in Hiteswar Saikia's cabinet along with nine armed guards (all of them from poor families) was murdered on the road. It puzzled many at that time as to why the ULFA was queering the pitch for the AGP, which it used to regard as a friendly party. Perhaps those acts were calculated to terrorise the thugs and ruffians the Congress(I) candidates in their love for democracy had gathered around themselves. However, those acts not surprisingly, put the army on their trail. The army arranged some gruesome acts of counter-terror, particularly after a couple of army officers were ambushed in the Kamakhya temple, a well known tourist spot.

Recently a dedicated ULFA leader of Rangiya, Torun Deka, whose family of poor farmers has reaped no economic benefits from his activities despite his high rank in the outlawed organisation, was killed in cold blood by armymen, according to eyewitness reports. The 'interrogation' of suspected ULFA supporters in army camps is so 'intense' that it has left quite a few crippled for life A few have died shortly after their release from those camps.

Another group disturbed by the shaky Congress(1) prospects in the assembly elections was the SULFA, or 'surrendered' ULFA cadres. Many of them had, with help from late Saikia, then chief minister, muscled into coal and timber trade, amassing huge fortunes with goonda-tax. A few had forgotten to deposit huge amounts extorted from tea-gardens and other businesses with their original ULFA linkmen. Since some of them joined the army in its campaigns against the ULFA as escorts, scouts and informers, there was no love lost between them and their former comrades. In the Nagaon district the ULFA killed and buried in makeshift graves seven SULFA men, said to be innocent of any anti-ULFA designs, in brutal retaliation against such SULFA help in detection and murder of ULFA district leaders like Prabhat Saikia. While the late Hiteswar Saikia and his sycophants proclaimed the 'return of peace to the state', in fact there were more than a thousand murders during that time, many of them with political overtones. Bimal Bhuyan, an ambitious student leader who became close to Saikia and appointed by him the director of publicity for the state was killed in broad daylight. Lachit Kolita a former Congress(I) youth leader formerly on ULFA's hit-list later fell out with Saikia and soon after met a gory end. Cotton College, premier institution for undergraduate education in the state, and with several departments running PG classes as well, became a hotbed of politics when Saikia started bestowing political patronage on certain student leaders. The result was a spurt in political violence, which cost a student, Uttam Barua, his life. Thus during the period before the elections there were allegations of the Congress(I) government of the state calculatingly creating an atmosphere of insecurity and violence in the state. The ULFA in its turn was more or less on the defensive, making people forget their own blood-spattered record during the AGP regime.

Against this background there took place the murky business of the murder of Parag Kumar Das, an ambitious, fiery and talented journalist and human rights activist, who had not only become a spokesperson of the ULFA but also the voice of the angry and frustrated youth of the state. On May 17, as he was waiting outside a school to collect his young son and escort him home, he was knocked down by a deadly hail of machinegun bullets. His dead body was followed to the cremation ground by thousands of outraged and grief-stricken people. Agitated friends and supporters demanded immediate detection and arrest of the murderer. Under intense public pressure the police revealed that they had conclusive evidence of the identity of the culprit, alleged to be one Prafulla Bora, a SULFA hitman. Mysteriously the police also stated that certain high-ranking police officers of the state had intervened to release the culprit from police custody and help him to escape! Despite this extraordinary revelation the high-ranking police officers said to be involved in the escape of the suspect have not been suspended and chargesheeted. There have been a spate of rumours linking the murder wih the army intelligence. the RAW and even the ULFA! The situation has become more intriguing with the suspect claiming from his hide-out that the police were falsely accusing him and were planning to bump him off to protect the real culprit.

Incidentally these events have lifted a corner of the veil that has hidden the deep and strong links forged between sections of the police and assorted anti-socials during the Congress(I) regime. In fact the moment

it became clear that the AGP was winning the assembly elections, both the chief secretary of the state and the DGP of the state police hastily applied for leave and sought shelter in Delhi. During the regime of the ruthless Congress(I) CM, Saikia, several high-ranking senior police officers were allegedly involved in harassing and torturing Saikia's opponents, and further, were also suspected of involvement in a few kidnappings and murders. With the flight of the top-ranking officers and change in political leadership of the state government, the police now stand thoroughly demoralised. with hardly any spirit left to bestir out of their thanas. They are hardly in a position to look after law and order in this chaos. Army withdrawal, the main demand of the ULFA and their friends, will only compound this dangerous confusion.

ARMY CAMPAIGN

The army's campaign against the ULFA has put the AGP government led by Mahanta in a serious quandary. Given the current paralysis of the police, the departure of the army will leave a vacuum inviting not only the carbine-toting ULFA, but all manner of ruthless, rapacious adventurers and lawless elements. On the other hand, it is reliably learnt that the ULFA had lent its considerable support to the AGP during the last elections. MLAs who won by grace of ULFA were obliged to put pressure on Mahanta to send the army back. In fact, even before they formally took the oath of office the AGP leaders had met the governor of the state to demand withdrawal of the army. But once Mahanta found himself in the CM's seat, he developed cold feet. The army also forced his hand by intensifying its campaigns at that point and compelling him to take a stand. Mahanta, a past master in the contemporary politics of manipulation, can seldom be pinned down on any vital issue, and he always gets away with bland generalities. But this time, very much against his will he was forced to concede that the army had a role in maintaining peace.

Yet the situation does not warrant giving the army a clean bill. It also launches propaganda barrages from time to time. A few months back it organised a seminar on human rights in Calcutta. It has held a number of press conferences in Assam explaining the army's attitude, and presenting before the public alleged evidence of the ULFA's involvement in narcotics smuggling and gunrunning. But people are still far from convinced, many dismissing such evidence as manufactured. Again, the army itself recoinmends in the same breath a 'political solution' to the ULFA problem. It is not clear what the army means precisely by that. One hopes it does not mean the government's assistance in those illegal activities in return for peace. youth organisation of the state, the AASU, has been forced by the vehement protests of its grass roots members to demand withdrawal of the army from the state, though the AASU has always maintained its clear opposition to the ULFA. Privately, however, the leaders of AASU remain sceptical about the wisdom of that demand.

Faced with the storm of public indignation and protest against army excesses, chief minister Mahanta announced that while he was for removing the army from the scene, only the central government had the authority to do so. When it was pointed out that the army was bound to act in consultation with the civil administration of an elected government, he shifted his ground and admitted that the army could not be withdrawn as long as the countryside remained plagued by individual terrorism and extortion-drives. This was at first widely condemned as typical doublespeak. But gradually sensible middle class opinion veered round to his support.

However, Mahanta's refusal to send the army packing had the friends and supporters of the ULFA up in arms against him. The Manav Adhikar Sangram Samity (MASS) which was openly pro-ULFA and which used to be led by the fiery Parag Das, demanded a categorical assurance from Mahanta, who refused to oblige them. The MASS also made an issue of the Mahanta government's failure to nab Parag Das's killer. While the MASS had been vociferous in its support to Mahanta before the elections and played a significant role in isolating his rival former home minister Bhrigu Phukan from the rank and file of AGP (Bhrigu Phukan had been the other most prominent leader of the Assam movement, which had given birth to AGP), it now declared him a traitor to the cause of Assam. In fact Mahanta's police lathi-charged MASS demonstrators in front of the Janata Bhavan at the state capital Dispur, when they demanded that the chief minister should come out in person to talk to them, a demand Mahanta found inappropriate. Thus, MASS and AGP came to a parting of the ways. The AGP, which included a demand for 'selfdetermination for the Assamese' in its election manifesto, apparently under pressure from ULFA, now declared a loss of confidence in the MASS and instructed its members to keep away from that organisation. Mahanta clearly stated that secession from India was not on the agenda, and that the AGP was a 'regional party with a national outlook'. Thus, Mahanta, who only a short while ago had aroused the fears of certain circles that he might stoke up secessionist militancy, almost overnight became the custodian of the sacred Indian constitution in Assam. The ULFA C-in-C,

puppet from which Assam could expect • nothing.

These twists and turns have left the people thorougly bemused. The blood-stained confusion has exposed all political rhetoric as hollow. The middle class, which has for long regarded ULFA as the last bastion of Assamese interests, has now grown tired. There is an increasing desperation in the clamour for resumption of talks with the government. The Naga NSCN (Muiva group) has also appealed to the newly-installed UF government in Delhi to settle the question of the north-east through talks. The author of this article was in the unenviable position of receiving a dire warning from the ULFA a month or so back for opposing the ULFA line. To his grateful surprise meetings were held in different corners of Assam, including places in the heart of ULFA's base areas, condemning that warning. It is here that the situation in Assam differs from that in Jammu and Kashmir or the Punjab. The democratic voice in Assam defied the terrorists, and kept on criticising the ULFA in spite of the grave risks. Thanks to those protests from democratic quarters one of the top ULFA leaders spoke to the author on the phone and assured him that no such threat had been intended. The author of this article seized the opportunity to press the young leader to consider the option of a dialogue with the government. The ULFA leader (the redoubtable Paresh Barua, in fact) said that talks had not been ruled out, but as a political organisation the ULFA too had to take decisions within certain practical constraints

A few days later Mithinga Darmari, the publicity secretary of the ULFA, announced that the organisation was agreeable to holding talks, provided (1) they were held in a third country, (2) there were UN observers present during the talks, and (3) they were specifically on the subject of 'a sovereign, independent Assam'. Unfortunately at about the same time the union home minister Indrajit Gupta declared equally stoutly that talks could be held only if the ULFA abjured the path of violence and accepted the Indian Constitution. At this point Mahanta showed rare initiative to break the stalemate, and apparently persuaded the prime minister to agree to talks "without any preconditions". The ball now seems squarely in the ULFA's court, though there is an undercurrent of anxiety regarding the veracity of Mahanta's claim. Likewise there is also an anxiety that the uncompromising stand of the two district committees of Nagaon and Nalbari, both hostile to any negotiations with the government, might undermine the prospect of talks eventually.

The ULFA phenomenon is thus the product of the total alienation of frustrated Assamese youths from the Indian state. While the older generations are bound by memories of the

meeuom struggie to the rest or mura, and the children of the privileged sections are attracted by career opportunities in metropolitan areas, the vast majority of young men and women find in the Indian Constitution no guarantee of a right to a reasonably decent life. The persistence, indeed aggravation of the colonial pattern of underdevelopment in the state, with the Indian state filling in the void left by the departure of British imperialism, has provoked this type of response. To be sure the Indian Constitution also allows a certain measure of self-government to the states. But in the absence of a proper strategy of development for neglected regions in the centre where power is concentrated, a set of power-brokers have arisen in the north-east without any concern for genuine regional development. Since their given task is to act as watchmen of so-called all-India interests, they too let their own people down by sabotaging future development of the region. This is the background for the fairly widespread support for the ULFA among the people in Assam, even though independence from India is not a very popular goal. Despite certain terroristic, indeed criminal distortions in the activities of the ULFA, it still represents a genuine sense of injustice and exploitation.

But the weakness of the Assamese national base, with numerous ethnic groups suspicious of Assamese hegemony and no longer willing to find a greater common identity in Assamese nationality, and vast numbers of immigrants disturbed by the ambiguity in their heritage and position, has made it impossible for the ULFA to formulate a programme for national reconstruction. The central government is making the best of every such opportunity to sow discord among conflicting ethnic groups at moments of its choice. Indeed, it is possible for a Congress(1) government to find support among such a conglomeration of ethnic groups and communities and maintain a semi-Fascist regime by suppressing the Assamese with black laws and virtual army rule, as the late Hiteswar Saikia did. Elements in the bureaucracy in Delhi, indian big capital and state-sponsored Indian intellectuals probably find nothing wrong in such a perspective. But such a set-up is a perfect mockery of democracy. On the other hand the ULFA's dream of 'a sovereign, independent Assam' also appears to be a mirage, given the political and economic weakness of the Assamese middle class, who spell out that dream without sharing the sacrifices of the cadres. Under the circumstances, talks initiated by a genuinely democratic government, sympathetically aware of the crisis of the Assamese nationality but capable of firmness when it degenerates into chauvinism, is the best hope of solution of the problem posed by the ULFA.

Archana Guha's Fight for Justice

Biren Roy

After 19 long years Archana Guha who barely survived police torture as a suspected naxalite has received 'justice' – her torturer has been sentenced to a year's simple imprisonment!

THE proverb goes, justice delayed is justice denied. But at least partial justice has been done in Archana Guha's case though justice was delayed for 19 long years. It may be recalled that Runu Guha Neogi, former deputy commissioner of police under West Bengal government, earned notoriety for his alleged torture of the naxalites in the early 1970s. Guha Neogi was responsible for torture of Archana Guha, one of the worst victims of torture in post-independence period. Archana Guha's case became well known not only in India but also at international fora.

The seventh metropolitan magistrate of Bankshall court, Calcutta, sentenced Runu Guha Neogi and a co-accused constable to one year's simple imprisonment and fined them Rs 2,000. In case of failure to pay the fine, the jail term would be extended by another two months. Two other accused had died during the trial while another is still at large.

The gruesome incidents of Archana's case began on July 17, 1974 when a police party led by Runu Guha Neogi raided Archana's flat in search of her brother Soumen who was in hiding. The police picked up Archana, her sister-in-law Latika (Soumen's wife) and a family friend Gouri Chatterjee who happened to be there by chance. Archana was head-mistress of a junior high school at Howrah, and Latika was a college teacher. They were taken to a 'special cell' at Lalbazar, Calcutta police headquarter. This cell was created to deal with 'naxalite prisoners' and was known as 'torture chamber'. These prisoners were subjected to 'third degree' methods for three days in Lalbazar lockup to extract confession. Torture inflicted on Archana and other women was severe and inhuman. As a result, Archana's lower limb got paralysed. She survived, though detained under difficult conditions.

When the Left Front government led by the CPI(M) assumed office in 1977 in West Bengal, most of the political prisoners including the naxalites were released. Archana came out of the jail in a wheelchair.

Archana Guha is not the only person who was subjected to inhuman torture in those days. But it is Archana and her family who were bold enough to file a case against Runu Guha Neogi and others in the metropolitan magistrate's court at Calcutta. Then begins a history of protracted trial. Guha Neogi

resorted to every legal step to delay the case. It was delayed due to appeals in session court, Calcutta High Court and the Supreme Court. This case is one of the longest trials in the state judicial history. Ultimately, in 1994, the Supreme Court ordered the trial court to conduct the trial expeditiously.

In the meantime, with the help of Amnesty International, Archana was sent to Denmark for her treatment in 1980. The Left Front government also extended monetary help for her journey. In Denmark, Archana received treatment of her ailments and was married. The Association for Protection of Democratic Rights (APDR) from the very beginning of the case demanded suspension of Runu Guha Neogi and made repeated representations to different authorities of the Left Front government. But the Left Front government instead of suspending Guha Neogi, then a sub-inspector, promoted him to the rank of deputy commissioner of police from which he retired in 1992 with full retirement benefits.

During the long trial of 19 years, the family suffered much. Besides the family, eminent lawyer like Arun Prokash Chatter (foriner standing counsel of the Left Front

government) and others worked selflessly for conducting the case. The APDR helped the conduct of the case in various ways. It considers a moral duty to extend its help in Archana's case as it does in many other cases. In the last leg of the case, the argument on behalf of Archana was taken up by her brother. Soumen — this was no doubt praiseworthy.

The judgment was delivered on June 5. In the judgment, the judge said he was convinced that the torture had been carried out on the instructions of the accused, Runu Guha Neogi. The judge further said that the police officers under the instructions of the accused threatened Archana that if she failed to reveal details about her political activities, four drunk men standing outside the Lalbazar torture chamber would rape her.

Guha Neogi was on bail throughout the trial; even after the sentence, his bail term has been extended. He has preferred an appeal to a higher court against the judgment of the metropolitan magistrate. So, final outcome of the case is yet to come.

Inflicting torture or injury to any person by the guardians of law is a gross violation of basic human rights according to international covenant to which India is a party. Guha Neogi is guilty of violating basic human rights. The judgment, though not harsh, has vindicated the common man's cause for protecting human rights. It will surely embolden the common man to stand up in defence of human rights against the guardians of law and order who resort to various kinds of repressive measures against the common man nonchalantly and with impunity

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Gandhi-Ambedkar Interface ...when shall the twain meet?

Suhas Palshikar

Gandhian and Ambedkarian discourses are not antithetical. Both are concerned with the issue of emancipation. At present when the legitimacy of the emancipatory discourse is being challenged, and the dominant discourse upholds capitalism, it is all the more essential to broaden the scope of Gandhian and Ambedkarian discourses.

GANDHI and Ambedkar would have agreed on as many issues as they would have disagreed upon. They could not find much ground for co-operation and collaboration. In popular perception - and in the perception of many of their followers too - they remained opponents. Both indulged in verbal duels in order to expose the weaknesses of each other's thought and actions. This legacy could never be abandoned by the Ambedkarite political movement even after the 1950s. The disappearance of both personalities from the social scene, and a change in the political context have not altered the standardised positioning of the two as each other's enemies. Against this background it is proposed to enquire into the differences in the discourses of Gandhi and Ambedkar.

Two general points may be noted before we proceed to a discussion of the relationship between the Gandhian discourse and the Ambedkarian discourse. Movements for social transformation are based on emancipatory ideologies At the present juncture in the Indian society we find that movements for social transformation are weak and localised. Further, the dominant discourse today does not believe in the project of emancipation. In this context it becomes necessary to tap the possibilities of realignment of emancipatory ideologies. It would be inadvisable to be persuaded by the exclusivist claims of any ideology to the project of emancipation.

Secondly, personality clashes need not be the decisive factor in the assessment of thought. Also, we need to accept that immediate political interests of Gandhi and Ambedkar clashed. Ambedkar began his political career as leader of the untouchables and continued to claim to be the authentic representative of the untouchable community. Gandhi, on the other hand, appeared to be denying the existence of separate interests of untouchables in the context of the freedom struggle. Ambekdar was always suspicious of the social content of freedom struggle and believed that Gandhi was not adequately sensitive to this. Since Gandhi was at the helm of the freedom struggle, Ambedkar thought it necessary to position himself against Gandhi. Given these historical circumstances, is it necessary that we sit in judgment to decide the case in favour of either Gandhi or Ambedkar?

The present note proceeds with the assumption that Gandhi-Ambedkar clashes resulted from their personalities, as well as their respective positioning in the contemporary political contexts. However, beyond these clashes and differences of assessment of contemporary politics, there exists some ground where the agenda of Gandhi and Ambedkar might actually be complementary. To realise this, it is necessary to throw away the burden of proving whose political position was correct or incorrect.

The question of separate electorates for untouchables is a case in point. Was Gandhi wrong in opposing separate electorate for untouchables? Was he wrong in forcing Ambedkar into acquiescence through the fast? I would tend to argue that such questions are largely irrelevant given the fact that 'separate electorates' do not form the core of Ambedkar's thought. In other words, Gandhi-Ambedkar relationship needs to be probed in the context not of personalities of political strategies, but in terms of their respective emancipatory projects.

CASTE QUESTION

The centrality of the caste question in Ambedkar's thought cannot be overemphasised. He believed that untouchability was an expression of caste system. Therefore, Ambedkar chose to study the caste system and critically analyse the justification it received from Hindu scriptures His thought does not deal merely with removal of untouchability which was but one part of the anti-caste movement. He was also concerned with the overall annihilation of caste. Gandhi, of course, was in favour of abolition of castebased discriminations. In personal conduct too, he did not practise caste. But caste question does not occupy a place of urgency in his thought. He tended to emphasise untouchability more than the caste question. For Gandhi, untouchability formed the core of caste system. Once untouchability was removed, there will be no caste system. Gandhi was right in identifying untouchability as the most abhorring expression of caste-based inequality and attendant inhumanity. But the crucial question is, would caste disappear if untouchability is not practised? If so, why should there be internal differentiation and hierarchical separation among the touchable castes? Gandhi would argue that untouchability stands for everything ugly in the caste system and therefore, it must go instantly Extending this logic he could further claim that untouchability could be fully and finally removed only when caste-consciousness is removed. Removal of untouchability would thus symbolically bury the caste system. In the light of development of Gandhi's views on the caste issue, there is no doubt about Gandhi's ultimate preparedness to abolish caste. And yet, caste question does not become the core of Gandhi's discourse.

Consequently, Gandhi did not extend the scope of satyagraha to caste and caste-based inequality. Gandhi extended support to temple entry movements but did not allow such movements to occupy centre-stage in his movement. Similarly, Gandhi undertook fast to convince the Hindus of the sinfulness of practising untouchability and exhorted people to abolish the practice. But the philosophy of satyagraha does not adequately answer the question of tackling injustices perpetrated by one's own society and sanctioned by religion. Satyagraha as a political weapon is adequately demonstrated by Gandhi's thought and practice. But it satyagraha is to become a moral purifier what kind of a struggle is necessary against untouchability and caste? In the case of untouchability, Gandhi could argue that the responsibility of removing untouchability lies with the caste Hindus. Hence the reference to sin and penance. However, as Ambedkar put it squarely, untouchability exists as a stigma on the body of the untouchables. As the ones suffering from injustice, how should the untouchables fight against their plight in the Gandhian framework? Even if they were to offer satyagraha, how could this act prick the conscience of caste Hindus who were under the ideological spell of religious sanction to caste and who were getting material advantages from the caste-based order?

Apart from practising untouchability, the caste society presents a number of other possible sites of injustice where different caste groups may be located in antagonistic situations. Gandhi's discourse does not direct intellectual attention and political energies to the question of waging struggle against the caste system and more importantly against caste groups deriving advantages from the caste system. Instead, Gandhi tends to search possible areas of co-operation and integration of castes. Therefore, he refuses to recognise castedivisions even at the analytical level.

Gandhi's constant appeals to caste Hindus not to practise untouchability clearly indicate his awareness that one section of the society was being treated unjustly by another; it was relationship. In spite of this division of society at the empirical level, Gandhi refused to concede separate political identity to untouchables through separate electorates. He would allow 'reservation of seats' but the representational character of those elected through reserved seats would not be 'communal', i e, not as representatives of untouchables but as representatives of the general electorate. Gandhi's relative neglect of developing satyagraha against caste probably derived from this position of not recognising the political nature of social divisions.

Although he uses the term 'harijan' for untouchable 'brethren', Gandhi stoutly refused to recognise that caste-based divisions could actually be analytical categories for understanding the complex network of structures of injustice in the Hindu society. Ambedkar draws the distinction between untouchables and caste Hindus; he also suggests the possibility of using the categories of savarna and avarna where the latter would include untouchables and tribals, aborigines, etc. Before him, Phule visualised the categorisation in terms of 'dvij' status shudraatishudra and 'trivarniks'. The logic behind such categorisation is to locate the main contradiction in the caste-ridden society, either as varna or as 'dvij' status. While Gandhi would accept the empirical reality of caste, he was not prepared to posit in it the ideological basis of anti-caste struggle. Hence, his insistence on identifying the untouchables as part of the Hindu fold. The relative unimportance of caste question in the Gandhian discourse is prominently expressed in the writings of almost all Gandhian intellectuals who tend to virtually exclude the issue of caste from their expositions of Gandhism.

BANE OF CAPITALISM

The Gandhian discourse evolved through and along with his struggles against racism and colonialism. These struggles amply acquainted him with the evil side of western society. Yet, Gandhi was not trapped in formulating anti-west nationalism. He realised that the malady of the west lay in its peculiar production process. The modern process of production led to commodification and consequent degradation of human character. Therefore, Gandhi directed his attention to the modern lifestyle and the artificial generation of false materiality. The transformation of human beings into consumers from producers was the main step. in the degeneration of human society.

In this sense the Gandhian discourse can be squarely situated in the context of the problematique of capitalism. Although Gandhi rarely attacked capitalism directly, his analysis of modern civilisation unmistakably indicts capitalism. His assessment of the exploitative nature of modern process of production, dehumanising effects of consumerism and his overall assessment of the modern society do not make sense

uniess understood as analysis of the capitalist social order. Similarly, were not Gandhi demolishing the claims of capitalism, he would not have given so much prominence to the 'Daridranarayan'. His entire project hinges upon the juxtaposition between 'Daridranarayan' and the satanical nature of capitalist enterprise. Gandhi's advocacy of a simple life, insistence on abnegation of wants, and swadeshi must be seen as counterpoints to crass materiality and instrumental interdependence nurtured by capitalism. In this sense, Gandhi's swadeshi calls for redefinition of the scope of material development and an outright rejection of capitalism as the instrument of development. It must be borne in mind that Gandhi was not opposed to modern civilisation per se but as a social order based on capitalism.

Where does Ambedkar stand in relation to this Gandhian position, regarding capitalism and modern civilisation? Two points are striking in this context. Firstly, for the most part of his political career, Ambedkar did not employ his expertise in economics to his political agenda. Secondly, his early economic treatises do not substantially depart from the ideological position and standard wisdom prevalent in economics during his time.

It may be said that the main concern of Ambedkar was to understand sociologically the operation of caste system and to understand the socio-religious justifications of the same. His political struggles, too occurred on very different terrain from the economic. Thus, though he was aware of the economic aspects of caste system the chose to concentrate on the social, cultural, religious and political aspects of caste. Besides, Ambedkar's writings manifest a constant vacillation on his part as far as assessment of modern capitalist economy is concerned. For one thing, he was not persuaded by the soundness of communist economics. For another, Ambedkar was wary of any alternative that would tend to glorify or justify a semblance of the 'old order' in which caste occupied a-pivotal role. Thus, autonomous village communities, small industry, mutual dependence, etc, were not appreciated by him for fear of indirectly furthering caste interests. He might have looked upon forces of modernity as cutting at the root of caste society and therefore was not convinced of the 'evils' involved in modernity.

And yet it would be wrong to believe that Ambedkar upheld capitalism uncritically. Not only was he critical of many aspects of capitalist economy. Ambedkar was even prepared to reject it for a more egalitarian and democratic system of production. Ambedkar has noted the political fallout of capitalism, viz, sham democracy. He was not averse te a search for alternative economic system although he did not devote his energies to this project. Thus, Ambedkar would have no hesitation in either taking up economic issues to the centre-stage of popular struggles or in developing a critique of capitalism. But his emphasis on caste question gave an

impression that he had no sympathy for radical economic agenda. Unfortunately, this resulted in many of his followers literally seeing 'red' at the mention of economic issues! This has led to a false dichotomisation between caste question and economic question. Ambedkar's speeches and Marathi writings suggest that he did not subscribe to such dichotomisation. He was aware of the threat to liberty, equality and tratemity not only from brahminism but from capitalism also.

Perspectives on Tradition

It is interesting to see how Gandhi and Ambedkar negotiate with tradition. Gandhi engages in a creative dialogue with tradition. He tries to find out the element of truth in tradition and emphasises it. In many cases he attaches new meanings to traditional symbols. He gives an impression that he is asking for nothing new in substance, but for the continuation of the 'old' tradition. The secret of Gandhi's ability to arouse revolutionary potential among the masses lies partly in this method of not claiming anything revolutionary, and in the appeal to the conscience of the masses through tradition. For this purpose, he not only chose popular traditional symbols but those symbols which have been associated with truth and justice. Assuming the role of interpreter of our 'great tradition' Gandhi takes the liberty of developing his own normative framework on the basis of tradition.

Ambedkas, on the other hand, was in search of the ideology of exploitation. He felt that tradition was this ideology. Injustice hased on caste could not have continued unless it was legitimised by tradition. He also believed that the tradition of Hindu society was predominated by brahminical interests. As such, he could not ignore the role of tradition in situating caste as a moral code of Hindu speicty. This prompted Ambedkar to take a critical view of the entire Hindu (brahminical) tradition. It is also possible that Ambedkar realised the role of tradition in the contemporary context. All reform was stalled throughout the 19th century in the name of 'our great tradition' and its correctness. Thus, it was not tradition but forces upholding tradition that must have made Ambedkar a staunch critic of tradition. Yet did he really forsake tradition in its entirety? Much of Ambedkar's critical attack on tradition was either directed against glorification of brahminical tradition. It is possible to argue that Ambedkar was engaged in demolishing the tradition of brahminism and rejected the vedic ideological tradition. But he was not rejecting all traditions or else how could be search in that same tradition the path of the dhamma? Nor was he opposed to liberating traditions in the form of different sects. He was complaining against a lack of adequate emancipatory space within the traditional framework.

Tradition in an unequal society will always be caught between crossfire. Inequality will be cogently placed as part of tradition and tradition will be glorified as 'anadi', 'sanatan' and infallible. The same heritage will be sought to be condemned for all sins of the society. Gandhi, sensing the emotional power of tradition, appropriated it in order to save it from chauvinist glorifications. But even an appropriation of tradition requires a strong critique. Such critique is a constant reminder that tradition may have the potential of aligning with forces which perpetuate inequality. An all-round criticism of tradition further sensitises us to the fact that in many cases tradition actually gives credence to the system of exploitation. In other words, the supporters of inequality are always comfortable under the aegis of tradition. Thus, appropriation of tradition and employing it for purposes of building a just society requires a strong will to reject large parts of tradition and situating tradition in a different context from the one historically associated with it. In this sense, Ambedkar's critical assessment of tradition provides a useful counterpoint to the Gandhian attempt of appropriating tradition. And the Gandhian project too, does not presuppose an uncritical appropriation of all tradition.

MEETING GROUND

In a very general sense both Gandhi and Ambedkar strived to visualise a community based on justice and fraternity. The Gandhian discourse identities the elements of community in the form of love, non-violence, dignity of human life and dignity of physical labour and a non-exploitative process of production symbolised by rejection of greed. From the vantage point of this vision of the community, Gandhian discourse makes an assessment of colonial and capitalist reality. It develops a trenchant critique of modernity. The Ambedkarian discourse unfolds in a different manner. It commences from the critical evaluation of Indian social reality. Therefore, it concentrates on Hindu social order, its religious ideology and Hindu tradition. Thus, Ambedkar's discourse takes the form of critique of Hindu religion and society. Ambedkar was constantly aware of the need to situate this critique on a solid basis of communitarian vision. Although liberty, equality and fraternity beckoned him constantly, Ambedkar transcends liberalism and socialism to finally arrive at the conception of the dhamma.

The difference in the structures of their discourses notwithstanding, Gandhi and Ambedkar thus came to share similar visions. Both believed that social transformation could come about only by social action. Therefore, they relied heavily on mobilising people against injustice. Social action perceived by Gandhi and Ambedkar was democratic; it was in the form of popular struggles. Gandhi many times appeared to be favouring compromises and avoiding 'conflict'. Ambedkar, too, is seen by many (even his followers) as a supporter of non-agitational politics. But the core of their politics as well as their position on social action leave us in no doubt that Gandhi and Ambedkar not only pursued popular struggles but they valued struggles as essential and enriching. They did not visualise removal of injustice without struggles and without popular participation. Further, Gandhi and Ambedkar would have no difficulty in agreeing upon the value of non-violence.

The discourses of Gandhi and Ambedkar respect the materiality of human life. Fulfilment of material needs, and a stable and enriched material life are seen by both as forming the basis of human activity. Therefore, they would not deny the legitimacy of the goal of providing material basis to society. Moreover, Gandhi and Ambedkar have a striking similarity in their views on morality. They believe moral values to be eternal and necessary for co-ordinating material social life.

At the root of this similarity is the common conception of secular religion. This conception rejected all rituals, bypassed the question of existence of god and other world, and brought morality to the centre-stage of discussion of religion. It is not a mere coincidence that both Gandhi and Ambedkar should be treated as heretic by religious orthodoxies of Hinduism and Buddhism, respectively. Both claim that religion and scriptures need to be understood in the light of conscience and morality. Wherever scriptures contradict conscience, religion demands that conscience should be followed. In this sense they were sceptical not only about scriptures, but 'priestly authorities' deciding the meaning of scriptures. This view cut at the root of any notion of an organised, closed religion. Gandhi and Ambedkar shift religion from the realm of metaphysics and situate it onto the terrain of secular matters such as truth, compassion, love, conscience, social responsibility and enlightened sense of morality. Understood thus, Gandhi's sanatan dharma and Ambedkar's dhamma do not confine to individual and private pursuits of good life but operate as the moral framework for social action. Religion becomes secular and part of the 'public' sphere. When the so-called religious people were busy counting numbers, Gandhi and Ambedkar tried to turn religiosity of common man into a force for social transformation.

Struggle for truth and non-violence has to incorporate caste struggle because caste is a structure of violence and injustice. Just as Gandhi denounces the satanic culture of the west, Gandhism can be a denunciation of caste-based injustice. Gandhi does not forbid the use of soul-force against the satanic tendencies in one's own society. If contemporary Gandhism tights shy of caste struggles, it has lest the core of Gandhi's discourse. The restrictive interpretation of Gandhi will have to be rejected in favour of a creative interpretation. Non-recognition of categories like shudra-atishudra does not form the core of Gandhism. In fact, use of a term like 'daridranarayan' presupposes readiness to understand social reality on the basis of exploitative relations. Therefore, political

mapping of social forces on caste basis can be incorporated into Gandhian discourse. Gandhi's strong rejection of religious authority behind untouchability, his later views on intercaste marriage, his nonorthodox interpretation on varna in early years and loss of interest in varna in later years, and the constant exhortation to become 'shudra', - to engage in physical labour all point to the possibility that caste question can form legitimate concern of the Gandhian discourse. It should be of some interest that Gandhi does not culogise the 'trivarniks' or their roles while constantly upholding dignity of labour. His sanatan dharma is characteristically uninfluenced by brahminism.

Similarly, Ambedkar's position on capitalism and modernity can be extended and reinterpreted. He located the primary source of exploitation in the caste system in the Indian context. But he never disputed the exploitative character of capitalism. His espousal of socialism (e.g., Independent Labour Party) and state socialism apart, he tended to take the view that concentration of wealth and exploitation gave rise to 'dukkha'. His conception of dhamma makes it clear that Ambedkar made a distinction between material well-being and insatiable lust. This is the ground on which critique of modernist life can be figured within his discourse. It is true that Ambedkar's rejection of tradition and traditional life-style appears to be modernistic. But it must be conceded that Ambedkar had to take into consideration immediate interests of untouchables. Thus, his plea to move to cities need not be understood as a modernist project. Also, Gandhi's espousal of village life should not be seen as justification of existing village life. Grounding Ambedkar's interpretation in his conception of dhamma can open up the possibility of bridging the distance between Gandhi and Ambedkar.

The discourses of Gandhi and Ambedkar were not antithetical. Therefore, it is possible to think in terms of common concerns and potential grounds for dialogue between the two discourses. Further, both Gandhi and Ambedkar were concerned with the question of emancipation. As such, a broadening of the scope of their discourses is all the more essential. As mentioned earlier, at the present moment, legitimacy of emancipatory project is being challenged. The dominant discourse today tends to underplay the caste question and legitimises capitalism. In contrast the movements of social transformation appear to be fragmented or stagnant. The theoretical strength required to meet this challenge can be gained partly by building bridges between the two rich discourses of our times.

[A paper presented at the seminar on 'Gandhi's Relevance to Contemporary Theory and Politics' organised by the Department of Politics and Public Administration. University of Pune; October 9-10, 1995. I have drawn liberally from my Marathi article on this theme published in Samaj Prabndhan Patrika, January-March, 1995.]

Walking on One Leg India's Software Industry.

R Narasimhan

India's Software Industry: State Policy, Liberalisation and Industrial Development by Richard Heeks; Sage Publications, New Delhi, 1996; Rs 450.

THE high-visibility success of the Indian software industry surprises and puzzles outsiders. There are several reasons for this. Two of the more important ones are these: Software is a glamour industry. Designing and producing software is an example, par excellence, of a highly professional, hi-tech, cutting-edge activity. India's success in this sector is difficult to reconcile with the country's overall poverty-ridden, developing country image. Secondly, India's software industry is predominantly export-oriented and its major export market is the US, the acknowledged world-leader in all aspects of information technology, especially in software technology.

Predictably, in the recent past, a variety of studies (policy-oriented, technology-oriented, business-oriented) have been initiated by academic groups in the west to understand the reasons behind the sustained exceptional performance of the Indian software industry. The book by Richard Heeks on India's software industry is the result of undoubtedly the most substantive such study. According to the author, the main funding for the study came from UK's Science and Engineering Research Council (SERC) and Economic and Social Research Council (ESRC).

The information collected to support Heeks' study is astonishing in its variety and coverage. Following an initial field survey in India in 1988, four further periods of fieldwork were undertaken by the author and co-workers in 1989, 1991, 1992, and 1994. During this time, over 250 semi-structured interviews were conducted with roughly 150 persons in over 100 organisations. In addition, managers of six leading hardware firms, five leading public sector users of local and imported hardware and software, 30 government officials from a variety of government departments and agencies, persons responsible for software in the three leading industry associations, nine academics, and editors of four leading Indian computer journals, were interviewed. A whole variety of secondary material was compiled from libraries, bookshops, government agencies, newspaper offices, and so on. A set of short-term studies on software industry development in China, Cuba, Kenya, Malaysia and Singapore was also carried out between 1989 and 1994 (p 371). I am personally not aware of any study, either from within India or outside, that can

match Heeks' in its data coverage in depth and width.

Some of the questions for which Heeks seeks answers in his study are the following: (1) On the vexing issue of state versus market. it is generally taken for granted that the performance of the Indian software industry argues tellingly in favour of a free-market and against state intervention. To what extent is this true? (2) Through import liberalisation and export incentives, the Indian government has been single-mindedly pushing for software exports. What have been the shortterm gains to the country, if any? What are the long-term dangers one should be aware of in continuing with such an exclusively export-oriented policy? (3) What have been the spin-offs, if any, from the software industry to the other Indian industries, and the other facets of the Indian economy?

I shall discuss in this review Heeks' answers to some of these questions based on his study. The software industry cannot be studied in complete isolation from the hardware industry. Right from the early years of the information revolution, India has made a determined effort to build up a viable base for manufacturing computer hardware. Indian government's liberalisation policies, and its over-enthusiastic support for software export have, more often than not, resulted in adverse fall-outs to India's hardware industry. Heeks' study includes a detailed analysis of these fall-outs. I shall not deal with this aspect of Heeks' study in this review. His recent article in EPW [Heeks 1995] covers this ground in some detail. This should be consulted by those interested in issues in this domain.

INDIAN SOFTWARE INDUSTRY AND GLOBALISATION

The data available in India concerning overall software production, consumption, trade within the country, and even export are notoriously incomplete and often unreliable. Available figures take little account of inhouse domestic software production, of software sales that are bundled with hardware, of software piracy, and of the lower value of domestic software products and contracts compared to exports (p 72). This feature must be constantly kept in mind when trying to make fine quantitative inferences.

It is clear, however, that mainstream software industry has deliberately neglected the domestic market in favour of exports. Out of the top 25 software producers in

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1994-95, 15 earned less than 20 per cent of their software revenue from the domestic market, of which the major part came from trade in imported packages. "Only five firms earned more than half their revenue from the domestic market, but apart from the public sector CMC and ECIL, well over 90 per cent of that domestic income came from the trading of imported software packages. Roughly onethird of India's software export carnings came from firms which had no domestic market base for software services and sales" (p72). This picture is very much corroborated by the summary of software industry performance for 1995-96 recently published by NASSCOM, the apex industry association in the software domain in India.

"Software exports grew from under 10 per cent of total electronics export in 1980...to 40 per cent from 1991-92 to 1994-95. Software export also rose from just 0.05 per cent of all Indian exports in 1980 to just over 1.8 per cent in 1994-95" (p 75). Heeks points out that the Indian software industry's growth rates, although seemingly high in the Indian context, may be seen in world perspective by noting that Indian software exports formed less than 0.15 per cent of the total world computer service and software market in 1994-95.

It is convenient and tempting to focus publicity on gross earnings through software export than net earnings taking into account expenses incurred in foreign exchange to pay for travel, living allowances, marketing and so on. Additionally, expenses are incurred in import of software tools and hardware for software production. Heeks conjectures that India probably has a negative balance of trade in software after 1986. All those interviewed after this date, including those in the government who expressed an opinion, felt that India was a net software importer. The figures for 1987 suggest that there was a net outflow from India of something over US \$ 100 mn in software (pp 77-78). This trade gap is very likely being narrowed and even reversed during the 1990s.

That a trade gap should develop and persist in the software sector is in itself not an adverse reflection on the performance of the Indian software industry. Information technology in general, and software in particular, are infrastructural resources. Information technology (IT) is a means to an end and not an end in itself. IT's large multiplier effect comes about when it is used to improve the performance of the other industrial and service sectors of the economy. It is precisely for this reason that the deliberate neglect of the domestic market should be considered a grave failure on the part of both the government and the intended in industries.

Software and service exports could be categorised into one of four kinds. (1) sale of software packages; (2) data entry and

digitisation: (3) customised conversion works and (4) customised application building. India's export profile during the 1990s is made up of 2-5 per cent of the first two, and close to 95 percent of the last two. Customised services (3 and 4 in the above list) can be provided by loaning people to work in the customers' sites (on site work, also referred to as 'body shopping', which is really a misleading characterisation since what are shopped are not bodies but brains and skills) or by doing the bulk of the implementation work offshore, i.e., in India. It is generally conceded by all - including the Indian software industry - that providing services on site forms still an undesirably large part of our export.

Heeks concludes rather pessimistically: "Indian workers have far more often been used as programmers, rather than as system analysts or designers, working to requirements and design specifications set by foreign software developers... Such a division is also seen when packages are developed by Indian firms for the export market" (pp 82-83). Fortunately, this conclusion would seem to apply decreasingly to the larger Indian software companies, although it continues to be true of smaller groups and fresh starters.

Another disturbing factor is that the interaction with the external partners is also very narrowly circumscribed. "Figures collected from the top 25 exporters of 1989-90 to 1994-95 indicate that all but seven of these undertook the majority of their software exports for a single foreign company with which they were collaborating" (pp 83-84). This dependence on one foreign company was even greater during the formative years of most exporting firms.

"Software cannot be described as a significant employer in general terms. Employment in the mid-1990s represents about 8 per cent of the total electronics industry employment (up from about 1 per cent in the early 1980s), and just over 0.5 per cent of total manufacturing employment in India. It has employed a few thousand people, against which one may compare India's total of around 3 million registered unemployed graduates in the 1990s" (pp 93-94).

Another notable factor is the heavy turnover of skilled employees in software companies. On an average the turnover rate is 15-20 per cent; in some companies the rate is as high as 50 per cent in one year. 10-15 per cent of the staff from the industry leave permanently or semi-permanently by opting to go to work or study overseas. Staff leave particularly when on site because of constant 'head-hunting' by overseas software agencies (several of them run by NRIs) and because of a sense of exploitation.

Staff turnover, in itself, is not a loss to the economy, although it is undoubtedly a serious destabilising factor to the companies affected. So long as staff movement is contained within the country, it is a positive means of technology and skill diffusion in the economy.

However, when 'brains' are lost due to permanent or long-term emigration, the loss to the economy is not easy to compensate. As Heeks notes, "the lack of experienced project managers, analysts, and designers has made it difficult for Indian companies to accept turnkey contracts" (p 97). Another consequence that Heeks does not emphasise is that the shortage of skilled and experienced staff is resulting in artificial inflation of software staff valaries, especially salaries at the entry and middle levels. This is making it difficult for smaller firms to survive, and is beginning to affect adversely the performance of even medium-to-large firms.

How does the productivity of Indian software workers compare with productivity levels reached in the west? Measuring productivity in terms of the lines of software code produced per person-day, "when working overseas, Indian software developers achieve productivity levels as high as those of their western counterparts and sometimes higher by 20-25 per cent... Within India the productivity level varies widely between companies but, on the average, it may be somewhat less than that achieved in the west" (p 100).

'Out-sourcing by highly industrialised countries has been the principal factor driving the growth of software exports from India. "Something like US \$ 40 bn of IT work was out-sourced by US-based organisations in 1995" (p 110). Among developing countries, India has so far enjoyed a decided advantage because of its high quality software professional skills available at relatively low costs, coupled with its facility in using the English language. However, as one of the leading actors in the Indian software industry once observed, these advantages are unlikely to last once the Chinese begin to catch up with us in their facility to use English!

More serious consequences of India's continued dependence on out-sourcing as a major export opportunity are pointed out by Heeks. Innovative and strategic applications are unlikely to be out-sourced. Recession may slow down growth in out-sourcing. Too much global out-sourcing may lead to protectionist reactions in developed countries. One can already begin to see the signs of these consequences on the horizon. In addition. Heeks cautions that Indian export opportunities could be squeezed "if co-operative export initiatives expand such as that between Singapore and China which aims to address the Japanese market by combining Singapore's management expertise, ease of business, and good infrastructure, with China's low labour costs" (p 114).

Heeks devotes two chapters to deal with the pros and cons of collaboration with MNCs and the government interventions needed to ensure the ready availability of working capital, sufficient supply of skilled professionals, viable telecommunications infrastructure, promotion of R and D and marketing. For the most part his analysis of the need

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for intervention and also of the nature of the interventions called for add nothing new to what the Department of Electronics and the software industry here have been aware of and have been trying to grapple with.

As regards foreign collaboration, Hecks recognises that "collaborations have been encouraged in order to try to overcome some of the skill, capital, technology, and marketing constraints that have beset the software industry. Many collaborations have helped to supply these inputs and they have formed a vital part of India's software export growth. However, they have been of relatively little benefit to domestic-oriented needs; have been associated with export vulnerability and technological dependence; and their growth increasingly constrains the policy options available to the Indian government" (p 236). Heeks nevertheless feels that many of these constraints could be met through imaginative and effective government interventions.

One of the most valuable and significant contributions to the study of Indian software industry that Heeks' book makes is contained in the Appendix where Heeks lists exhaustively all the foreign collaborations relating to information technology known to have been active in India up to mid-1995. These may be grouped as follows with an indication of the number of collaborations in each category:

Computer collaborations (101), Specialist computer collaborations (24), Peripherals and related collaborations (124), Software distribution agreements (181), Software export collaborations (132), Training collaborations (15)

These comprehensive listings make clear – as no mere textual discussion can – to what extent our information technology industry (which, of course, includes the software industry) is riding piggyback on foreign collaborators and is, therefore, in a strate, gically vulnerable position.

SOFTWARE INDUSTRY AND THE DOMESTIC MARKET

Why did Indian software companies choose to set up export operations—either exclusively or as their primary business—neglecting to cultivate the domestic market, and what was the influence of government policy in such decisions?

The contrast between the domestic market and the export market was a major factor in moving firms into export-oriented work. The perception was that exports offered a huge market and possibilities of quick returns and high earnings. Other influencing factors were: up-to-date technology awareness and skills; staff motivation and good company image and track record. The new entrants invariably chose on site service exports rather than offshore work or export of software packages because of fow risk, low barriers to entry, low investment, and quick returns (p 131).

The negative aspects characterising the domestic market provided additional argu-

here. The majority of customers in the domestic market were either government departments or quasi-government agencies. Among them the culture of a willingness to pay for software and services was poorly developed. "The ratio of software to hardware spending in India in 1994-95 was still only 1:3 – a long way below the global market" (p 136).

Also "the revenue per worker in the domestic market is at least two to three times lower than that for exports and profits are similarly lower—the opposite to the situation in most Indian industries. Loss-making firms earned an average of over 80 per cent of their turnover from the domestic market, while the profit-making ones earned an average of over 60 per cent of their turnover from exports" (p 131).

Coupled to these positive and negative aspects of the external and domestic markets, respectively, government policies – either intentionally or otherwise – all seemed to be formulated to promote export operations and penalise cultivating the domestic market.

"One specific set of policies aimed directly to promote software exports has been export incentives" (p 139). Export profits have been wholly tax-exempt since 1990 for software exports. Of course, this has been the case for all manufactured exports and also some services. Because of the way in which the tax-exemption formula is calculated, it is claimed that it provides a strong disincentive for software companies to address the home market.

The steep devaluation of the Indian rupee (from Rs 7.75/US\$ in 1980 to around Rs 35/US\$ in 1996) by over 350 per cent, in combination with import liberalisation and rising import-intensity of production, has resulted in rising import costs, rising production costs, and higher debt-servicing charges. Heeks comments: "Devaluation is too much of a blunt instrument and needs to be replaced by a more selective approach" (p 141).

Another set of export incentives centres on Export Processing Zones (EPZs), Export-Oriented Units (EOUs), and Software Technology Parks (STPs). Some of the benefits differentially available to businesses operating from these privileged areas, as opposed to those from Domestic Tariff Areas (DTAs) are: fast duty-free imports and exports; a quick 'single-window' for all bureaucratic dealings; exemptions and subsidies on sales and excise tax, rent, power, water; a five-year tax holiday; greater access to foreign exchange and infrastructural facilities (than those available to domestic units); and permission for wholly-owned foreign firms which can freely repatriate profits.

Heeks is rather critical of the performance of STPs claiming that "the majority of [business] units approved are yet to be set up or are exporters in name only; and most of the STP exports — which were intended

come from body shopping" (p 143).

Neglect of the domestic market, however, is bound to lead to serious consequences in the long-term, if not in the short-term. Several of the major actors in the software industry are fully aware of this. One of them is quoted as having pointed out that "there has been an overemphasis on exports rather than on building an industry which could meet both internal demands as well as export requirements" (p 150).

For companies trying to break into the export market and for those still new to exports, credibility and track record must come mainly from their achievements in the domestic market. Foreign clients prefer to work with companies with a domestic base (p 146). Domestic work is also used by many software export companies as a training ground for their new recruits. Domestic market could also act as an export buffer.

In addition to all the above reasons, one essential and fundamental reason for nurturing a domestic market for information technology and software is the critical infrastructural role played by these technologies, as pointed out earlier. As Heeks emphasises: "...domestic-orientation for software brings greater returns to the national economy, even in terms of foreign exchange, than exports. Net carnings from exports are relatively low and much of the software produced assists foreign competitors who can then, among other things, export more efficiently to India. Software for domestic consumption, on the other hand, can improve the competitiveness of Indian firms who can then, among other things, export more efficiently from India" (p 157).

WALKING ON TWO LEGS

What are the lessons to learn from the above detailed analysis of the history of the growth and performance of the software industry in India during the last decade and a half?

First, Heeks emphasises the futility of endlessly arguing about the relative merits of structuralist versus neo-liberal models. The market does not know best; nor does the state. The state, however, has the ultimate responsibility to imaginatively monitor the performance of the market, and take promotional and/or corrective actions wherever and whenever needed.

In the Indian case, as discussed earlier, either intentionally or through neglect, a dangerous imbalance has been allowed to develop between the export market and the domestic one. It would be counter-productive at this stage to introduce measures to cut down exports. Rather, one should take all the steps needed to build-up the internal market. "...the overriding recommendation for Indian software policy to emerge from this study is that the industry be developed in future to 'walk on two legs' (a phrase

carner used in this context by Schware (1992); that is, by striving for greater balance and integration between production for exports and for the domestic market" (p. 363).

Heeks maintains that "this will be achieved through government intervention and not through liberalisation. It will also be achieved by ensuring that domestic market production is not disadvantaged at the expense of exportoriented biases" (p 363). Some of the intervention possibilities that Heeks cites are the tollowing: (1) expansion of the domestic market through government procurement; (2) firm action on piracy; (3) encouragement of local R and D; (4) substitution for other multinational inputs; and (5) some form of continued protection for local software packages and service.

He further argues that the domestic custom software market does need to be protected because of its importance as a source for building local technological capabilities. Imported software services should, therefore, not be encouraged (p 364). He also feels that an expansion in the numbers of wholly foreign-owned and wholly export-oriented software companies should not be encouraged. He is also in favour of the government facilitating investment by Indian software companies in foreign consultancy and marketing firms.

Other measures suggested by Heeks are not novel and have been knocked around a lot, inconclusively, in discussions in various for a in India. For example: (1) encouraging small-scale entrepreneurial groups by providing them, at low cost, technology, consultancy, marketing, and skilled professional inputs; (2) providing support for software application development in noncommercial areas: for example, to support basic-needs programmes: (3) improving training facilities outside metropolitan areas; and (4) improving linkages between academia and industry. The list can be made very long. The critical point to ponder is why such obvious intervention measures have not taken off. And why, where they do take off, they are condemned to an early death.

Globalisation and liberalisation have become trendy, vogue words. One reason for this is that the concepts behind these words are conveniently fuzzy for interested parties to manipulate them in self-serving ways. Given this background, Heeks study of the Indian software industry is valuable and timely, not the least because of its convincing analysis of the dangers of walking on one leg.

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Muslim Society in South Asia

Nasreen Fazalbhoy

Muslim Communities of South Asia: Culture, Society and Power edited by T N Madan; Manohar, New Delhi, 1995.

THE book under review is a revised and expanded version of articles published in Contributions to Indian Sociology in 1972. The articles have been written at different times, and with different concerns and perspetives, but the editor has identified three broad themes as emerging in the collection: attributes of cultural identity, modes of social organisation and dimensions of power. These themes are distributed throughout the book which is organised by country. Pakistan (three articles), Bangladesh (two), Nepal (one), India (six) and Sri Lanka (two).

For a long time studies on Muslim societies tended to assume a correspondence between religion and culture, as if everything in a Muslim society ought to approximate the model of society set out by Islamic texts. Not only did this result in the kind of Orientalism pointed to by Edward Said where religion was considered the main source of all social attitudes and institutions, but even sociological studies tended to look at the divergence between theory and practice as the major problematic in Muslim society. During the last 20 years or so, with more access and exposure to Muslim societies and the emergence of more localised and contextualised studies of Muslims, the issues and concerns have broadened considerably. The present volume too is an effort to put together and expand the available material on Muslims in south Asia, a much neglected area of study in the sociological study of the Islamic world.

One great advantage of this collection of papers is that they are all based on field work, so that they give some texture to the theoretical issues concerning Muslim societies. How do Muslims and Hindus mutually categorise each other? If Islam has an egalitarian ideology, how do Muslim societies handle hierarchy? In south Asia, a society where a caste mentality dominates. have Muslims resisted the cultural milieu or have they incorporated it? Social organisation among Muslims in south Asia for instance has been little investigated except for the question of caste. In this collection the articles throw light on 'biraderis' (lineages, clans), tribes and brotherhoods, in addition to caste. Though definitions on what is caste differ between the different authors, the articles throw light on different dimensions of the problem.

Gaboricau and Madan take as their problematic the ascription of the 'other' in Nepal and Kashmir, respectively. In the Hindu-dominated society of Nepal, Muslims are ranked differently by the pure and impure castes, and seem to share and participate in such ranking. In Kashmir where Muslims are in a majority, two social and ideological

orders coexisted (at least till the last two decades), which actually excluded one another, but also mutually reinforced one another. Pnina Werbner finds that caste practices continue among Punjabi Pakistani Muslims even atter they migrate to the United Kingdom and that in fact relations of power and economic dominance are articulated in the idiom of caste and ratified through marriage alliance. 'Islamisation' also becomes constitutive of the existing caste hierarchies. Lindholm's article summarises the issues and also makes the novel suggestion that caste practices among Muslims in India need not be seen as a diffusion from Hindu societies, but could be a diffusion from Muslim societies of West Asia which also practice commensality. In Bangladesh Bertocci finds ranking is not so dependent on caste, as does Mauroof in Sri Lanka.

The articles by Alavi and Rao on the biraderi system in Punjab and Kashmir, respectively, are especially rewarding for their theoretical comments and excellent field work. Alavi takes issue with Levi Strauss on the question of patrilateral parallel cousin marriage, which is characteristic of Muslim societies, but considered by Levi Strauss not to be a viable system of kinship at all. More stimulating is the detailed discussion of the sliding semantic structure of birarten, as clan and lineage, and the structural role of giftgiving in maintaining the biraderi. Rao takes up problems of the translation of local terms relating to the organisation of community and domestic group, and how the changes in these terms reflect socio-economic transformation in the area. There is a fascinating discussion of boundaries, their context specificity, and the variation of meanings taking into account the time dimension. The theoretical issues raised by these two articles go beyond the specifics of Muslim societies In fact religion barely enters into the accounts, reflecting probably the field situation where people do not turn to religion to legitimise these aspects of their lives.

Madan's discussion on the social construction of cultural identities is as always, impeccably presented. He systematically discusses the social construction of identities by looking at self-perceptions of each community (Hindus and Muslims) the perceptions they have of the other community, the ideological positions of each, and the empirical situation that they face. From his account we see the dual social organisation that existed in Kashmir, in which Hindus and Muslims actually excluded one another ideologically, but empirically had worked out a compromise, in which both could be accommodated within an

everarching framework, defined partly in caltural terms and partly in terms of the politico-economic setup, which was not Hindu or Muslim, but Kashmiri. However, the underlying and unresolved tension arising from such ideological exclusions is indicated perhaps in the fact that this society has fractured so competely in the past two decades.

In this collection of articles the definition of power is not restricted to secular power. but includes also the spiritual authority of the mullah and the 'pir', two typical institutions found in Muslim societies. We have here a descriptive account of Ahmad Riza Khan by Usha Sanyal, a Sufi pir and a 'mufti'(jurisconsult), which shows the multiple roles associated with religious leadership and the charismatic sources of legitimacy. A more contemporary account by Katy Gardner of the pirs in Sylhet who are now getting transformed into traditional scholars under the pressure of Islamisation shows us the effects of Islamisation 'on the ground' so to speak. Akbar Ahmed's lively account of the strategies used by a mullah who sought to expand his authority from the religious sphere into the secular political sphere in the tribal area of Waziristan is perhaps indicative of similar movements elsewhere in the contemporary Muslim world.

A number of additional and valuable aspects of contemporary Muslim society in south Asia are documented in the different articles. I found especially useful the discussions in various articles pertaining to the connection between Islamisation and status, and the lexical analyses of terms such as 'zat', or biraderi, which show the impact of time, space, ideology on the connotations of these terms.

Notwithstanding the wealth of material in this book there are a few problems that are unavoidable in a collection of articles of this kind. Since the articles in the book have been written at different times, and with different concerns there is inevitably a lack of continuity and development of themes. The issues of power, identity, and cultural organisation are not specifically developed, and the fact that the articles are organised according to geographical area also does not help to identify each theme in terms of its dynamics, or in terms of the tensions that exist in Muslim societies on these issues. Each article takes up its own theoretical perspective and addresses a different issue. Terms like 'caste', 'purism', 'Islamisation' for instance are defined differently by different authors. Some articles are dated in terms of approach and issues addressed and would have contributed more if a comparative perspective had been introduced, particularly in the light of recent political events in India. However, these are minor points. The collection provides invaluable insights and information, and gives a feel for the variety, the differences and the continuities in south Asian Muslim societies. It should be required reading for anyone interested in the area.

Educating the National Imagination

Shalini Advani

This essay seeks to examine the construction of nation by our educational system as reflected in the intentions and visions of policy-makers and in the nature and structure of ideas embedded in textbooks. By analysing the various contradictory and complementary discourses that inhabit the curriculum, the essay notes the process of essentialisation, mythificultion and romanticisation of Indian history, society and economy which denies interrogation by alternative paradigms of development and social justice

1

In the beginning we will rewrite de history books Put William (de Conqueror) on de back page Make Morgan (de pirate) A footnote

We
Will recall with pride
Our own
Grannies to come
Will know
Of de Arctic Ocean
But will know more
of de Caribbean sea
of the Atlantic Ocean

II is a truism today that the structuring of knowledge is an exercise which is intimately linked to the structuring of power In a colonised nation, this is played out on the political and economic terrrain of the coloniser, but post-colonial nations seek to redefine and reinvent themselves via alternative definitions of what is worth knowing In India the project of nation building has lain at the heart of educational policy since 1947. It has been however an uneasy and contestatory process Between the conflicting claims of the English speaking intelligentsia and the proponents of Hindi, the secularists and the revisionist BJP governments of Madhya Pradesh and Uttar Pradesh, the urban middle class and the newly powerful rural elite, education has been the site of multiple definitions of the nation as various claimants to power have attempted to lay their imprint upon it

What is the nature of the nation which emerges and who defines it? The question of defining the nation is more complex than is at first evident. For the nation, like any idea, is imagined into existence in different ways for different reasons at different times, it is not an objective entity which transcends time nor is it fixed in its nature.

The most powerful single element emerges because of the bureaucratic structure of post-colonial India. This has meant that at least overtly, the definition of the nation is overwhelmingly dictated by the imperatives of state policy. A number of recent studies

have highlighted the hegemonic nature of state controlled education though they have tended to define the state as essentially middle class and as overwhelmingly powerful. As we shall see however, what has emerged today is an elite and pervasive agenda but also one which is constituted of rival definitions which are only partially shaped by state policy. The multi-sided struggle among various status communities for domination for economic advantage and for prestige is played out on the terrain of education.

There are two distinct if connected ways in which the education system seeks to construct the nation. One is through a conceptual definition and the constitution of a national cultural imagery which locates the nation in the realm of loyalty emotion and myth. The second is through a description of the nation in motion, its activity, social ordering and progress defining its parameters.

In this essay, I examine this process by considering first the intentions and visions of policy makers and second, the nature and structure of ideas embedded in government textbooks. I therefore look at various education reports commissioned since 1947 and the state produced English textbooks of UP Kerala and the all India NCERT While some study has been done of the history textbooks in use in schools, little attention has been paid to the language books. Yet precisely because the exact content of language books is less rigidly defined, it is possible to examine the assumptions and ideology which underlie the system of edu cation at large. Through the stones and poems found in language textbooks it is possible to glean a discourse which is altogether less obvious and therefore more powerful than that found in the social science books

I

To explore the articulations of state policy on education as well as its implementation in textbooks is to uncover a variety of discourses. On the one hand, there is the in evitable emphasis on defining and celebrating the nation, on the other, the silences and assertions reveal a profound unease with potential challenges to this over arching

definition, an attempt to negotiate the conflicts

This is evident in nearly every education report commissioned since 1947. Overwhelmingly education is seen as the holy grail the crucial element in shaping national culture. As early as 1952, this is spelt out in the Mudaliar commission report on secondary education.

The aim of secondary education is to train the youth of the country to be good citizens who will be competent to play their part effectively in the social reconstruction and economic development of their country ⁴

It is interesting to note that the notion of the nation in this report as well as elsewhere within the system is that of a single and undifferentiated entity. The Mudaliar commission report sets the tone for the next four decades at sees the nation as a monolithic and unitary whole and is reluctant to conceive of an entity which is made up of fragmentary and diverse elements. In fact, the conflicting and contesting identities which inevitably exist are generally seen as divisive and dangerous.

There has been an accentuation in recent years of certain undesirable tendencies of provincialism regionalism and other sectional differences. This situation is friught with serious consequences and it is as much the duty of statesmen as educationalists to take steps to re-orient people's mind in the right direction. If education fails to play its part effectively in checking these tendencies if it does not strengthen the forces of national cohesion and solidarity we are afrain that our freedom our national unity as well as our future progress will be seriously imperified

It is worth quoting this in some detail because it strikes a note which resounds till the present day. The inxiety for a strongly centralised identity is comprehensible in a newly fledged nation, five years after the partition. It is however echoed with equal vehemence, over three decades later in the 1986. National Policy for Education (the New Education Policy as it is popularly termed) suggesting that years later the anxiety to define a coherent and unified nation remains equally compelling. While stressing the need for education to teach the values of secularism and tolerance, the policy

recommends a pational system of education with a core curriculum including the history of India's freedom movement, constitutional obligations and 'other content essential to nurture national identity'. It hopes that

these elements [of the core curriculum] will cut across subject areas and will be designed to promote values such as India's common cultural heritage, egalitarianism, democracy and secularism, equality of the sexes, protection of the environment, removal of social barriers, observance of the small family norm and inculcation of the scientific temper.7

There is a great deal here which is important for any society, and yet it is an odd list. As aspects of a common core curriculum, cultural nationalism (an emphasis on a common Indian heritage) nestles up to universal liberal values such as egalitarianism and democracy, which in turn is on par with specifically state policy such as family planning. More to the point, there is a clear conception of a flat national identity which it is possible to develop through a specific national culture which can be taught.

The nationally integrative aim of education is faithfully transmitted from policy to implementation. In 1984 the NCERT embarked on an exercise to put together a national curricular framework. The document entitled, National Curriculum for Elementary and Secondary Education: A Framework, was the result of the deliberations of an NCERT steering group, one national and four regional seminars. The final policy that emerged gave enormous weight to the role of education in the 'strengthening of national identity and unity'. It states:

At this point of our history, the most urgent need is to consciously develop national spirit and national identity. Education, as an instrument of social transformation, should ensure that its beneficiaries and products demonstrate a national consciousness, a national spirit and national identity which are considered essential for national unity."

Apart from the tautology ('national' and its variants occur six times in two sentences), the document is significant because it provides a framework for the curriculum as it is implemented on the ground, going beyond a broad definition of general policy. Its aims are consistently visible in the construction of textbooks, as is apparent from the rationale for the readings included in a UP board English reader. First published in 1976, the book precedes the NCERT document, but its intentions are identical. The introduction spells out:

While selecting and adapting the themes, effort has been made to provide good reading material, so that the students imperceptibly imbibe higher human values such as devotion to duty, service before self, fidelity, a love of adventure and patriotism and thus help them to become ideal citizens of the motherland."

Ш

Let us move now, to the textbooks themselves, to what is actually read and learnt within the classroom. It is important to see how exactly this sense of being a citizen is conceived of, who it empowers, who it silences and what use it makes of its myth and history. An examination of textbooks produced by the all-India textbook-writing body (the NCERT) and those of the different state bureaus (the SCERTs) produces surprisingly uniform answers to a large number of these questions. Three different groups of hooks - these produced by the UP board, the Kerala beast and the all-India NCERT - suggest that cortain themes recur in the definition and fleshing out of what India is, and what it means to be a citizen

UNITY IN DIVERSITY

One of the strongest markers of postcolonial Indian identity is an apparently overt recognition of its cultural diversity and regional variance; the theme, however, is simultaneously emphasised and uneasily subverted. In emphasising this diversity, there is a clear attempt to outline the uniqueness which this bestows on India and to teach students the value of this. For all their emphasis on national unity, every education report since Independence also contains a section on opening up the minds of students to the variety and richness of India's cultural heritage: the English textbooks produced by Kerala's state board of education (SCERT) for instance, include the national pledge on the front page so that students learn to say early in their school lives: "I love my country and I am proud of its rich and varied heritage.

This construction of the nation is strongly reflected in a variety of textbooks. In a UP board textbook, for instance, three friends, Seema from Bengal, Shama from Punjab and Sonia from Madras share a room. Their friendship suggests the happiness achieved by national integration even as they are carefully and stereotypically differentiated: 'Seema is from Bengal, Her hair is long, Her eyes are big and black. Shama is from Punjab. She is very fair. Her hair and eyes are brown. Sonia is from Madras. Her hair is black and curly. Her eyes are black."

In attempting to conceive of a nation which defines itself by its cultural variance, the textbooks clearly intend to give space to a multitude of voices. Cultural nationalism, a concept with which these books flirt, sees the essence of a nation in its distinctive civilisation, demanding that the natural divisions within the nation - occupational, religious and regional - be respected in the belief that the impulse to differentiate is the dynamo of national creativity. In a country with such huge variation in regional, religious and social culture it seems like a sensible inspiration for defining the nation."

And yet, ultimately the textbooks do not carry it through. They fail to impart a lived sense of cultural variation and difference. because of a fundamental and misrecognised discomfort with the very notion of a federated and diverse nation. The contradictory notions of what it is that constitutes India, are markers of a profound unease: post-colonial differentiated identity battles with the underpinnings of a unitarian colonial and western definition which traditionally sees the nation as a monolingual and homogeneous culture. Thus, although at one level there is an acknowledgement and even a celebration of cultural diversity, there is a contradictory impetus to obscure and marginalise this difference.

Thus, regional and cultural variation is restricted to its external and most obvious manifestation. There is no attempt to create an awareness of cultural difference other than that which is reflected in skin colour and names. Rashid, Manjeet, Seema, Shama all seem to live identical lives, share identical recreational activities, worship an undifferentiated god to whom they pray together and feel proud of the India which is constructed for them by their teachers and other adults.

What is never represented are the signs and practices which give meaning and reality to cultural differentiation. Culture is visible in a system of symbols and for it to be communicated, what is required is detail, the thick description which enables it to be understood and shared by students. Within the immediate experience of school students, it is visible in eating habits, games, attitudes to family members, ceremonies and festivals and dress.

The confusion between a valorisation of both difference and sameness is largely located in colonial and orientalist assumptions. Orientalism sets the framework by which nationalism defines itself - national as opposed to regional, as a concrete and unmixed identity. Underlying the need to celebrate diversity there lurks a concept of a nation as possessing a homogeneous culture which shares common intellectual ground with a nationalist search for continuity and a uniform cultural identity.12

In many ways therefore, the confused message of the textbooks arises from a profound anxiety about the inability to define the nation, if it is not spelt out in specifically homogeneous and unitarian terms.

THE SYMBOL AS THE NATION

Running parallel to the portrayal of a diverse cultural identity therefore, there exists an equally powerful rhetoric of the nation as a centralised and specific entity which can be synecdochially encapsulated. One means of doing this is to use public buildings and monuments as a mark of the grandeur and glory of India. As Eric Hobsbawm argues, conceptions of the nation, nationalism and nation states rest on exercises in social engineering; modern nations 'invent' tradition to locate themselves in a community so 'natural' as to require no definition other than self assertion." This assertion of self is played out on the site of visible symbols of the nation: popular monuments, buildings and statuary.

School textbooks, since they cannot bring these into the classroom, do the next best thing — they describe them in carefully nationalistic terms. Thus, in a Kerala state board textbook, a chapter on the Taj Mahal juxtaposes its beauty to its unique status as a source of national pride: 'Its beauty attracts thousands of travellers to our country. They come every year from all parts of the world to visit Agra and see the Taj.'14

Similarly, a chapter entitled, 'Letter from Delhi' is enthusiastic about the capital's unique status as "It is one of the most ancient and historic cities in the world."15 It is significant that it is the only city in the country which is so valorised. For, Delhi is not of course, just a city: as the capital, it is India. Deriving symbolic value from both antiquity as well as its status as the hub of a modern democracy, the lesson draws upon a combination of factors to list the diverse elements of its glory - that it is mentioned in the Mahabharat as Indraprastha, that it contains the Outub Minar, the Ashok Pillar, the Red Fort, the Juma Masud, Chandini Chowk, the Rashtrapati Bhavan, the secretariat blocks, parliament house, India Gate and the Dolls Museum. Here, its implicit status is underscored not by its culture (which could arguably be specific to a region) but its transcendant national buildings which contain within them an encapsulation of history and tradition.

But the importance of symbolising India is visible in textbooks of other states as well. A UP textbook for instance, contains a lesson pointedly entitled, 'Know Your Country' in which various symbols of the nation are introduced. Here, a grandmother quizzes the children with near-fascist enthusiasm:

Do you know our national animal?...Did they' tell you the name of our national bird?...Did they tell you the name of our national flower?th

The children only interrupting her to volunteer their own knowledge of the design of the national flag, the lesson ends with a litany of praise for 'our country':

Ours is a great country. It is a very, very old country. It is the country of Rama, Krishna, Buddha, Nanak and Mahatma Gandhi...Say with me 'Jai Hind'.¹⁷

The point of each of these symbols, whether they are buildings or birds, is to universalise

the nation into an entity which transcends regional distinction and time. The fact that from all over the world people visit the Indian Taj Mahal and that all over India the lotus is recognised as the national flower, implies that the essence of a single, united India can be recognised by everyone in any age. Any regional variation which exists is only minor in contrast to an over-arching central identity.

MYTHIFYING THE NATION

India is further elevated by collapsing the language of religion into a discourse of the nation. In the process, its entity is mythified, with an appeal which is altogether more powerful than that of territory. For instance in the poem 'Mother India', the nation is the divine goddess with 'Kanyakumarı as her holy feet.' IR Similarly in the poem 'My Land', to fight for the motherland has the resonance of a holy war:

No men than hers are braver/ Her women's hearts never waver/ I'd freely die to save her./ And think my lot divine.¹⁹

In yet another poem, 'A Nation's Strength', the heroism and grandeur of nationhood are asserted.

Not gold, but only man can make/ A people great and strong/ Men who for truth and honour's sake/ Stand fast and suffer long.²⁰

It is interesting that so much of the poetry section is devoted to a celebration of the nation. Poetry is of course a singularly effective means of prompting such celebration. the strong metre and rhyme create a rousing and emotive appeal which is both irresistible and uncritical. A transcendant appeal, moreover, transposes the nation to a realmoutside that of ordinary existence; implicitly not only is such a nation constructed as a powerfully unified entity, it is also outside the arena of moral critique.

IV

To locate the nation and its identity in the realm of myth and symbol is one form of definition. Another is to construct its people, its economy and its daily life in specific ways. The organisation of society as it is outlined in a school textbook is essentially mimetic in its intention. Suggesting the parameters of 'normal' society it delineates the structures of social order, the rightful ownership of power and the nature of the subject population.

SOCIAL ORDER

If we remember that the syllabus and textbooks are a reflection of the society in which they function,²¹ it is not unexpected to find that the ideology of bourgeois society runs through all texts, emphasising social order at all costs. All rulers, whether kings of the past or the officials of the modern

state, are constructed as benign, sympathetic and exalted – the power stratification of society seems inevitable and natural. A story in a Kerala textbook summarises this perfectly. "The Monkeys and the Sadhu' suggests that social order and hierarchy is natural and universal, the author discovering that within a tribe of monkeys "there is a King and a Queen of the monkeys, a Prime Minister, and a Commander in Chief".²²

An overwhelming number of lessons being set in the past, the king and queen are recurring signifiers of a benign exercise of absolute power. Underlying the narratives is an ideology which celebrates this absolute power as the only reliable dispenser of justice. It is in fact, neither a coincidence nor an unthinking celebration of a bygone romantic age which sets so many stories in the past. The locus of power and authority in the past residing clearly and visibly in the king, it is a simple matter to demonstrate the disbursement of justice through the active intervention and verdical of the king : certainly easier than to track it through the tortuous and more diffuse corridors of contemporary government departments.23 In the process it makes acceptable and even desirable, the exercise of an all-powerful state authority.

The lessons in the UP textbooks, for instance, abound with titles such as 'The Kind Prince', 'Solomon's Justice', or 'The King's Judgement' It is the king as ruler who possesses an unerring ability to glear the truth and dispense justice. Similarly, is the king who can galvanise action to save his people.²⁴

NCERT books repeat the pattern. In "The Righteous King' for instance we are introduced to a king whose problem was that he had no fault.²⁵ Though he scoured his kingdom, even in disguise, he found nothing but praise for his virtue and wisdom Similarly, in 'The King's Choice', the wise king has an uncanny ability to know when his courtiers are tracking him and unerringly depends on his loyal courtier alone ²⁶ Mos assertively, in the oft-anthologised 'The Story of Shibi Rana', we have the ultimate jus ruler who is willing to sacrifice his own life to uphold justice and mercy.

Even in stories which seem to interrogate notions of perfect rulers, existing structure of social order are re-enforced in subtle ways. Kerala books ostensibly produce as interesting contrast to the others. Here, no specific form of political control is reified in the Kerala books, the wise ruler does no emerge as a dominant symbol as happen in the UP books. There are instead, storie of foolish kings like Midas and Lear, as well as tales about others like the cruel kin Dionysius who is reformed by the faithful friendship of Damon and Pythias? or "The Proud King" whose royal arrogance is

humbled. However, these inadequate kings are never dispossessed or deposed. Instead, foolish kings like Midas learn wisdom, cruel kings learn gentleness and proud kings learn humility. The basic fabric of society is thus never seriously questioned or restructured.

RURAL AND URBAN INDIA: MODERNITY AND TIMELESSNESS

The inscription of geographical space in these books strongly reflects a specific construction of the social imagery. We see an India which is modern, technologically advanced and industrialised, but also one which is substantially rural. The rural world with its connotations of timeless and transcendental wisdom is valorised, but as we shall see, the picture is strangely unreal, the gaze strongly urban even when it is most celebratory.

All textbooks devote a significant space to a description of a rural idyll, focusing on the invaluable role of the farmer in contributing to the wealth of the nation. UP textbooks for instance, devote 20 per cent of all lessons on life in the villages. Rural life is constantly constituted as a pastoral ideal: "The Farmer' constructs a contented and harmonious life for Roopa and Kiran who 'have a small house in the village. They have a pair of bullocks, a cow and a dog... There are beautiful plants and flowers in the garden.' In 'Town and Country Life' we are told:

Life in the village is quiet and peaceful and healthy. You can always get very good fresh vegetables and milk and eggs there. 40

Kerala textbooks may describe a different landscape from the UP books but they are identical in their idealisation of the contentment and natural beauty of rural existence. The chapter entitled, 'A Village',31 describes Neema's house in a rural idyll of hills, a river, a church, fruit trees and cows. Ammu's comment, "Neema! Your house is beautiful! The farm is beautiful too. The lime trees are lovely. The cows are also lovely" draws upon a traditionally romantic construction of landscape and natural beauty. The inclusion of poems such as Wordsworth's 'Solitary Reaper' 12 and 'Daffodils' 11 heighten the construction of the 19th century romantic model of rural beauty.

Like the landscape rural people are also seen conventionally as superior to others. They possess a timeless and natural wisdom, frozen into a universal category of virtue. In 'The King and the Farmer' even the king learns from the generous wisdom of the farmer who plants fruit trees for the benefit of his children declaring, "I won't be selfish. I shall work for others too". The king ruminates, "We can learn a lesson from him. Our country needs many more selfless workers like him". The farmer, who is

never individualised, becomes a generic model of instinctive wisdom and virtue.

Discernible beneath the celebration, however, is an anxious acknowledgement of the uneven spread of modernity.35 The country is consistently described in opposition and relation to the city. It is an 'othering' gaze with the dominant vision remaining urbancentric. In the textbooks, the distinctions between the quality of life in urban and rural India are uneasily acknowledged, attempting resolution by positing rural life as superior to urban existence. 'Rules of the Road', for instance, contrasts the peace of rural life ('We don't have big crowds there') with Lucknow ("I see a lot of people everywhere. There is always a big crowd on the roads and in the streets."10) This construction of the rural ideal serves to legitimise the partial modernisation of India: the bucolic world is posited as a manifestation of the uniqueness of India, one in which tradition and modernity march hand-in-hand. It is, in fact, this simultaneity which seeks to define the nation and the tension between the two worlds becomes a means of claiming a special place in the world order.

Juxtaposed to the idealisation of rural India, therefore, there is a concurrent celebration of the march of modern progress. In fact, the essential joy of rural existence is asserted even when there is a partial acknowledgement of hardship. 'Town and Country Life' which admits of a debate about the relative merits of each, is structured as a conversation between those children who prefer rural life and those who prefer urban existence; however, the absence of the authorial voice which is present in the other chapters on the same subject, offsets the critique of rural life which is tentatively offered. In the conversation, the dominant voice emerges in favour of rural existence. Thus the hard physical labour of villagers is counterpoised by the declaration that it is "a healthy life and they like it". 17

In fact, there is a carefully asserted suggestion that villages too, share in the march of modernity: the same lesson goes on to assert, "But there are cinema houses in some villages now"; the absence of shops is irrelevant because "they can get all their food in the villages". Even water and power are not really problems any more: "there won't be any problem of water in the future. There are many new tube-wells in the villages now. Electricity is coming to the villages too."

Similarly, in 'Ashok Replies', a boy writes to his pen-friend in Japan about the rural progress of modern India, asserting that electricity is now available to farmers for all-year cultivation and that ploughs have given way to tractors. He goes on to assert: 'In fact, the villages are becoming better with their electric lights and good roads...Some Indian

villages today have all the advantages of a city without many of its disadvantages.

Textbooks which view modernity as the only paradigm of development, also inevitably construct a nation's evolution in terms of a post-facto justification of state economic policy. The most stark example of this is in a chapter which contrasts contemporary India with the India 50 years ago. In 'Ashok Replies' (to a Japanese pen-friend), there is a paean of praise to the progress and modernity of the new India. Ashok tells his friend that while in his grandfather's time there were no buses so that he had to walk 30 miles to school, today there is a school in every village. Now education is free and "every parent, rich or poor, is anxious to send his child to school". It is revealing that the site of backwardness and underdevelopment is automatically and invariably located in rural India. In contrast to this we are assured that:

No visitor to our country leaves without seeing and admiring at least a few of the dams we have built. Thanks to the 5-year plans, there are big steel plants and factories for manufacturing railway carriages. w

For all their focus on rural India, therefore, the textbooks speak from an essentially external position. Ironically, in the anxiety to smooth over any possible perception of rural disadvantage, the text does not interrogate the basic assumption that shops, cinema halls and electricity are in themselves signifiers of contentment.

Progress and development is thus narrowly conceived of; restricted solely to roads and lights, it offers no alternative pattern of rural development which suggests a paradigm of modernity which is distinct from industrialisation or access to a commodity culture. There is therefore, a profound chasm between rural and urban India: when it is celebrated, the village is transcendental in its beauty and timelessness; on the other hand its location in the present is a discourse upon the transformation of backwardness through modernisation. This dichotomy is an unacknowledged affirmation of and anxiety about the loss of the rural within the cultural universe of the increasingly hegemonic urban.40

This is visible both in lessons which deal with development in modern India as well as with the types of knowledge and information which it is considered valuable for the modern Indian student to possess. The value attached to such knowledge, the ultimate prioritisation of modernity over tradition, universal truths over local knowledge are indicative of the cultural aspirations of a society.

The problem with such a chapter is that it suggests a single paradigm of modernity, so that the march of urban industrialisation is seen as an unproblematic virtue. It promotes an ideology which structures technological progress as the defining mark of a self-respecting nation. For instance, the devasting demographic shift towards urban migration is treated unproblematically and is even celebrated as a mark of progress: "Many families are rapidly moving to cities and towns in order to find jobs in factories and industries". "I'The stunning blindness of such a statement creates a world in which the problems of land dispossession, the crippling effects of a failed monsoon or the debilitation of migrant workers do not exist.

With this treatment of the subject of technological development, the child reading these texts fails to see the costs of this modernity: social, cultural or ecological. A celebration of this inferiorises alternative modes of development, alternative priorities. In the process, textbooks wilfully blind the middle-class students to whom they address themselves. The beneficiaries of the miracle of modernity and capitalist progress know nothing of its price: the dispossessed peasants, the children who labour in factories and the poor who have no access to the open markets thrown open to international capital. The victims of these systems become forever the unknowable 'other' of modern India, forgotten because they remain hidden from the view of those with the knowledge and power to effect change.

DISTRIBUTION OF CAPITAL

To forget and to ignore this other India is possible only through the construction of an ideology which appeals to different sentiments. The iniquities of the distribution of capital is dealt with through a devaluing of the very desire to acquire wealth. Drawing upon Gandhian asceticism, the other-worldly tenets of brahmanical Hindu scriptures and on a protestant celebration of the work ethic, this discourse seeks to abjure the pursuit of money. On the other hand, the concretely visible poverty and the remnants of an opposing socialist philosophy prompts a concomitant discomfort with existing patterns of economic distribution.

Consequently, school textbooks treat the issue of wealth, its acquisition and its importance with distinct unease. Uneasy with the acquisition of wealth as an ideal, they constantly suggest that it is synonymous with greed - even as they consistently and anxiously return to the theme. A single reader from Kerala for instance, 42 includes the story of Midas, the story of 'Four Greedy Young Men' who treacherously kill each other because each covets the buried pot of gold they find and a story entitled, 'The Finest Thing in the World' in which two brothers achieve wealth and power but the third achieves contentment. The moral of all these stories can be encapsulated in one brother's admission, 'In spite of my wealth I am tired and unhappy' and the other's statement, "He has after all found the finest thing in the world. He has found contentment." Similarly, another reader deals with the same attitude. The Imp and the Peasant's Bread' describes how the devil's disciple can ruin a oncegenerous peasant by ensuring that he has a surfeit of possessions. Conversely, 'Kindness Rewarded' tells of the great reward for two poor peasants who give what little they can, to the visiting gods.

There is here a curiously conflictual attitude to the questions of labour and profit. On the one hand, there is an exhortation towards hard work but on the other, approval for the fruits of labour is absent. Instead, there is an ascetic disapproval of the possession of plenty. Taken 'ogether, the stories suggest the value of maintaining an economic status quo. A sudden access of wealth leads to ruination as in the case of the four young men and the imp's peasant.

A straightforward warning against a hope for easy wealth is found in the story of the miller Whang⁴¹ who is inspired by a neighbour who dreams of buried gold on his land and digs to find it. Whang stops working at his mill and finally one night dreams of gold under the walls of his mill. Inevitably he digs for it, does not find gold but as a result of his act, brings down the mill. Students are prompted to draw the conclusion that it is foolish and destructive to hope for sudden accessions of wealth. A miller's role in life is to produce flour not to search for wealth.

CONCLUSION

If we argue that the construction of the nation in these textbooks is a deliberate exercise in ideological structuring, we need to address ourselves to the question of whose and which ideology is reflected. It seems superfluous to say that these textbooks function as reflections of the dominant ideology of state policy: the more interesting questions are of how this is established and whose state is ultimately reflected in the process.

While no list of the complex power lobbies which seek to imagine a nation in their own image can be entirely complete, it is clear that there are significant conflicts of interest among them. The size, diversity and the particularly segmented nature of Indian society and economy splinter the articulations of these conflicts and this is reflected in the demonisations and celebrations which appear in the textbooks.

One manifestation of this tension is between the urban industrial and professional classes on the one hand, and the rural hegemonic class of rich farmers on the other. A further tension is clearly visible between a centralised political class and regional groups which through a variety of caste alliances have sought to wrest the political

initiative from traditional high-caste and economically powerful groups.

A summarising glance at the configuration of the nation in these textbooks, reveals variety of discourses which simultaneously contest and complement each other, thus both reflecting and shaping the discourse India's diversity is acknowledged but only to be superimposed onto the larger trope of unity - via myth, symbols such as the flag and history such as the freedom struggle and nationalist leaders; the unitary images of flag, bird and anthem holstering the legitid mising claims of a centralised political eliter Similarly, the superiority of rurar India is celebrated, but so is modern, industrialised India, the two aspects appearing in uneasy juxtaposition. Thus the farmer is important in the discourse of the nation, but it is only the rich, independent farmer and not the agricultural worker or the poor peasant who appears. Finally, the social order and strong state power, dear to the heart of the bourgeoisie are valorised and economic disparity is glossed over by the suggestion that wealth is irrelevant to true happiness.

The incorporation of diverse voices only serves to strengthen the dominant, rather than weaken it. The acknowledgement of the presence of different social groups does not bring the student any closer to the reality they inhabit, only deepening the gulf between the dominant and the subject worlds. Through a process of essentialisation, mythification and romanticisation, they make strange the very categories which they appear to celebrate. There is no serious subversion or even interrogation by alternative paradigms set by religious minorities, dalits or even by questions of gender. The fact that these textbooks are produced by state education councils specifically set up to do away with the most blatant forms of caste and religious underpinnings does not alter the privileging and problematic nature of their ideology.

Notes

- The Lesson' by the Grenadian poetess, Merle Collins in her anthology, Recause the Dawn Breaks, Karia Press, 1985.
- 2 See for instance, Krishna Kumar, Political Agenda of Education (Sage, 1993) and What Is Worth Teaching? (Orient Longman, 1992), Timothy Scrase, Image, Ideology and Inequality (Sage, 1993), Myron Weiner, The Child and the State in India (OUP, 1991)
- 3 For a consideration of the impact of this on education, especially in the context of the teaching of English, see Raji Sunder Rajan, 'Fixing English, Nation, Language, Subject', and Gauri Viswanathan, 'English in a Literate Society' in Sunder Rajan (ed) The Lie of the Land, OUP, 1992
- 4 Report of the Secondary Education Commission, 1952-53 (Ministry of Education and Social Welfare, Government of India), New Delhi, 1972, p. 5
- 5 Ibid, p 6.

- 6 The only significant dissenting voice comes in the Ramamurti Report (1990) which displays a deep discomfort with the hegemonic control of dominant structures of knowledge. The report observes, "A common myth is created that the national wealth and the GNP is the work of a handful of states, of a few acientists and of industrial and business classes of people, leaving out the major contribution to the national economy by the common that the common that the common that the common control of the common of National Policy on Education, 1986. Department of Education, Ministry of Human Resource Development, New Delhi, 1990, p90)
- 7 National Policy on Education. 1986. Department of Education, Ministry of Human Resource Development, New Delhi, 1992, p 4.
- 8 National Curriculum for Elementary and Secondary Education: A Framework, NCERT, New Delhi, 1988, p 5.
- High School Supplementary Reader, Government of Uttar Pradesh, Lucknow, 1992, p ii.
- 10 Busic English Reader I, Shiksha Nideshalaya, Government of Uttar Pradesh, Lucknow, 1991, p. 60.
- 11 See John Hutchinson, The Dynamics of Cultural Nationalism, Allen and Unwin, London, 1987, pp 30-36 for a fuller discussion of cultural nationalism.
- 12 For a discussion of this, see for instance, Ashish Nandy, The Intimate Enemy, OUP, 1983 For a critique of the essentialising arguments of Said's Orientalism, see the introduction to Carol Breckenridge and Peter van der Veer (ed), Orientalism and the Post-Colonial Predicament. University of Pennsylvania Press, Philadelphia, 1993, and Aijaz Ahmad's In Theory, (OUP).
- 13 Eric Hobsbawm and Terence Ranger, The Invention of Tradition, OUP, Cambridge, 1983, pp 264-65
- 14 Kerula English Reader, Standard 6, Education Department, Government of Kerala, Thiruvananthapuram, 1994, p 62.
- 15 Ibid, p 39.
- 16 Busic English Reader 1, Shiksha Nideshalaya, Uttar Pradesh, Lucknow, 1991, p 83.
- 17 Ibid.
- 18 Read for Pleasure, Book II, NCERT, New Delhi, 1980, p 76.
- 19 English Reader, Book IV, NCERT, New Delhi, 1993, p 117.
- 20 English Reader, Book V, NCERT, New Delhi, 1993, p 156.
- 21 For a detailed exploration of this theme, see most notably Bourdieu and Passeron. Reproduction in Education. Society and Culture (Sage, 1977); Michael Apple, Ideology and Curriculum. (Routledge and Kegan Paul, 1979); Geoff Whitty. Sociology and School Knowledge (Methuen, 1985).
- 22 Kerula English Reuder, Standard 8, Education Department, Government of Kerala, Thiruvananthapuram, 1994, p 23.
- 23 Michel Foucault's point about the visibility of power in pre-modern Europe as opposed to its more subtle and diffuse exercise in modern society is relevant in this context (Foucault, Power/Knowledge, The Harvester Press, 1980.)
- 24 See for instance, 'Unity Is Strength' in which the king of the pigeons instructs his flock to fly together to lift up the hunter's net. (Basic English Reader 2, Basic Shiksha Parishad Uttar Pradesh, 1993).
- 25 English Reuder, Book III, NCERT, New Delhi, 1993, p 44.

- 26 Read for Pleasure, Book IV, NCERT, New Delhi, 1993, p 1.
- 27 Keralu English Reader, Standard VI, Education Department, Government of Kerala, Thiruvananthapuram, 1994, p 18.
- 28 Kerala English Reader, Standard VII, Education Department, Government of Kerala, Thiruvananthapuram, 1994, p 7
- 29 Basic English Reader, Book 1, Shiksha Nideshalaya, Government of Uttar Pradesh, Lucknow, 1991, p 89.
- 30 Busic English Reader, Book 3, Shiksha Nideshalaya, Government of Uttar Pradesh, Lucknow, 1990, p 22.
- 31 Kerula English Reader, Standard V, Education Department, Government of Kerala, 1994, p 84.
- 32 Kerulu English Reuder, Standard 9, Education Department, Government of Kerala, 1994, p 65.
- 33 Kerulu English Reader, Standard 10, Education Department, Government of Kerala, 1993, p 16.
- 34 Kerula English Reader. Standard VI, Education Department, Government of Kerala, 1994, p 1
- 35 Ernest Gellner's phrase, Gellner sees the demand and ideology of nationalism as linked not so much with modernisation, as with its uneven distribution. (Gellner, 'Nationalism and Modernisation' in Hutchinson and Smith (eds) Nationalism, OUP, 1994, p 61.
- 36 Basic English Reader, Book 2, Shiksha Nideshalaya, Government of Uttar Pradesh, 1993, p 97
- 37 Basic English Reader, Book 3, Shiksha Nideshalaya, Government of Uttar Pradesh, Lucknow, 1990, p 22.
- 38 English Reader, Book IV, Special Series, NCERT, 1993, p 63.
- 39 Ibid.
- 40 In a recent article ('The Village: Its Decline in the Imagination', The Times of India, March 18, 1996) Ashish Nandy traces the gradual obliteration of the village from the cultural image of India, arguing that the importance of the village in the ideas of Gandhi, of Ray's Puther Panchali and M N Srinivas's The Remembered Village has been replaced by a distanced conception of it as a demographical and statistical datum of population growth, health care or educational backwardness.
- 41 Ibid. 42 Kerala English Reader, Standard VI,
- Government of Kerala, 1994.
- 43 Workbook for English Reader, Book II, NCERT, 1971, p 27.
- 44 Sharad Joshi, a leading rural leader of Maharashtra in the 1980s, has described the principal cleavage in Indian society today as that of Bharat versus India, the countryside versus the city. Similarly, the persistent theme in the speeches of Charan Singh, the Jat leader and ex-prime minister, has been on the stranglehold of 'urban lobbies' and the 'parasitic intelligentsia'.

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Whither Rural Financial Institutions?

Bhupat M Desai N V Namboodiri

Doubts have been raised regarding the financial viability and developmental objectives of rural financial institutions (RFIs) and there have been proposals to restructure these institutions to address these concerns. This article argues against this approach as it is based on inappropriate understanding and evaluation of the viability of the RFIs. Instead, the article, on the basis on recent researches and studies, makes recommendations to improve the present network of RFIs.

FOR quite some time now doubts have been raised about the desirability of continuing rural financial institutions (RFIs) in their present form. These doubts seem to have been based on concerns related to both the financial viability and developmental objectives of these institutions.

In 1989 Agricultural Credit Review Committee (ACRC) chaired by Khusro recommended merger of regional rural banks (RRBs) with their sponsor nationalised commercial banks (NCBs) precisely on the ground of their financial non-viability. The committee also recommended merger of short-term and long-term co-operative credit structures for similar among other reasons.

In the wake of liberalisation in 1991 Narasımhan Committee recommended creation of rural banking subsidiary of the NCBs by amalgamating their rural branches and the RRBs. Since then several formal and informal proposals have emerged. These even include such ideas as dismantling one of the three tiers of short-term co-operative credit structure, i e, state co-operative banks (SCBs), and integrating private moneylenders as agents of the RFIs. The former is suggested to improve the gross margins of the lower tiers. And the latter is to improve the loan recoveries and appraisal as these private lenders have better local feel and peer pressure. The need to improve loan appraisal seems to have also been prompted by a viewpoint that the RFIs have accomplished little, if any, of their social

Excepting ACRC's proposals, none of these proposals is based on well-studied grounds. Some of them seem to have been even carried away by a viewpoint in international community that the past approach to building rural credit is ill-founded and has caused unviability of RFIs, besides hardly promoting any of its social objectives [see. for example, von Pischke 1983; Adams 1988]. But, as will be shown subsequently neither the proposals of the two committees nor this international criticism has much sound basis. Thus, there is a need to take a dispassionate look at these proposals and criticisms. The paper attempts this, based on first author's recent researches, besides some other major studies.

FINANCIAL VIABILITY

In their 1993 publication Desai and Mellor showed that much of the international criticism is based on a framework and methodology that are deficient in analysing financial viability of RFIs. They further showed that as many as 19 out of 25 RFIs spread over Bangladesh, India, Sudan, Thailand and Honduras have scale economies and/or constant returns to scale in their transaction costs. In other words, their average transaction/administrative costs (i e. per Rs 100 of business volume) are declining and/or constant (Annex 1 gives definition and picturisation of scale economies). This implies that these institutions would improve their viability through expansion in business volume rather than the increase in their gross margin as suggested by ACRC.

Desai in his publication (1994a) provided a more robust framework and methodology than used by Desai and Mellor in addition to providing more recent and comprehensive empirical evidence for all the four grass roots level RFIs in India. Before presenting this, the deficiency of study of financial viability by ACRC is briefly discussed.

ACRC defined viability by measuring unit (or average) net margin in lending. This is computed as interest revenue minus interest cost minus unit transaction cost attributable to lending. In other words it is the difference between interest spread and transaction cost per Rs 100 of loans. If this margin is negative, then an institution is considered non-viable. This method has serious shortcomings.

- I It is inconsistent with the policy concerns for the viability of an institution rather than its any single service like lending or technical advice. It is the institution which must remain viable. This institution not only lends but also borrows and mobilises deposits, besides providing other services. Many of these operations are joint/ complementary.
- 2 Most transaction costs are common to all these services. Their allocation to lending is artificial, arbitrary and fraught with assumptions that can prove misleading.
- 3 It is not uncommon to find loans being made to depositors and/or to those whom depositors know. Hence attributing unit

- gross margin, i.e., interest spread to lending alone is erroneous.
- 4 Interest rates on borrowings now range from zero per cent on current deposits to 12 per cent on some fixed deposits. Depending on which ones of these are considered and for what types of loans unit financial costs (i.e., interest cost would also vary significantly.
- 5 Non-interest revenues are ignored. They can be and are significant for at least some RFIs.
- 6 ACRC's sample of primary agricultura co-operative credit societies (PACS) and rural branches of the public sector commercial banks (NCBs) did not ever constitute one per cent of these institutions
- 7 ACRC when considered unit net margin (1 e, average profit) for an institution i found it to be positive for all RFIs (excep RRBs for which no result is reported!) This reinforces the first deficiency discussed above.

Desai (1994a) considers theory of cost to identify whether average costs of variou types decline with the expansion in the volume of business, i e, operation of scaleconomies. The scale economy is measure for each of the major services as well as al of them together. The former is termed a partial scale economies and the latter total scale economies. These economies ar identified not only for transaction costs bu also for financial costs and total costs (i e transaction plus financial costs) of an insti tution. In other words, the unit of analysi is institution and each of its major operation Moreover, when financial cost 'which i usually for deposits and borrowings) ar considered to be a function of even loan it implicitly recognises the opportunity cos of loan delinquency and that of loans mad from owned funds. Thus, this cost is also built into total costs which constitut transaction plus financial costs.

Desai (1994a) provides an evidence that there are scale economics in transaction cost of the (1) state co-operative land developmer banks (CLDBs), (2) NCBs, and (3) RRB making profit. For PACS, and for RRB with losses there are constant returns t scale. The former implies that these thre RFIs have a decline in their average

transaction costs, while the latter suggests this to be constant for the other two RFIs. Furthermore, all these RFIs average financial costs are constant. And finally, NCBs have declining average total costs, whereas the remaining RFIs have these costs constant, i.e., their average total costs curve is horizontal (see Table 1).

These findings suggest that all these RFIs can improve viability by expanding their volume of business. They also imply that the interest rate and gross margin on loans need not be increased now to improve viability of these RFIs. These conclusions also follow from more disaggregative data for two Farmers Service Co-operative Banks in Kerala [Desai and Namboodiri 1993, 1995b], some PACS in Gujarat, a branch each of the district central co-operative bank and the Dena Bank in Gujarat, RRBs in Gujarat and in south Gujarat in particular, an RRB in Uttar Pradesh, and all DCCBs [see Desai 1995; Desai and Namboodiri 1995a; and Desai, Gupta and Tripathi 1989].

Question now arises as to why scale economies arise for RFIs. They seem to result from more than one crop loan in a given year, term loans for wide variety of purposes, and deposits of various types, besides increase in number of clientele served and other operations such as input sales, consumer goods sales, etc, by PACS. Such multiple and diversified services enable RFIs to spread their common costs and risks in rural banking and thereby facilitate achieving scale economics.

Indeed, PACS have even scope economies in both transaction and total costs (see Table 1). This means that when one of its operations, say, crop loans increase the marginal (i e, incremental) costs of another operation say, input sales decreases and viceversa. This is because when crop loans increase the demand for input increases with a consequent decline in marginal costs of managing the input sales. Before we turn to the discussion of developmental objective of RFIs, three issues of great significance must be elucidated.

One, the evidence on the operation of scale economies implies that when RFIs expand their business volume those making loss would reduce the loss and those earning profit would increase it under the given interest rate and margin structures. Two, the scale economies in various costs are maximum/second largest for lending compared to other services (Table 1). In other words, average costs of making loans decline more sharply than that of deposit collection, borrowing, etc. This then suggests that RFIs have to now expand loaning more than other operations to fully reap scale economies. And three, many bankers seem to perceive that rural banking is an unviable proposition because of high transaction costs in serving innumerable small accounts and high risks in agricultural loans. We presume when they refer this they have average (i e, unit) cost in view. This is what it ought to be. And based on this they advocate increase in interest rates for rural credit. But in a dynamic setting the issue is whether this cost is rising. High average cost does not

necessarily mean rising such cost. Our evidence as discussed earlier is that the average transaction costs have declined and/ or are constant for the RFIs. This is the case even for their average total costs. Our plea therefore is that the issue of high cost must be separated from that of rising cost so that better understanding evolves to identify more

TABLE 1: PARTIAL AND TOTAL SCALE ECONOMIES OF VARIOUS RFIS

RFIs	Data and Functional Form	Output/Operations F	Partial/Total S	cale Econo	mies in
	for Cost Analysis	· · ·	Transaction	Financial	Total
	•		Costs	Costs	Costs
PACS	1961-62 to 1988-89 Time-	Liabilities	0.923	0.410	0.439
	series: Trans-log ¹	Assets	0.179	0.832	0.744
		Both	1.102ª	1.242	1.183*
		Scope Economies*	6.129	38 266	21.337
PACS	Cross-section stock data.	Liabilities	0.526	1.096	0.711
	1988-89 Trans-log1	Loan assets	0 171	0.091	0.250
	· ·	Non-loan assets	0.479	0.056	0.261
		All three	1.176	1.243	1.222ª
PACS	Cross-section flow data,	Gross borrowings	0.255	0.037	0.257
	1988-89 Trans-log1	Loan advanced	1.155	1.095	1.035
	J	Input sales	0.403	0.025	0.221
		Consumer goods sales	0.192	0.392	0.279
		All four	2 005°	1.549*	1.7832
		Scope Economies*	-0.400	0.011	-0.013
CLDBs	1961-62 to 1988-89 Time-	Assets plus liabilities			
	series: Log-log-inverse ²	•	0.517h	0.678ª	0.614
CLDBs	Cross-section 1988-89,	Assets plus liabilities			
	Log log-inverse ²	•	1.163*	0.2314	0.695
NCBs	Sample branches: mid-1980s	Deposits	0 459	0.690	0 622
	Trans-log1	Loans	0.276	0.304	0 286
	·	Both	0.735 ^b	0.994^{2}	0 912h
		Scope Economies*	0 080	0.193	0.147
RRBs	Per branch data of 1988-89,	Investments	0.171	0.313	0 154
with	Trans-log ¹	Loans	0.022	0.381	0.241
profit	-	Deposits and borrowin	gs 0.281	0.341	0.359
•		All three	0.474h	1.034	0.754
		Scope economies*	5.410	0.576	1.277
RRBs	Per branch data of 1988-89,	Investments	0.012	0.023	0.001
with	Trans-log1	Loans	0.072	0.190	0.050
losses	-	Deposits and borrowin	gs 0.557	0.839	0.660
		All three	0.641	1.051	0.711
		Scope Economies*	0.036	0.674	0.001

^{*} Scope economies parameter should be negative because marginal costs of one output decreases when the other operation increases and vice-versa.

b Statistically significantly less than 1 suggesting scale economies.

Notes 1 Partial scale economies in transaction costs, financial costs and total costs are derived from the estimated translog cost function (TRANSLOG).

$$\label{eq:continuous_equation} \ln C = \ln \alpha \, o + \sum_{h=1}^{N} \alpha \, n \, \ln \, Xn + \frac{1}{2} \, \beta \, \prod_{n=1}^{N} \ln \, Xn$$

where Xn is the different types of operations and C is the cost.

2 Log-Log-Inverse (LLI) cost function In C = In bo + b1 In Y + b2 1/Y

where C is the cost and Y is assets plus liabilities.

This functional form was used because translog function estimation did not give expected a priori positive signs of the coefficients. However, both these functions (i e, TRANSLOG and LLI) are consistent with the theory costs that give U-shaped average cost curve. Two such other functional forms are cubic and transcendental the estimation of which had statistically less satisfactory results

Source: Adapted from Desai (1994a).

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a Statistically not significantly different from 1 indicating constant returns to scale.

appropriate policies. That policy certainly does not lie in changing their structures. What is needed is to further strengthen their decentralisation and autonomy to suit agriculture that is geographically dispersed and agro-climatically diverse. It is this type of liberalisation that is the need of the hour. We have more to say later.

DEVELOPMENTAL OBJECTIVE

Two sets of criteria are considered from Desai (1994a) and Desai (1994b). These are:

- (1) Contribution of credit-financed investment to agricultural growth in preand post-green revolution (GR) era, and
- (2) Financial performance as revealed by financial and credit deepening, creditdeposit ratio, and banking habits of the rural folks.

On first of these two sets of criteria, Desai (1994b) shows that RFIs credit has enabled the farmers to adopt land, labour, and intermediate inputs with complementary capital augmenting technological change. While this has been well recognised by other studies [sec, for example, Gandhi 1990; Binswasger et al 1989; NABARD 1992-93; Banwari Lal 1992], our evidence not only confirms this but even identifies the extent of agricultural growth accounted for by technological change, and institutional credit.

Technological change accounted for 38 per cent in the growth of agricultural production during 1950 to 1990. And, the institutional credit-financed investments which increased by about 12 per cent have accounted for about 9 per cent of growth in agricultural output during the same period (see Table 2). These investments are for the purchase of labour-service, intermediate inputs like seeds, fertilisers, etc, and farm capital like wells and pumpsets, cattle, farm implements, tractors, etc. More importantly, both technological change and institutional credit have made larger contribution in post-GR era compared to pre-GR phase. Thus, technical change accounted for about 43 per cent in agricultural growth in post-GR compared to only 27 per cent in pre-GR phase. Institutional credit in post-GR increased by about only 7 per cent and accounted for as much as 9 per cent of growth in agricultural output as compared to 21 and 12 per cent respectively, in pre-GR era. In the 1970s and 1980s absolute poverty in rural areas has also declined and for which credit oriented IRDP, besides higher agricultural growth, has made some favourable dent [see, for example, Mellor and Desai 1986; Ahluwalia 1986; Rao et al undated; Banwari Lal 1992; Mohanasundaram 1993].

The preceding findings reinforce the role of RFIs in promoting agricultural development. This role is that credit must accompany/follow rather than precede

TABLE 2: Annual Compound Growth Rates of Tornquist-Theil Index of Agricultural Production, Total Factor Productivity, Credit-Financed Inputs, Self-Financed Inputs, and Land in Pre- and Post-Green Revolution (GR) Era

	Details	Pre-GR Era 1950-51 to 1965-66	Post-GR Era 1966-67 to 1989-90	Both Eras 1950-51 to 1989-90
ī	Agricultural output growth (percentage point)	2.0486	3.4142	2.9658
2	Total factor productivity growth (TFP) i e, technological change*			
	2.1 Absolute contribution (percentage point)	0.5575	1.4516	1.1167
	2.2 Relative contribution (per cent)	27.21	42.52	37.65
3	Credit-Financed Inputs Growth (CFI)			
	3.1 Amount (per cent)	21.32	6.97	11.65
	3.2 Absolute contribution (percentage point)	0.2478	0.3063	0.2516
	3.3 Relative contribution (per cent)	12.10	8.97	8.48
4	Self-Financed Inputs Growth (SFI)			
	4.1 Amount (per cent)	2.21	2.97	2.66
	4.2 Absolute contribution (percentage point)	0.8749	1.2938	1.2357
	4.3 Relative contribution (per cent)	42.71	37.89	41.66
5	The state of the s			
	5.1 Amount (per cent)	1.17	0.48	0.70
	5.2 Absolute contribution (percentage point)	0.3684	0.3625	0.3618
	5.3 Relative contribution (per cent)	17.98	10.62	12.21

Note: * TFP is measured as growth in agricultural output minus growth in credit-financed investments, self-financed investments and land.

Source: Adapted from Desai (1994b).

TABLE 3: FINANCIAL AND CREDIT DELPENING OF THE RURAL SECTOR SERVICES BY RFIS

Details		Ye	ars	
	1960-61	1968-69	1978-79	1989-90
al Deepening (per cent)				
ral Deposits to agricultural output	2.86	12 64	32.12	53.83
ral Deposits to agricultural NDP	2.94	12.96	43.20	74.48
Deposits (Rs million)				
RFIs	1195	17879	133346	717551
	(0.9)	(13.4)	(100)	(538.1)
ite co-operative banks (SCBs)	723	2156	14240	52110
•	(5.1)	(15.1)	(100)	(365.9)
ite co-operative land development banks	6	60	201	1296
LDBs)	(3.0)	(30.0)	(100)	(644.8)
strict Central Co-operative Banks (DCCBs)	1120	3508	19783	84762
•	(5.7)	(17.7)	(100)	(428.5)
mary agricultural co-operative credit societies	146	568	2164	●10498
ACS)	(67)	(26 2)	(100)	(485 1)
blic Sector Commercial Banks (NCBs)	na	11587	94960	526210
•		(12.2)	(100)	(554.1)
gional Rural Banks (RRBs)	na	na	1998	42675
•			(100)	(2135.9)
Credit-Deposit Ratio	1.28	0 92	0.67	0 66
Deepening (per cent)				
iral credit outstanding to agricultural output	3.65	11.57	21 50	35.64
iral credit outstanding to agricultural NDP	3.76	11.86	28 91	49.32
gricultural credit ² outstanding to				•
ricultural output	3.65	9.79	15 95	19 39
gricultural credit ² outstanding to				
ricultural NDP	3.76	10.04	21 45	26.55
PS loans outstanding to agricultural output	3.65	7.55	13.43	17 92
PS loans outstanding to agricultural NDP	3.75	7 74	18 07	24.80
PS loans issued during the year to				
ricultural output	3.08	4.56	6.03	6.01
PS loans issued during the year to				
ricultural NDP	3.16	4.68	8 11	8.31
PS loans ricultur PS loans	s issued during the year to al output s issued during the year to	s issued during the year to al output 3.08 s issued during the year to	s issued during the year to al output 3.08 4.56 s issued during the year to	s issued during the year to all output 3.08 4.56 6.03 sissued during the year to

Notes: Figures in parentheses are percentages.

na = not available

APS = Agricultural Production Sub-system

- Rural credit includes both agricultural and non-agricultural loans
- 2 Agricultural credit includes loans to agricultural production sub-system (APS), agricultural input distribution sub-system (AIS), and co-operative agro-marketing and processing sub-system (AMPS).

Source Adapted from Desai (1994a).

to technological change in agriculture. In other # words, credit delivered in technologically 1 stagnant agriculture fructifies much less than (when agriculture is technologically dynamic. (This has important operational implications 1 that centre around a strategy that credit should i, be in the form of new farm inputs, assets, and services as has been increasingly the case since mid-1960s. This must be the case not only for crop-agriculture but also animal husbandry, fisheries and even rural nonfarm economic activities. In the language of loan appraisal it suggests that returns to credit in such environment are much higher. And when this occurs even the loan recoveries are higher [see for some evidence on both these Rao 1994; Rao et al undated; Mohanasundaram 1993; Banwari Lal 1992].

Regarding the financial performance, Table 3 reveals that financial deepening through deposit mobilisation in rural areas has dramatically increased. Highly successful deposit collection is not confined to the NCBs and RRBs but also PACS which are most ill-equipped to perform this function. This remarkable deposit mobilisation has resulted from RFIs decentralised network. It is also an outcome of increased incomes of rural sector, since the advent of the green revolution. This success in financial deepening is also revealed by credit-deposit ratio which reversed from more than one to less than one since late 1960s. This has not, however, reversed credit deepening of the rural sector. On the contrary, even this has significantly improved over time (see Table 3).

The dramatic performance in financial deepening also suggests that the mass rather than class banking has inculcated banking habits. This is no mean achievement for the rural areas. Nor is the relatively less dramatic performance of RFIs in credit deepening of these areas. To conclude, RFIs performance in developmental objective of encouraging banking habits, promoting private investments, and higher and more effective agricultural growth with equity in the rural sector is quite commendable. And it reinforces that the structural change of the types recommended is anwarranted on this ground, too.

WHAT ARE THE STRENGTHS OF RFIS?

RFIs strengths lie in their interest rates for rural credit, and the six organisational principles for institutional development. These are (1) multi-agency approach, (2) forms of organisation, (3) vertically integrated structure, (4) density of field-offices, (5) reach of chentele, and (6) multiple and diversified services [for the evidence on this for other developing countries see Desai and Mellor 1993]. Both these instruments of interest rates and institutional development

are critically but constructively discussed in what follows.

Interest rates: Contrary to both the popular and the government belief [GOl 1994-95] there is no interest rate subsidy on credit for the agricultural sector as a whole. Excepting for only 8 years in about last four decades since 1950 average real interest rate on this credit has remained positive (Table 4). This definition of interest rate subsidy is universally accepted. It may be because allocating transaction costs to credit among other operations including different types of loans is almost impossible because most of these costs are common to the management of sources and uses of funds in any financial institution. More-ver, the measurement of capital itself is an unresolved issue even in the theoretical literature.

The eight years in which the average real interest rate was negative were the years of exogenous oil shocks and severe droughts

when inflation rate was abnormally high. This, the positive average real interest rate in most of the years has been healthy for both the borrowers and the lenders. The borrowers may not have been much induced to substitute credit for their internal saving including labour. This saving, i.e., self-finance accounted for 98 percent for costs for labour. 91 per cent for farm assets, and 78 per cent for intermediate inputs [see Desai 1994b].

Nor the borrowers may have been encouraged to wilfully default. Most of such default seems to have arisen from the government's loan and interest waivers. Lack of interest rate subsidy also suggests that the reasons for the low viability have to be sought in other factors. These will be discussed subsequently. Yet another healthy feature of interest rate policy is that it has provided fairly stable nominal rates (Table 4).

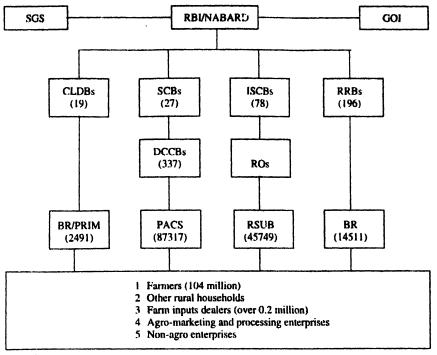
These interesting outcomes of interest rates have emerged from the policy which was

TABLE 4: WEIGHTED AVERAGE NOMINAL AND REAL INTEREST RATES ON AGRICULTURAL CREDIT OF RFIS

Years	Average Nominal Interest Rates (Per Cent)	Inflation Rate Based on Agricultural NDP Deflator in 1980-81 Prices (Per Cent)	Average Real Interest Rate
(1)	(2)	(3)	(2)-(3)
1950-51	7.02	3.31	3.71
1951-52	7.12	1.55	5.57
1952-53	7.18	-5.77	12 95
1953-54	7.25	2.36	4 89
1954-55	7.32	-17.93	25.25
1955-56	7.39	-2.25	9.64
1956-57	7.46	21.22	-13.76
1957-58	7 52	2.65	4.87
1958-59	7.58	5.00	2.58
1959-60	7 66	1.43	6.23
1960-61	7.73	-1.37	9.09
1961-62	7.81	3 36	4.45
1962-63	7 88	4.18	3.70
1963-64	7.98	15.46	7 47
1964-65	8.59	12.22	-3.62
1965-66	9 15	12.61	-3.46
1966-67	9.10	18 62	-9 52
1967-68	9.07	8.92	0.15
1968-69	9 06	3,21	5.86
1969-70	9.05	2.44	6.60
1970-71	9.20	-4.09	13.29
1971-72	9 11	4 09	5.02
1972-73	9.45	16.31	-6.86
1973-74	10.05	23.48	-13.42
1974-75	11.91	11.08	0 84
1975-76	12.55	-13.09	25.63
1976-77	12.87	8.66	4.21
1977-78	12.76	7.78	4.98
1978-79	12.57	. 0.14	12.43
1979-80	12.33	18.92	-6.59
1980-81	13 02	11.42	1.60
1981-82	13 06	6 39	6.67
1982-83	13.14	7.79	5.35
1983-84	13.56	8.52	5.03
1984-85	13.60	6.51	7.10
1985-86	13.21	6.61	6.60
1986-87	13.51	8.61	4.90
1987-88	12.62	11.91	0.71
1988-89	12.59	5.92	6.67
1989-90	12.73	8.45	4.28

Source: NABARD and RBI, various issues.

FIGURE 1: A SYNOPTIC ORGANISATIONAL FRAME OF AGRICULTURAL CREDIT SYSTEM



Legends.

SGs State Governments

RBI/NABARD Reserve Bank of India/National Bank for Agriculture and Rural Development

GOI Government of India

CLDBs State Co-operative Land Development Banks

SCBs State Co-operative Banks

1SCBs Public and Private Indian Scheduled Commercial Banks

RRBs Regional Rural Banks

DCCBs District Central Co-operative Banks

ROs Regional Offices BR/PRIM Branches/Primaries

PACS Primary Agricultural Co-operative Credit Societies

RSUB Rural and Semi-Urban Branches

BR Branches

Figures in brackets are numbers for 1989-90. Number for farm input dealers is approximate. Numbers for other rural households, agro-marketing and processing enterprises and non-agro enterprises are not readily available.

Source: GOI, RBI, and NABARD.

on the whole flexible and built tiered (i e, different) interest rates for different amounts and purposes of loans. Such a policy may be better termed as guided interest rate policy. This approach to interest rates is needed primarily because any financial market is inherently imperfect dealing as it does in future transactions. Credit transaction is fundamentally different from the transaction of say, buying a soap or ice-cream. The latter transaction ends for both the buyers and the sellers at the same time at which they undertake it. But the loan transaction is not completed until the entire loan cycle of dispensing, monitoring and recovering credit is not over. And during the intervening period both lenders and borrowers witness changes that are not perfectly predictable. Consequently, the central monetary authority provides a direction in the determination of interest rates. Such a policy is common for agriculture and other critical sectors like infrastructure and exports in most countries. Thus, we recommend that the past approach of tiered interest rates on rural credit with minimum and maximum should be considered as desirable as well as necessary. Our recommendation is also guided by the fact that neither the co-operatives which have now completely deregulated interest rates nor the NCBs and RRBs which have partial deregulation, have much changed the interest rates on rural credit. And last but not the least recommendation is a restraint on interest rate changes because of three reasons. One, interest rates of informal lenders have now declined. They are fairly comparable to 10 to 18 per cent prevailing with the RFIs in 1980s (Desai and Oza 1995; Desai 1995]. The second is our evidence on

scale economies of RFIs. In this situatio any hike in interest rates under the guise q improving viability is not only unwarrante but could be harmful to these ver institutions. This is because demand for run credit being now interest rate elastic any ris in interest rate would reduce this deman with a consequent adverse impact on scal economies [Desai and Mellor 1993; Desai 1994a]. And three, the nominal interest rate that prevailed in 1980s are not very locompared to the existing inflation rate about 8 to 9 per cent. Our recommendation has also a virtue in not politicising intererates policy.

Multi-agency approach: This approac provided some choice to the rural customer It has also improved an access of the run poor. Their share in rural credit issued durin the year has increased from 39 per cent | 1978-79 to 51 per cent in 1989-90. And the share in loans outstanding has increase from 42 per cent in 1978-79 to 49 per ce in 1989-90. Yet, another gain of this approac is that it has developed much needs organisational forums like state, district at block level co-ordination committees of n only all RFIs but also the government as other auxiliary service functionaries. Sur forums are highly essential for both avoidit duplication of services and better backwa and forward linkages so critical to fructi rural credit better. Lastly, India is not unique in multi-agency approach to RFIs. Almo all countries in both developed (such Japan, Italy, France and the US) at developing world have this approach [f evidence on this see Desai and Mellor 199.

Two types of systemic and procedur innovations in multi-agency approach m be introduced. One, some flexibility in distr and service area credit plans may be desiral to provide real choice to the rural househole This is because under these plans there effectively only one institution at the gra root level to which farmers can turn for th credit needs. This flexibility is also desiral when any agency servicing a particular gro is unable to meet the credit needs due to hi overdues, lack of funds, etc. And two, crec cum-deposit passbook recording ea transaction with each institution may given to the customer as well as other RF NCBs and RRBs may computerise st record to more efficiently manage th operations. This innovation would a eliminate duplication of loan to an individ for one and the same purpose. Thus, prefer all four RFIs to function separat rather than the mergers like the or suggested by ACRC, and Narasimi committee.

Forms of organisation: Even the state oriented forms of organisation is not unit to India [see, for example, Desai and Mel 1993]. This may be because financial mar

w at a t

being inherently imperfect no private entity would enter the rural sector. So the choice of state-oriented form of the organisation is inevitable especially initially when this market is being developed. This choice in 1950s may be considered best on a hindsight to also capitalise village co-operatives that emerged on their own in late and early 1900s as they had limited access to larger financial market. Even the commercial banks did not enter rural financial market until they were nationalised. Now that demonstration of reasonably successful RFIs has emerged if any private entity wants to enter this market it may be permitted. Terms and conditions on which this bank would undertake rural banking should be same as those of the existing RFIs. Competition among these institutions should be on level-playing field.

Three important restructuring may, however, be recommended. One, capital base of co-operatives especially PACS and CLDBs, and RRBs like NCBs, may be raised and/ or replenished. Two, beneficiaries of all RFIs may be required to regularly participate in their equity-capital. This may be as small as Rs 10 per beneficiary. But there should be steep ceiling on such holding for an individual to ward off domination from the powerful in agriculture and/or industry. This would make RFIs not only accountable to the state but also to their customers. Moreover, it would facilitate peer pressure essential for sound rural banking. And three, CLDBs may diversify their sources of funds. They may once again subscribe to ordinary debentures, rural debentures and attract funds from other financial institutions like LIC instead of merely depending on NABARD.

Vertically integrated structure: This organisational structure is shown in Figure 1. Such structure is both necessary and desirable in building RFIs. Following Desai and Mellor (1993), we suggest there are four major gains of this vertical structure. One of this is that it provides a decentralised institutional network to be close to the rural customers without which sound and serviceoriented rural banking is impossible given the geographical dispersion and agro-climatic and other diversity of agriculture. Secondly, it cross-supports the field-units with varying loan, deposit and other business potentials. Thirdly, it integrates the huge rural financial market with the rest of the economy by, say, borrowing funds when in deficit from the apex levels and providing them when in excess. And, fourthly, it also enables promoting larger goals of agriculture and rural development. Some of these are already reflected in our earlier discussion.

But the vertically integrated organisational structure seems to have led to over-bureaucratisation, top-down tendencies in management and neglect of harnessing local initiatives for felt needs of the rural folks. We, therefore, recommend five innovations that would facilitate achieving the mission of decentralised rural banking.

One, the field-level units may be given much more autonomy with accountability. This is especially needed for identifying credit-worthy borrowers, scale of finance for crop loan to more fully account for labour and new inputs, unit cost of investment for various farm asset loans, combining working capital loan with a term loan for these assets (as under IRDP for dairyfarming), margin money, loan documentation and recovery schedule. Similarly, they may be allowed to formulate and implement loan and deposit schemes that suit the local needs. These are clearly now warranted as the human capital with requisite knowledge is now built, and also to account for local variations. Two, apex institutions including NCBs should make matching contribution to refinance and/or temporary credit accommodation from RBI/NABARD to their field level constituents. This is required to promote a stake and accountability of the controlling units which seem to take rural credit casually. It is also needed because in 1980s rural deposits have flown out to other areas at the cost of rural credit needs (compare rows 1.1 and 1.2 with rows 4.3 to 4.8 in Table 3). Three, PACS staff may be brought under suitable regular employment terms and conditions to provide incentives and encourage accountability. Their apex-levels and NABARD/ RBI may constitute a fund with incrementally growing their contributions for this. Four, managing committees of the PACS may have sub-committees for loans and their recovery, input sales, consumer goods sales, and funds mobilisation to assist the secretary. And five, incentives of the staff may be made performance-linked. Performance may be judged not only in terms of targets for loans and deposits but also loan recovery, examples of result-oriented better coordination with other agencies, etc.

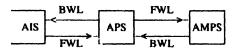
Density of field-offices: All four RFIs together have one office for every 1,000 hectare of net sown area in late 1980s. This compares poorly with China's four such field-offices. Recent policy of closing lossmaking branches of NCBs and RRBs would make this still more unfavourable. There is thus a clear need to improve the density of the field-level units. The basic rationale for this lies in four factors. These are (i) it improves accessibility for both rural households and the formal lenders which in turn generates more intimate understanding and situation specific identification of potential for rural banking, (11) it enables intensifying and widening the scope of this banking to reap scale and scope economies, (iii) it facilitates more competition with informal lenders to further reduce their hold, including interest rates, and thereby improve coverage of rural households, and (iv) it reduces transaction costs of rural borrowers and depositors.

Two important innovations are recommended. One, the establishment of field-units may be implemented altogether differently. In the case of co-operatives, the local folks may be made to function as co-operatives with sound performance before federating them with the apex levels. And two, NCBs and RRBs branch managers and a staff or two may intensively interact with the people and area likely to be served to induce healthy and loyal relationship besides creating more informed judgment about business potential.

Reach of rural households: Larger coverage of rural clients is an important source of reaping full scale and scope economies. This seems to have occurred because the coverage of rural households has increased from 20 per cent in 1961-62 to about 30 per cent in late 1980s. There is still a large untapped potential. But RFIs especially NCBs hesitate to fully exploit this potential because of some inconvenience and misconceived perception of high costs of serving small accounts. Computerisation, rather than non-coverage, is more appropriate solution for this, besides recognising that the larger coverage facilitates reaping scale and scope economies. Yet another innovation could be making group loans to control costs. These groups should as far as possible be homogenous. But, this new approach need not be the only mechanism to enlarge the reach. In the case of PACS loans may not be restricted to past good borrowers. Wherever they cannot enrol non-land owners as members by-laws may be suitably amended.

The coverage of delinquent borrowers may be organised separately for the non-wilful and wilful. The former may be identified as those who have consistently paid part of their overdues for three years. And the wilful defaulters may be those with non-repayment of loans for three consecutive years. For the former, their overdue loans may be rescheduled considering the existing policy in this regard. This is suggested because some of the delinquencies have arisen from inadequate loan appraisal and monitoring by RFIs. Names of wilful defaulters may be published and revenue cases against them may be filed, besides recovering their dues from their share capital and/or sale of assets charged. And finally, NCBs and RRBs should enlarge their coverage of not only rural households but also farm input dealers and agro-marketing and processing units. Similar should be done by DCCBs which serve PACS that are eminently suitable retailers of inputs, consumer goods, etc. We have more to say on this later.

Multiple and diversified functions: This esults from various services RFIs provide. Four of these may specifically be discussed. One of these is the lending to farmers for production of wide variety of crops (i e. prop-loans), and for purchase of different farm assets (APS - agricultural production sub-system). It also includes term-loans to he landless and others for farm capital and non-farm rural economic activities (APS). All of these are termed in official language as 'direct' rural credit. Another loan service includes an innovative portfolio of 'indirect' agricultural credit to private and institutional agri-business for farm inputs marketing (AIS -agricultural inputs distribution sub-system), co-operative agricultural produce marketing and processing (AMPS) and even rural electrification (AIS). The second rural panking operation includes deposits of wide variety and different maturity. The third one which is applicable only to the PACS is input sales, consumer goods sales and sometimes even farm produce procurement and marketing. Incidentally, even other RFIs undertake some farm input sales indirectly by forging a link of their rural householdporrowers with those who supply the inputs. And last but not the least important function is technical services (AIS). While noncooperative RFIs promote this by hiring relevantly qualified personnel, the cooperatives promote it not only by such staff out also by their managing committees which invariably include farmers and others who hough not always formally educated in igriculture but have practical and operaionally more useful knowledge of agriculure. To conclude, these various functions have a direct bearing on backward (BWL) and forward (FWL) linkages among the three sub-systems of AIS, APS and AMPS as diagrammatically shown below. APS loans encourage demand for farm inputs and services, while AIS and AMPS loans induce their supplies.



These linkages increase agricultural productivity, production, value added and incomes of farmers. Additionally, they facilitate reaping full scale and scope economies by RFIs.

Some suggestions to improve the multiple and diversified operations now follow. In the case of PACS three recommendations are made. One, PACS should be equipped with appropriate infrastructure for mobilising deposits and for storing inputs and consumer goods. Two, DCCBs should promote cash credit facility to PACS to enable them to undertake non-credit operations like inputs and consumer goods sales. Such credit is

beneficial to the PACS, their members and DCCBs alike [see Desai and Namboodiri 1995b]. And three, DCCBs may give a part (say, one-third) of the 'kind' component of crop loans to PACS as inputs distribution credit. This would enable the PACS not to borrow twice for one and the same purpose, i e, once to make the crop-loans in 'kind', and another for buying inputs to supply against this component. This in turn would save their interest costs, enlarge their borrowing capacity and improve viability. It would also lead to adequate and timely availability of inputs to their members. Moreover, it would be consistent with RBI's policy of transferring funds sanctioned for 'kind' component to input suppliers. This financial innovation would require both PACS and DCCBs to maintain two books of accounts, namely, one for crop-loans in 'kind' and 'cash', and another for inputs distribution credit. Since the former already exists only the latter is required. In the case of CLDBs, we recommend that they should also be permitted to make 'indirect' rural credit of medium to long-term duration for commercial intrastructure for farm input dealers and agro-marketing and processing enterprises. Our earlier suggestion on enhancing and diversifying their funds would enable them to undertake this type of loan business.

As regards NCBs and RRBs we make four recommendations. One, these banks may fully exploit the earlier mentioned innovative policy of 'indirect' rural credit. And for this they may be provided refinance and/or

temporary credit accommodation as they seem to have funds shortage at the time when demand for credit from APS, AIS and AMPS emerges. Two, their branch level loan targets should also include these types of rural credit as a part of district and service area credit plans. This would be consistent with ACRC's recommendation to estimate credit demand for all the three sub-systems mentioned earlier. Three, these banks may innovate in deposit schemes by considering credit linked deposits under which the depositors are assured of term loans once they accumulate required margin money in their deposit accounts. They may also organise fixed deposits for as short a duration as 7 or 15 days with commensurate lower interest rates. China has successfully implemented such schemes with as low an interest rate as 1 to 2 per cent. Both these deposit schemes are highly suitable to short, seasonal and small surpluses so characteristic of agriculture. Even PACS may utilise such deposit schemes. And four, both NCBs and RRBs may innovate in organising technical services on a peripatetic basis for a group of branches. Costs incurred for this may be viewed as investments which would have implicit returns in the form of better loan recoveries and customer relationship.

CRITICAL PROBLEMS OF RFIS

Three highly serious problems of RFIs are:

(1) High and persistent loan delinquency (see Table 5).

Table 5 Delinquency Rates¹ of RFIs Loans to Agricultural Production Sub-system (APS)

RFIs		Yea	ırs	-
	1961-62	1968-69	1978-79	1989-90
PACS	25.87	31.95	39.88	45.21 (35.46) ²
CLDBs	na	13.24	41.53	. 56,31 (36,00) ²
NCBs	na	na	48.80	42.80* (ditto) ²
RRBs	na	na	48.00	51 00* (48 00) ²

Notes: na not applicable.

- 1 This is measured as a per cent of loan overdue to demand, i.e., loan due for recovery
- 2 Lowest achieved during 1980-81 to 1985-86.

* Refers to 1985-86.

Source: NABARD and RBI, Various Issues and RBI (1989).

TABLE 6. REGIONAL VARIATION IN APS LOAN DELINQUANCY RATES OF RFIs, 1985-86

(Percentage)

RFIs	Northern	Southern	North Eastern	Eastern	Central	Western
PACS	30.3	36.0	84.0	57 0	53 0	42.0
CLDBs	44.7	41.4	72.9	32.7	33.7	55.1
NCBs	38.7	39.3	64.0	57.0	47.0	49.6
RRBs	53.0	42.0	60.0	60.0	53.0	52 0

Source: RBI (1989b)

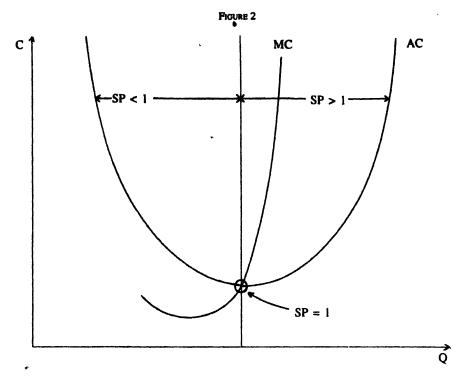
- (2) Politicisation and over-bureaucratisation, and
- (3) Low resource efficiency.

These problems have led to low viability of RFIs. Indeed, the earlier findings on scale economies precisely suggest this. Even the first two problems imply that these institutions have low efficiency. All the three problems are the symptoms of the causes underlying high loan delinquency.

Loan delinquencies are associated with factors that are both internal and external to RFIs. Recent loan waiver scheme of the GOI culminated into cumulative indiscipline of borrowers that got induced from earlier such schemes of some of the state governments. This has even led to lenders indiscipline. But recently NABARD rightly discontinued its credit line to some of the state governments that announced loan and interest waivers. This probably emerged from a recent consensus on undesirability of such waivers for RFIs. Indeed, we recommend a moratorium on loan and interest waivers. This would be easier to achieve if RFIs overcome their deficiencies.

Their deficiencies are of two types. One of these is that they rarely make use of well defined policy of rescheduling loans when delinquency is associated with drought, floods and such other natural calamities. They also infrequently charge penal interest rate to delinquent borrowers. Another deficiency relates to their inadequacies in borrower selection, making adequate and timely loans including for working capital purpose and providing and/or organising technical services and backward and forward linkages especially for complementary inputs. We contend that much of these inadequacies can be overcome by implementing the recommendations discussed in the preceding sections. Before we conclude we make three observations that are germane to the healthy growth of RFIs.

One, these institutions should continuously strive for credit dispensation that embodies new technology. This is because loan delinquencies are significantly lower for crop loans and in areas with rapid and broad based technological change as in northern and southern India (see Table 6). Two, recently RRBs which have been rightly permitted to make 60 per cent of their new loans to the non-poor would enable them to make loans at higher interest rates that was totally prohibited to them. This would facilitate these banks to strike better balance between their commercial and social objectives. But this share of loan portfolio for the non-poor should be gradually and in phases be reduced to 40 per cent to retain their pro-poor orientation. Similarly, these banks should be completely autonomous from their sponsor NCBs over a period of



3 to 5 years to grow on their own and to be truly gramin banks. And three, once those PACS show consistently better performance in loan recovery, profitability and multipurpose operations, DCCBs may amalgamate their branches with these PACS to create their rural co-operative banks. These banks should undertake financial operations and the PACS merged with them should function as their branches, input depots, and consumer goods stores serving the same villages they served before. Those depositors of the erstwhile branches of DCCBs who are not members and equity holders should be requested to become so on same terms and conditions which are applied to the members of the merged PACS. These types of banks may draw relevant lessons from the successful Farmers Service Co-operative Banks in Kerala [see Desai and Namboodiri 1993, 1995a]. Such banks may be even created from those PACS and branches of DCCBs which have already shown sound performance.

CONCLUDING OBSERVATIONS

Rural financial institutions have been developed as an institutional change to wean away farmers from moneylenders and to spur unconventional integration of huge rural financial market with the rest of the economy. This has been done over decades through appropriate changes in price and non-price policies. These have resulted in some significant accomplishments related to their both financial and developmental objectives. They must be capitalised further to accelerate RFIs achievements.

Among the various reasons that may have prompted different restructuring proposals, the reason of improving financial viability of RFIs is most convincing. But these proposals seem to merely tinker with their macro structure to create monolithic institutions and/or deal with problems by fragmenting them rather than synthesisation inherent in financial intermediation for agricultural development. Indeed, present concerns of non-viability are based on an inappropriate approach to understanding and assessing viability. They are also based on misconceived perception of this viability.

More appropriate approach of studying scale and scope economies in various costs reveals that all four RFIs can improve viability by accelerating their resource productivities. Appropriate macro and micro non-interest rate policies are the cornerstone of RFIs restructuring proposed by us. They emphasise harmonious development of their financial resources, and human capital for generating high quality loan and non-loan assets for land and labour augmenting new technologies for agricultural development. Neither the upward revision in lending rates nor their deregulation nor the restructuring of the type considered is warranted.

What is proposed has underneath a past leadership role of RBI/NABARD in determining interest rates for rural credit. It has also underneath a mission of decentralised institutional development related financial and organisational innovations. Its vision is diversified, multiple and joint-products oriented rural banking, that is autonomous but accountable. And it has a potential to

make RFIs more viable and agricultural and rural growth-oriented.

Any policy analysis of RFIs for their restructuring must be concerned but not panic-driven, constructively critical but not misperceived, ambitious but not euphoric, visionary but not utopian, and objective without being influenced by extraneous opinions. We submit this is what we have attempted.

Annex 1: Definition of Scale Economies and Its Graphical Presentation

Scale economies is defined as proportionate change in one variable say cost (C) in response to proportionate change in another variable say output (Q). In other words, it is an elasticity of C with respect to O, i e,

$$\frac{dC}{C} / \frac{dQ}{Q}$$
, i e,

$$\frac{dC}{dQ} / \frac{C}{Q}$$
, in other words, it is

Marginal Cost (MC) / Average Cost (AC)

When this elasticity is less than 1 it suggests prevalence of scale economies. But if this elasticity is 1, it represents constant returns to scale, while if it is greater than 1 it suggests scale diseconomies. When this scale economy parameter (SP) is less than 1, average cost is declining. And when it is greater than 1 average cost is increasing, while if it is equal to 1 average cost is constant. This is evident from Figure 2.

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Deutsche Bank AG (Incorporated to C



(Incorporated in Germany with Limited Liability)

BALANCE SHEET AT 315	OF INDI		CHES AS	PROFIT AND LOSS ACCOUNT OF INDIAN BRANCHES FOR THE YEAR ENDED 31ST MARCH 1996			
(Rs. in thousands)					(Rs. ır	thousands)	
,	Schedule	As on 31.03.96	As on 31.03.95	Schedule	Year ended 31.03.96	Year ended 31.03 95	
CAPITAL AND LIABII	LITIES			I. INCOME			
Capital	1	2,000	2,000	Interest earned 13	2,230,712	1,531,749	
Reserves and Surplus	2	2,523,431	1,671,535	Other Income 14	742,145	325,967	
Deposits	3	13,428,205	1	TOTAL	2,972,857	1,857,716	
Borrowings	4	108,433	363,927	II. EXPENDITURE Interest expended 15	1,290,612	818.962	
Other Liabilities and Provisions	5	3,066,330	2,275,007	Operating expenses 16 Provisions and	718,958	485,184	
TOTAL		19,128,399	15,507,305	contingencies	736,049	437,307	
				TOTAL.	2,745,619	1,741,453	
ASSETS				III. PROFIT			
Cash and balances with Reserve Bank of India	6	1,456,160	797,777	Net Profit for the year Profit brought forward	227,238 90,581	116,263 172,691	
Balances with banks and money at call and			·	TOTAL	317,819	288,954	
short notice	7	939,955	140,447	IV. APPROPRIATIONS			
Investments	8	3,505,803	3,753,589	Transfer to statutory reserves	45,458	23,263	
Advances	9	11,412,193	9,329,033	Transfer to Capital Reserve	.	2,419	
Fixed Assets	10	962,909	797,903	Transfer to Tax Reserve Transfer to Head Office	90,000	-	
Other Assets	11	851,379	688,556	Account	90,581	172,691	
TOTAL		19,128,399	15,507,305	Balance carried over to Balance Sheet	91,780	90,581	
Contingent Liabilities	12	134,666,904	145,147,093	Notes forming part of accounts 17			
Bills for Collections		1,170,909	1,762,826	TOTAL	317,819	288,954	

As per report of even date

For VAISH & ASSOCIATES **Chartered Accountants**

BOMI F. DARUWALA

Partner

For Deutsche Bank A.G.

Indian Branches

Sd/-H. SINGH Sd/-V. DESAI

Sd/-R. PRABHU

Mumbai: 18th July, 1996

Chief Executive Officer-India

Head-Tax and External Audit Controller-Mumbai Branch



(Incorporated in Germany with Limited Liability)

SCHEDULES F	ORMING PAI	RT OF THE I	BALANCE SHEET AS ON 31ST MA	RCH 1994	
<u> </u>		ın thousands)	THE STATE OF SIST MA		n thousands)
	As on 31 03 96	As on 31 03 95		As on 31 03 96	As on 31 03 95
Schedule 1—Capital			Schedule 4—Borrowings		
(A) Face value of securities deposited with the Reserve Bank of India under subsection (2) of Section 11 of the Banking Regulation Act, 194		113,600	I Borrowings in India (i) Reserve Bank of India (ii) Other banks (iii) Other institutions and agencies	8,500 3,405 76,675	295,100 751
(B) Amount brought into India by way of start-up capital	2,000	2,000	II Borrowings outside India	19,853	68,076
TOTAL	2,000	2,000	TOTAL	108,433	363,927
Schedule 2—Reserves and Surp I Statutory Reserves (Reserve under Sec 11(2)(b)(ii) of	lus		III Secured borrowings included in and II above—Nil		
Banking Regulation Act. 1949)			Schedule 5—Other Liabilities and Provisions		
(i) Opening Balance (ii) Additions during the yea	120,030 r 45,458	96,767 23,263	I Bills Payable II Inter-office adjustments	1,318,300	187,921
II Constal December	165,488	120,030	(a) in India (net) (b) outside India (net)	1,164,425	3,464 1,769,038
II Capital Reserves (i) Opening Balance (ii) Additions during the yea	2,473	54 2,419	III Interest accrued IV Others (including provisions)	192,191 391,414	135.270 179,314
III Tax Reserves	2,473	2,473	TOTAL	3,066,330	2,275,007
(i) Opening Balance (ii) Additions during the yea			Schedule 6—Cash and Balances with Reserve		
IV Revenue and Other Reserves Head office Reserve (See not			Bank of India I Cash in hand II Balances with Reserve	12,033	6,205
(1) Opening Balance (11) Additions during the year	1,458,450 715,240	957,653 500,798	Bank of India - In Current Account	1,444,127	791,572
	2,173,690	1,458,451	TOTAL	1,456,160	797,777
IV Balance of Profit	91,780	90,581	Schedule 7—Balances with Banks and Money at Call and Short Notice		
TOTAL	2,523,431	1,671,535	I In India (i) Balances with banks in India		
Schedule 3—Deposits A I Demand Deposits (i) From Banks	77,657	214,195	In Current Accounts (11) Money at call and short	928,520	117,834
(ii) From Others II Savings Bank Deposits	3,176,717 509,444		notice With banks	-	
III Term Deposits (i) From Banks	2,483,750	3,689,364	TOTAL	928,520	117,834
(11) From Others	7,180,637	4,814,902	II Outside India In Current Accounts	11,435	22,613
TOTAL	13,428,205	11,194,836	III CHICK MOORIS	11,435	22,613
B Deposits of branches in India	13,428,205	11,194,836	TOTAL	939,955	140,447
	-				
	j.	1	1		1



(Incorporated in Germany with Limited Liability)

SCHEDULES FORMING PART OF THE BALANCE SHEET AS ON 31ST MARCH 1996

	(Rs. ir	thousands)		(Rs n	n thousands)
	As on 31 03.96	As on 31 03.95		As on 31 03.96	As on 31 03 95
Schedule 8—Investments I Investments in India (i) Government Securities (ii) Other approved securities (Market value TRs. 3,238,992 (31st March 1995 TRs. 3,397,758))	3,204,685 316 3,205,001	3,251,099 9,870 3,260,969	Schedule 10—Fixed Assets 1. Premises (i) At cost as at 31st March* (ii) Additions during the year** (iii) Deductions during the year (iv) Depreciation to date *(Includes capital work in progress TRs. 100,007 (31st March 1995 TRs. 176,022)) **(Includes capital work in progress TRs. 5,628 (31st March 1995 TRs. 100,007)) II. Other Fixed Assets	700,391 146,622 (33,629) 813,384	215,617 484,774 (14,519) 685,872
(iii) Shares (iv) Debentures and Bonds (v) Investments in associated company (vi) Others Commercial paper TOTAL	12,919 284,883 3,000 ————————————————————————————————	361 400,201 3,000 89,058 3,753,589	(i) At cost as at 31st March* (ii) Additions during the year** (iii) Deductions during the year (iv) Depreciation to date *(Includes capital work in progress TRs. 5,395 (31st March 1995 TRs. 18,642)) **(Includes capital work in progress, TRs. 3,143 (31st March 1995 TRs. 5,395))	213,040 94,271 (3,310) (154,476) 149,525 	
Schedule 9—A .vances A. (i) Bills purchased and discounted- (ii) Cash credits, overdrafts and loans repayable on demand (iii) Term loans TOTAL	2,035,821 7,098,270 2,278,102 11,412,193	1,402,746 5,822,054 2,104,233 9,329,033	Schedule 11—Other Assets I. Interest accrued II. Tax paid in advance/tax deducted at source III. Stationery and stamps IV. Others V. Inter branch (a) in India (net) (b) outside India (net) TOTAL.	158,508 233,473 3,849 438,018 17,531 851,379	194,497 -208,195 -594 -285,270
B. (i) Secured by tangible assets* (ii) Covered by Bank/ Government guarantees (iii) Unsecured *(Includes loans 31st March 1996	9,063,327 623,632 1,725,234 11,412,193	6,424,581 288,781 2,615,671 9,329,033	Schedule 12—Contingent Liabilities I. Liability on account of outstanding forward exchange contracts II. Guarantees given on behalf of constituents > (a) In India (b) Outside India III. Acceptances, endorsements	98,977,579 18,630,972 2,932 807	126,971,579 4,422,927 1,374,406
TRs. 819,291 (31st March 1995 TRs390,499) in respect of which security is pending creations) C. I. Advances in India (i) Priority Sectors (ii) Public Sector (iii) Banks, (iv) Others	3,149,500 - 8,262,693 11,412,193	2,990,500 - 6,338,533 - 9,329,033	and other obligations IV. Other items for which the bank is contingently liable (a) Capital commitment for contracts pending execution (b) Tax demands* (c) Others TOTAL * relates to Assessment year 1983-84 to bank is in appeal and expects to TRs. 90,000 has been created for the	succeed. A ta	

Economic and Political Weekly August 3, 1996



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SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 1996

(Rs. in thousands)			(Rs. in thousands		
	Year Ended 31.03.96	Year Ended 31.03.95		Year Ended 31.03.96	Year Ended 31.03.95
Schedule 13—Interest Earned			Schedule 15—Interest		
I. Interest/discount on	¥		Expended	600 204	441.027
 Interest/discount on advances/bills 	1.641.473	897,144	I. Interest on deposits II. Interest on Reserve Bank of	699,384	461,973
II. Income on investments	487.083	624,005 "		206 027	226.060
III. Interest on balances	467,063	024,003	India/inter-bank borrowings III. Others	386,827 204,401	336,969
with Reserve Bank of		ł	III. Others	204,401	20,020
India and other inter-bank	1		TOTAL	1.290.612	V19.063
funds	99,040	8,333	IOIAL	1,290,012	818,962
IV. Others	3,116	2,267	Schodule 14 Other Occuption		
IV. Others	3,110	2,207	Schedule 16—Other Operating Expenses	Į.	}
TOTAL	2,230,712	1,531,749	I. Payments to and provisions	1	İ
IOTAL	2,230,712	1,551,745	for employees	169,555	103,081
			II. Rent, taxes and lighting	33,590	37,570
		1	II. Printing and stationery	10,295	8,487
Schedule 14—Other Income	1	}	IV. Advertisement and publicity	6,823	2,830
Schedule 14—Julei Income	ł		V. Depreciation on bank's property	82.711	55,401
Commission, exchange		}	VI. Directors' fees, allowances	02,/11	33,401
and brokerage	396.196	195,868	and expenses	774	371
II. Net profit (net loss) on sale	370,170	175,000	VII. Auditors' fees and expenses	//4	3/1
of investments	(33,552)	(9,719)	(including branch auditors'	Ì	
III. Net profit on sale of land,	(33,332)	(3,713)	fees and expenses)	328	160
buildings and other assets	484	48	VIII. Law charges	241	126
IV. Net profit on exchange	707	70	IX. Postages, Telegrams,	271	1217
transactions	3.76,204	138,850	Telephones, etc.	20,889	15,227
V. Income earned by way of		150,050	X. Repairs and maintenance	37,529	28,777
dividends etc. from			XI. Insurance	9.803	5,749
subsidiaries, companies,			XII. Other expenditure	346,420	227,405
joint ventures set-up	İ		(Includes 1995-96 TRs. 291,142	340,420	227,703
abroad/in India	_	_	(1994-95 TRs. 181,907) being	i .	[
VI. Miscellaneous income	2,814	920	Head Office expenses)		ĺ
v 1. IVIII MIII MANAMANI MANAM	2,014	720	licad Office expenses/		1
TOTAL	742,146	325,967	TOTAL	718,958	485,184
4 30 0 0 0000	1 12,140		101112	7.0,250	
	4	l	L	I	L

Schedule 17: Notes Forming Part of the Accounts for the Year Ended 31st March, 1996

1. Principal Accounting Policies:

A. Accounting Conventions:

These accounts have been prepared according to the historical cost convention and in accordance with statutory requirements prescribed under the Banking Regulations. Act, 1949 and practices prevailing in the country.

B. Transactions Involving Foreign Exchange:

- 1. Foreign currency assets and liabilities are translated on the Balance Sheet date at the rates notified by FEDAI, except Foreign Currency Non-Resident Account balances (A) scheme which are valued at the relevant rates specified by the Reserve Bank of India.
- 2. Contingent liabilities on account of outstanding foreign exchange contracts translated have been reported at the contracted rates.
- 3. Profit and Loss on revaluation of outstanding foreign exchange contracts translated on the Balance Sheet date at the rates notified by FEDAI have been included in the Profit and Loss Account.

C. Investments:

In accordance with the guidelines issued by Reserve Bank of India, the investments of the Bank are classified into "Permanent Investments" - which are intended to be held up to the date of maturity and "Current Investments" - which are not intended to be held up to the date of maturity and are generally intended to be traded in. Permanent Investments are valued at cost unless it is more than the face value, in which ease the premium is amortised over the period remaining for the maturity of the security. Profit (net of tax) on sale or redemption of Permanent Investments is transferred to Capital Reserve whereas loss on sale or redemption of Permanent Investment is charged to revenue. In respect of Current



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Investments other than Treasury Bills and Commercial Paper the same are valued at cost or market value which ever is lower, the depreciation if any on revaluation is charged to revenue. In case of inter change of investments from current to permanent, prior authorisation of the Local Advisory Board is obtained and depreciation if any resulting from valuation based on lower of market value or cost is fully provided for Treasury bills and commercial papers have been valued at carrying cost

The market value of Current Investments is worked out by means of appropriate capitalisation of yield method as recommended by the Reserve Bank of India

D Advances

- 1 Provision for doubtful advances The Management reviews the advances portfolio each year in addition to periodic reviews and based on their judgement sets aside specific provision for doubtful advances. The provisions made duly consider the provisioning norms instructed by Reserve Bank of India The provision for doubtful advances is made to the satisfaction of the auditors after considering present value of realisable security held by the Bank in respect of such advances
- 2 Advances are stated not of bills of exchange rediscounted and specific provision in respect of doubtful debts
- E Premises, Furniture and Fixtures, etc.

Premises Furniture and Fixtures including vehicles and equipment have been valued at cost less depreciation. Depreciation has been provided on straight line method at the rates specified by Head Office which are higher than the rates prescribed under Schedule XIV to the Companies Act, 1956 Lease Premia is being amortised over the lease period expected to be extended. Depreciation is provided from the year in which the asset is put to use. Depreciation on building is provided from the day it is put to use and in case of other assets pro rata depreciation on addition is provided as per Head Office guidelines in the year it is put to use. No depreciation is provided in the year of sale

Income Recognition

- i) Interest Income is recognised on accrual basis and in the case of non-performing advances the same is recognised on recovery and settlement
- 11) Commission and fees are treated on accrual basis except commission on Letters of Credit and Guarantees which is accounted as income on cash basis
- G Staff Benefits

Liabilities in respect of retiral benefits to employees are provided for by payment to duly recognised Gratuity Fund Pension Fund and Provident Fund and are determined on the basis of actuarial valuation

H Net Profit

The new profit disclosed in the profit and loss account is after

- 1) Provision for taxes on income in accordance with statutory requirements
- ii) Prevision for doubtful advances
- iii) Adjustments so as to value trade investments at lower of cost and market value
- iv) Other usual and necessary provisions

2 Lease Premium Amortisation

The Bank has two prenuses (including one acquired during the year 1994 95) on land leased from Bombay Municipal Corporation. Based on legal opinion and correspondence with the State Government regarding the general policy of renewal of such lease, the Management is of the opinion that the lease would normally be extended. Hence the sum of Rs. 420 033,561 paid to acquire the lease rights has been amortised on the basis of the lease period expected to be extended instead of residual contracted lease period. Consequently, a sum of Rs. 11,510,485 has been amortised during the year. If the amount had been amortised based on residual contracted lease period the charge to the Profit and Loss Account for the year. would have been Rs 64 955 640 and profit for the year lower by Rs 53 445 155

3 Head Office Reserve Account

Head Office Reserve Account represents funds remutted by Head Office and a portion of approved remutable surplus for an earlier year retained by the Bank, to meet the cost of acquisition of residential and Bank premises at Mumbai and to meet capital adequacy norms as per the Reserve Bank of India's guidelines

4 Capital Adequacy Ratio

The Capital Adequacy Ratio of the Bank as at March 31 1996 as computed under guidelines of the Reserve Bank of India vide Circular ref DBOD No BP BC 117/21 01 002 92 dated 22 04 92 and as amended subsequently is 8 49%

Regrouping

The previous year a figures have been regrouped/rearranged wherever necessary

H SINGH

Chief Executive Officer-India

V DESAI

Head-Tax and External Audit

Sd/

R PRABHU

Controller-Mumber Branch

Per our attached report For VAISH & ASSOCIATES Chartered Accountants

BOMIF DARUWALA

Partner

Mumba: 18th July, 1996



(Incorporated in Germany with Limited Liability)

Auditors' Report on the Accounts of the Indian Branches of Deutsche Bank AG

We have audited the attached Balance Sheet of the Indian Branches of Deutsche Bank AG (Incorporated in Germany with limited liability), as at March 31, 1996 and the Profit and Loss Account of the Indian Branches of the Bank for the year ended March 31, 1996 annexed hereto

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of subsections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the Balance Sheet and Profit and Loss Account together with the notes thereon are not required to be drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are therefore drawn up in conformity with Forms 'A' and 'B' of the Third Schedule of the Banking Regulation Act, 1949.

We report that

Profit and Loss on revaluation of outstanding foreign exchange contracts at the rates specified by FEDAI on the Balance Sheet date have been included in the Profit and Loss Account, as per Accounting Policy 1 B of Schedule 17. This Policy is in accordance with FEDAI guidelines approved by Reserve Bank of India and reiterated vide its circular dated June 5, 1996. However the same is not in accordance with the Accounting Standard 11 of the Institute of Chartered Accountants of India, impact of which is not ascertained.

Subject to the above

- 1 We have obtained all the information and explanations which in our opinion and to the best of our knowledge and belief, were necessary for the purpose of audit and have found them to be satisfactory,
- 2 the transactions which have come to our notice have been, in our opinion, within the powers of the Indian Branches of the Bank,
- 3 in our opinion, proper books of accounts as required by law have been kept by the Indian Branches of the Bank so far as appears from our examination of those books
- 4 in our opinion, and to the best of our information and according to the explanations given to us the accounts read together with the notes thereon, give the information required by the Companies Act, 1956 in the manner so required for the Banking Companies and on such basis, the Balance Sheet give a tree and fair view of the state of affairs of the Indian Branches of the Bank as on March 31, 1996 and the Profit and Loss Account of the profit of the Indian Branches of the Bank for the year ended on that date

For VAISH & ASSOCIATES
Chartered Accountants

Partner

Mumbai 18th July, 1996

Social Security for Workers in Unorganised Sector

Experience of Kerala

S Mohanan Pillai

In recent years the Kerala government has initiated several measures to provide social security to workers in a wide range of activities in the unorganised sector. Welfare funds have been created and are administered by tripartite statutory welfare boards. This article examines the functioning of one of the oldest fund schemes, the Kerala Headload Workers Welfare Scheme.

I Introduction

SOCIAL security schemes are intended to provide a minimum living to people unable to earn due to invalidity, unemployment and old age. These measures serve as effective tools to alleviate poverty and destitution. However, many social security schemes whether in the advanced economics or in the third world countries, are mainly meant for employees in the formal (organised) sector. Workers in the informal (unorganised) sector, on the other hand, are deprived of such benefits. In the backward economies, the formal sector constitutes only a small segment of the working population while the majority belong to the unorganised sector. Workers in the unorganised sector, more particularly the casual workers are, however, more likely to be poor and destitute due to the irregular nature of employment and unsustainable income. In such a situation, protective social security to a minority in the formal sector, would not only widen but also reinforce inequalities [Midgley 1984] Further, in the backward economies, the much trumpeted 'trickle down' argument seems to have limited relevance due to the existence of wide inequality in the distribution of income and wealth. Experience has also shown that growth alone is insufficient to eradicate poverty, and that it must be accompanied by equitable distribution of income and wealth through state intervention. This being the case, as widely advocated, the extension of formal social security to the weaker section of the society could serve as a suitable alternative measure of poverty alleviation in the backward economics [see Ahmad et al (ed), 1991]. This study of social security measures for the unorganised sector is set against this backdrop.

The 'unorganised' sector, in the context of a labour surplus developing country, refers to the traditional segments either in the rural or urban sectors of the economy. In the rural sector, the unorganised sector workforce mainly comprises landless labourers, small and marginal farmers, share croppers, rural artisans, forest labourers and fishermen, while in the urban sector it consist of manual labourers like construction workers, head-load workers, wage

labourers employed in manufacturing, trade, transport, communication, service and self-employed like street vendors, hawkers, etc. Definitional problems arising largely from the amorphous character of the activities of this sector and statistical inadequacy, however, make it difficult to capture a macro picture of the labour force. Nevertheless, the available statistics indicate that the unorganised sector contributes more than 64 per cent to the national income in terms of value added [CSO 1992]. The major part of the labour force in the unorganised sector is engaged in the primary sector followed by services and secondary sectors.

The need for social security for the unorganised sector is justified essentially on grounds of equity and social justice. As research studies have shown, the unorganised sector is characterised by irregular employment, unstable income, prevalence of piece wage rates and absence of any legal protection in regard to income, employment and health and safety measures.2 As observed in the Draft Seventh Plan, in the absence of any legal protection like Contract Labour (Regulation and Abolition) Act (1970); Minimum Wages Act (1948) and Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act (1979), workers in the unorganised sector suffer large scale exploitation in terms of hours of work as well as wages. A majority of the casual workers in this sector receive wages below the legal minimum living always at a subsistence level.' Further, since the casual workers in the unorganised sector are illiterate and relatively less skilled, there is hardly any scope for them to achieve 'vertical mobility' on the occupational ladder [Doeringer and Poire 1980].

The introduction of formal social security for the masses in the unorganised sector is, however, constrained by many a factors like irregularity of employment and income, absence of a permanent employee-employer relationship and above all, the poor resource base of the backward economies. It is in this respect that the experience of Kerala is worth studying. In recent years, the Kerala government has initiated some measures to provide social security to workers in a wide range of activities in the unorganised sector. The task is accomplished by constituting

welfare funds which are administered by the tripartite statutory welfare boards. This study is an empirical verification of the effectiveness of these welfare fund schemes in providing social security to the casual workers in the unorganised sector through a case study of one of the oldest welfare fund schemes, namely, the Kerala Headload Workers Welfare Scheme.

In Kerala the basic development issue is that although the state stands as a model to other developing regions in the matter of social advancement, a sizeable population, particularly those in the unorganised sector, lack access to the fruits of the development process, the typical developmental problem faced by backward economies. Because of their poor economic conditions, the real benefits of government expenditure on education and medical care inevitably bypass the very poor.4 However, in the Kerala context, though these workers in the unorganised sector are economically quite weak, they are politically well organised and are also aware of their rights. Their political consciousness amidst economic deprivation often leads to social tensions through an articulation of their demands. The economic and social protection to weaker sections became inevitable not only from the point of equity and economic justice but also as a political compulsion. This may perhaps be the reason that successive governments in Kerala have formulated various schemes of social security and welfare measures for the unorganised workforce. The welfare fund schemes introduced for the workers in the unorganised sector are the latest addition to the list of social welfare measures in the state.

II Headload Labour Market

The headload labour market is a manifestation of the dual labour market set up of a backward economy. As defined by the Kerala Headload Workers Act (1978), a headload worker is a

person engaged directly or through a contractor in or for an establishment, whether for wages or not, for loading or unloading or carrying on head or person or a trolley any article or articles into or from a vehicle or any place in such establishment and includes any person not employed by any employer or contractor but engaged in the loading or unloading or carrying on head or person or in a trolley any article or articles for wages

Nevertheless, a large number of the workers are self-employed either in rural or in the urban market centres. Because of the casual nature of employment, these workers very often do not have a permanent employer.

The growth of headload workers in Kerala was very rapid Though there is no clear statistical evidence, earlier studies indicate that the 1960s and 1970s witnessed a phenomenal increase in that numbers [Vijay Sankar 1984 and Vijay Kumar 1984] The secular stagnation in the agricultural sector and the resultant large-scale displacement of rural labour and chronic unemployment and underemployment have triggered the growth of headload labour force in the state. Added to this the rapid growth of tertiary sector especially trade and commercial activities and the fast spread of urbanisation provided more avenues for this sort of unskilled employment. According to an estimate by the Headload Workers Welfare Board, the total number of headload workers in the state cories to over two lakhs. They are classified into attached, 'unattached and scattered workers. The attached workers are those who are regularly and permanently engaged by an employer exclusively for his establishment. The workers who are employed by more than one employer are classified as unattached workers. The scattered groups are those who are primarily self employed at bus stations, village centres and in the forest areas. Among these groups, majority of the workers belong to the scattered category (70 percent) followed by unattached (25 per cent) and the attached are insignificant (5 per cent)

SOCIAL AND ECONOMIC CHARACTERISTICS

I iterature on the socio-economic profile of headload labour workers is scanty except a few micro level studies. As part of our empirical study, we conducted a sample survey on a selected number of headload workers who come under the welfare scheme The sample selected was the Ernakulam urban centre which is the second centre to introduce the headload workers welfare scheme in the state as far back as 1984. At the time of the study, about 782 workers were covered under the scheme in this centre which is about 17 per cent of the total workers covered under the scheme throughout the state For our study, 10 per cent (78 workers) of the workers were selected The socio-economic profile captured by the survey is summarised in the tollowing paragraphs

At the outset, it may be noted that before the introduction of the scheme, these workers were clustered into different groups in and around the market centre depending upon the nature and type of commodities handled Even after the formation of the scheme the segmentation of labour market continues although in a formalised way Now these segments are called pools. Among the workers, the most dominant is the attimari group who are doing only loading and unloading goods from and into motor vehicles. The other categories are those handling stationery goods, hardwares truits, vegetables, and workers engaged at godowns and railway goods sheds. We have selected workers from each pool so as to give adequate representation to different categories of workers

The survey revealed that headload workers are basically a migrant labour force. The migration of these workers is primarily from rural to urban centres influenced by pull as well as push' factors [Tisdel and Alauddin 1992] A good number of workers had left their places of birth long back in their childhood and came to the present place of residence in search of employment. Before venturing into headload work they worked as cleaners and tea boys in hotels for a meagre income Some of the workers admitted that they had left their homes after attempting small time thefts in their native places. This explains the socio economic background from which they entered the labour market Although a worker enters the labour market at an early age (the average age of entry into the labour market is 15 years as revealed in the survey) he cannot continue in the field for a long period on health ground

Like any other casual labourer headload workers are also educationally backward. Of the workers surveyed, about 68 per cent had studied either up to primary level or below primary Most of them reported dropping out of primary level school at the because of poverty. However, a striking trend is that of late, there is an inflow of slightly more educated people into this kind of activity 5 Though the inflow of educated people into the headload labour force is largely a manifestation of the level of unemployment prevailing in the state, the relatively better wage rates enjoyed by this segment of the workers among the casual labourers could also be an attraction

The absence of a permanent employeremployee relationship is another characteristic feature of the unorganised sector. The dual labour market theories postulate that casual labourers in the secondary market are susceptible to frequent change of their employers because of the casual nature of employment. Nor does the nature of the work induce the employers to employ the same workers permanently. In the process it is difficult to identify a permanent employer for these workers. The behaviour of the headload labour market was found to be an extreme case of this These workers specifically the unattached segments not merely change employers frequently, but in fact, work for more than one employer even on a single day. In our sample, 75 per cent of the workers reported that they work for two to eight employers per day. The remaining 25 per cent, mainly engaged in loading and unloading of vegetables and fruits stated that on an average they were working for about 10 employers a day

It is a known fact that among the casual wage labourers headload workers earn better wages (Table 1) The strong bargaining strength backed by powerful trade union support appears to be the major contributing factor for such wage differences relative to other unskilled workers. The introduction of the Headload Workers Act, which provides for minimum wages is also another contributing factor. Apart from these institutional factors the ability of the employer to pay higher wages seems to be quite relevant in the case of headload workers, for the employers (mostly merchants and traders) can pass on their burden to the ultimate consumers

The survey also revealed some disquieting dimensions of income and wage earnings characteristics of headload workers. Despite the fact that these workers earn a relatively larger wages among casual workers they are equally vulnerable to frequent fluctuations in employment and income. There exists marked spatial and inter-pool differences in the wage earnings as also wide fluctuations in their daily wages. The variation in the daily wages ranged between 29 per cent and 68 per cent, while the poolwise wage differences were found to be about 49 per

FABLE 1 DAILY WAGES OF URBAN UNSKILLED WORKERS (PRNAKELAM DISTRICT)

Year	Average Duly Wages (Rs)				
	Unskilled Workers (Construction)	He idload Workers			
1985 86	25 83	37.30			
1986 87	29 11	39 37			
1987 88	31 42	17 98			
1988 89	33.90	40.81			

Daily wages of headload workers are worked out from the monthly wage data obtained from the welfare board. The average monthly wage of a worker is divided by the average number of days of employment in a month which comes to about 20 days.

Sources (1) Hand Bank of Labour Statistics of Kerala (1989) Directorate of Leo nomics and Statistics Government of Kerala (2) Heidload Workers Welfare Board

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Reflections Based on a Study of the Indian Economy **C T KURIEN**



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cent (see Graphs 1 and 2) The number of workers in a pool number of days of employment and the type of goods handled are found to be some of the principal factors influencing frequent fluctuation in the wages. Apart from such distortions in employment and income, these workers cannot continue for a long time in the field because of health risks. Thus, the workers lead an insecure life and are susceptible to deprivation and poverty once they are out of the workforce. This justifies the need for a minimum level of social security for these workers.

III Kerala Headload Workers Welfare Scheme

The first Welfare Fund Scheme introduced in Keiala was for toddy workers in 1969 Thereafter in 1975 a general welfare fund scheme was constituted in the state, namely the Kerala Labour Weltare Fund Scheme (KLWF) The low paid government employees self employed workers like artisans skilled and unskilled rural workers etc are the members of the scheme However. during the 1980s and in the beginning of the 1990s a number of welfare fund schemes were set up in the state exclusively for the unorganised workers like toddy workers he idload workers motor transport workers. coir workers cashew workers handloom workers khadi workers construction workers abkarı workers and agricultural workers (see Tables 2 and 3) The sample welfare fund scheme considered for our study viz the Kerala Headload Workers Weltare Scheme was launched in 1984

The legislative basis for the introduction of social security for head load workers in Kerala is the Kerala Headload Workers Act 1978 (hereafter the act). The twin objectives of the act are regulation of employment of headload workers and making provision for social security for the workers. Section 13 of the act empowers the government to formulate suitable schemes for the welfare of the workers and constitution of fund(s) including provident fund. Accordingly the government formulated the Kerala Headload Workers (Regulation of Employment and Welfare) Scheme 1983 (hereafter the scheme) with the intention of regulating the employment and providing welfare to those unattached headload workers who do not work under any permanent employer The scheme is applicable to all establishments specified in the schedules appended to the act but exclude those establishments owned or controlled by the central government

Presently, the coverage of the scheme is limited to those workers attending to shops and establishments in major market centres, godowns, and railway goods sheds. At the same time, the workers engaged in loading and unloading of goods in bus stations,

railway stations and self-employed headload workers in rural areas do not come under the purview of either the regulatory mechanism or the welfare measures of the scheme At the time of the study, the scheme was implemented in 12 centres with a coverage of 7852 headload workers constituting nearly 4 per cent of the total registered headload workers (183 lakh) in the state

The state level institutional agency to implement the scheme is the Kerala Headload Workers Welfare Board (hereafter the Board) constituted in 1984 under Section 14 of the Act The Board is a 15 member tripartite corporate body with equal representation of five members each from the government employers and headload workers. The workers are represented by their respective trade unions. The implementation of the scheme is quite decentralised. The institutional set up to implement the scheme in a particular area is the local committee (LC), constituted under section 18 of the act Like the welfare board a local committee is also a corporate body consisting of fifteen members, five each from the government

employers and the workers. The committee however, comes under the overall control and supervision of the Board. The local committee is the primary functionary in the implementation of various provisions stipulated in the scheme, such as registration of headload workers, and employers execution of various provisions intended to regulate the employment of the workers and implementation of labour welfare and social security schemes.

WORKING OF SCHEME

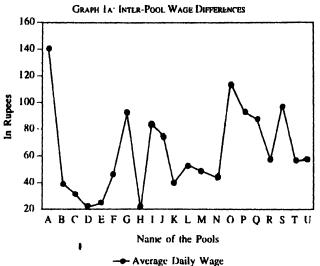
(A) Regulation of Employment

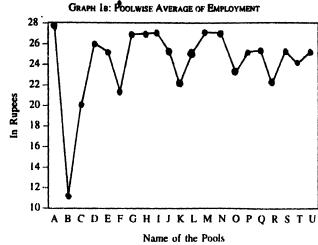
The mechanism by which the Board enters the labour market is through regulation of employment of the workers. This task assumes paramount importance because it helps in improving the working conditions of the workers as well as facilitates the execution of work and settlement of labour disputes more effectively. In this regard, the act has various provisions viz hours of work limitation of employment daily intervals for rest provisions for fixing and notifying minimum wage rates for different

TABLE 2 RATES OF CONTRIBUTION/LEVY UNDER DIFFERENT WELFARE FEIND SCHEMES IN KERSLA

Name of the Board	Rates of Contribution/Levies							
	Government	Employer	Worker					
(1)	(2)	(3)	(4)					
Kerala Toddy Workers Welfare Fund Board		13 per cent of warker's wage	8 per cent of the wape					
Kerala Handloom Workers Welfare Fund Board	-	25 per cent of the worker's wage	10 per cent of the wage					
Kerala Motor Transport Workers Welfare Fund		13 per cent of the worker's wage	8 per cent of the					
Board		(a) producer/dealer Rs 2 per month	corr worker/self					
Kerala Coir Workers Welfare Fund Board	Rs 2 per worker per month	(b) Coir society Re I per month (c) coir exporter I percent of the annual turnover	month					
Kerala Cashew Workers Welfare Fund Board	Rc I per worker per working day	Re I per worker per working day	paíse 50 per worker					
Kerala Handloom Workers Welfare Fund Board	Rs 2 per handloom worker and Rs 4 per self employed per month	imountequivilent to one twelfth of the amount payable to the worker innually	Rc 1 per worker per month and Rs 2 per self employed per					
Kerala Khadi Workers Welfare Fund Board	8 per cent of the yearly wages of the worker	8 per cent of the yearly wages of the worker	month 8 per cent of the yearly wages of the worker					
Kerala Construction Workers Welfare Fund Board		(a) I percent of the construction cost (b) Yearly contribution by con- tractors in the range of Rs 1(X) to Rs 1000	monthly contribution from the					
Kerala Abkarı Workers Welfare Fund Board	-	15 per cent of the wages of the worker	Rs 15 and 25 10 per cent of the wage					
Kerala Agricultural Workers Welfare Fund Board	-	(a) landowners holding more than 0.5 ha and less than 1.0 ha Rs 10 a year (b) 1.0 ha and above Rs 15 a year	Rs 2 per menth					

Source Respective Welfare Fund Acts/Schemes





Days of Employment

establishments and kinds of work, enforcement of wages and amount of levy both by workers and employers towards the welfare fund, etc.

The first step in the direction of regulation of employment is the registration of workers and employers." Once an area is notified for implementation of the scheme, the primary function of a local committee is to register and enroll workers and employers. For the worker, getting his name enrolled with the local committee becomes necessary because once an area is brought under the scheme, no unregistered worker is allowed to work in that particular area. Similarly, an employer who regularly requires the services of headload workers has to get his name registered with the committee. The workers enrolled with a local committee are divided into various groups and are deployed at different places as decided by the committee. The grouping of workers into different categories in accordance with the nature of their work and/or area of operation is called pooling of workers. Although the pooling and deployment of workers are essentially the functions of local committees, in actual practice, the trade union (especially the powerful in the centre) seems to play a major role in these matters. Once a worker is placed in a particular pool, he is prohibited from moving to another pool.

The regulation of employment works in the following manner. The registered employer regularly requiring the services of headload workers from time to time has to inform the local committee regarding the number of workers needed by him. The employer is also required to deposit with the committee an advance amount approximately equivalent to the wages payable by him to the headload workers for a week. This amount is credited to the employer's account maintained by the committee. The committee allots the workers required by the employer for a day. As soon as the work for the day

is over, the employer has to furnish to the committee a statement, namely, work-card, containing details such as pool name, number of workers who attended, quantum of work done and amount of wages. On receipt of the work card, the committee assesses the amount of wages and the employer's levy to be adjusted against the amount already deposited by the employer. The balance is adjusted for the subsequent days. Similarly, the committee also works out the worker's wages and levy amount. The method of wage calculation is that the total wages earned by the workers of a particular pool in a day is equally divided among the number of workers present on that particular day and each worker gets an average amount of wages. The daily wages so collected are credited to the account of the worker maintained by the committee and the same will be paid to him within seven days of every month, after deducting 10 per cent levy as worker's contribution. The worker is also being paid advance wages on a fortnightly basis which will be adjusted against the monthly wages earned by him.

The significant outcome of the process of, regulation of employment is the creation of a permanent employer for the unattached headload workers. In an area where the scheme is introduced, the local committee acts as the *de jure* employer although the merchants and traders who actually make use of the service of the workers are the de facto employers. In other words, once the workers are brought under the scheme, in all practical purposes, the local committee (and ultimately the Board) is their employer. The local committee allocates the work, pays wages and looks after worker's welfaire

TABLE 3 SOCIAL SECURITY SCHEMES FORMULATED UNDER DIFFERENT WELFARE FUND SCHEMES IN KERALA

Name of the Scheme	Eligibility/Level of Assistance
Pension	60 years and above,
	Three years service and membership to the Fund
Gratuity	@ 50 per cent of the average wage for a maximum period of 20 months
Provident Fund	Net credit to the account of the worker and paid on superannuation, incapacity to work, migration to other state and termination.
Medical Assistance	Non-refundable advance from the Fund for the treatment of the worker and family members. Three months membership to the Fund
Educational Assistance	Non-refundable advance from the Fund for the childrenOs education.
Marriage Assistance	Non-refundable advance from the Fund for the marriage of daughters
Ex-gratia	Disability or death of the worker.
Housing Adva ce	For construction or purchase of house or land meant for building purposes Advance is given to the worker from the Fund not exceeding 12 months wages and minimum of three months membership to the Fund
Unemployment benefits	Worker is eligible for non-refundable advance from the Fund for continuous unemployment for 30 days
Retiral benefits other than PF, gratuity and Pension	Wherever there is no provision of PF or gratuity, the net balance in the credit of the worker in the Fund together with a share by the Board is given to the worker at the time of superannuation.

Source Compiled from the various Welfare Fund Acts/Schemes

This employer-worker relationship thus creates the necessary condition for the implementation of suitable welfare and social security schemes for the headload workers who, like any other constituents of the unorganised sector labour force, remained virtually out of any sort of labour welfare schemes till the formation of the scheme.

(B) Labour Welfare and Social Security Schemes

The welfare measures introduced under the scheme can be broadly divided into nonwage financial assistance and social security measures. The non-wage benefits include bonus, holiday wages, and advances like festival advance, school advance and marriage loan. The amount of assistance, however, varies from time to time. For our empirical study, we have taken 1990-91 as the reference period. During this period, the Board fixed the bonus at 11 per cent of the annual wages of a worker and seven days holiday wages at the rate of Rs 30 per day. The eligibility criterion is that the worker should have worked at least 30 days during a continuous period of three months for availing these facilities. The workers normally get festival advance and school advances which they are required to repay in equal instalments. These advance payments provide the worker with some liquidity during the time of necessity and in the absence of which he used to meet by borrowing from money lenders before the scheme came into being.

The social security measures formulated under the scheme include retiral benefits, invalidity pension, ex-gratia payments, medical benefits, educational allowance and marriage allowance. Table 4 sets out various social security and labour welfare measures currently implemented by the Board. For the purpose of providing these social security measures, two types of welfare funds have been created, namely, the Terminal Benefit Fund (TBF) and the General Welfare Fund (GWF). The TBF created with the levy contribution from workers at the rate of 10 per cent of their daily wages, will be paid back to the workers as a lump sum amount as retiral benefit at the time of retirement or termination from the work. The GWF, on the other hand, is constituted out of the contribution from workers, committees and the Board at equal rate of Rs 10 per month. The principal welfare schemes financed from GWF are: (a) family welfare scheme; (b) scholarship scheme for the children, (c) hospitalisation insurance scheme; and (d) group insurance scheme. Under the existing medical scheme, namely, Hospitalisation Insurance Scheme (HIS), the worker is eligible for reimbursement of medical bills up to Rs 2,000 a year. The worker, his spouse, children below the age of 18 and aged parents are eligible under the scheme. The worker is eligible for hospitalisation assistance only for in-patient treatment beyond two days in a registered/recognised hospital. The Board gives educational allowances and scholarships to eligible children of the workers and the amount is restricted to Rs 100 for an academic year, irrespective of the number of children he has. The educational scholarship is given to those children above tifth standard and the amounts vary from Rs 100 to Rs 2,000.

(C) Financing of the Scheme

The source of funds for financing various provisions under the scheme is the levies imposed on the workers (10 per cent of the wages) and on the employers (25 per cent of the worker's wage). There is, however, no contribution from the state government for meeting the expenses. Since the 10 per cent levy collected from the worker goes directly to the Terminal Benefit Fund, the employers' levy constitutes the major portion of the resources for financing the scheme. There is however, a devolution of resources between the local committees and the Board (see Chart). Of the 25 per cent levy on employers collected by the local committee, a portion goes to the welfare board as the latter's income for meeting administrative and other establishment expenses. The quantum of resource flow from the committee to the Board are: (a) 2 per cent of the annual wages of the workers; (b) Re 1 per worker per month, and (c) the committee's contribution towards the General Welfare Fund at the rate of Rs 10 per worker per month. The net income is the resources available with the committee to meet the welfare as well as administrative expenditures at the committee's level. The Board's income consists of the amount transferred from the committees plus workers' contribution towards General Welfare Fund at the rate of Rs 10 per month.

Table 5: Schemewise Welfare Expenditure, 1987-88 to 1990-91

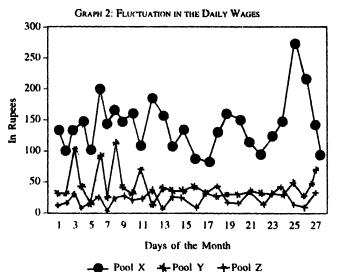
Schemes	Percer	itage share
Bonus		74 1
Holiday wages		10.8
Educational aid		5 4
Scholarship		0.2
Group insurance		28
Hospitalisation insurance		2.2
Medical assistance		1.7-
Terminal benefit		2.3
Death ex-gratia		0.3
Family welfare scheme		0.1
Superannuation assistance		0.1
Matthe Mills and recovery with the state of a collection of the state	Total	100.0

Source KHWWB

TABLE 4: WELFARE SCHEMES IMPLEMENTED BY THE HEADLOAD WORKERS' WELFARE BOARD

W	elfare Fund	Schemes	Nature and Amount of Assistance		
ī	Terminal Benefit Fund (TBF)	Terminal Benefits on Retirement, Superannuation death, disability, etc	The amount outstanding in the TBF account of the worker, at the rate of 18 per cent of the the wages		
	General Welfare Fund (GWF)	I Medical Insurance	Reimbursement of medical bill for hospitalisation up to Rs 2,000 a year. This is linked with the insurance scheme of United India Insurance Company.		
		2 Educational Assistance	(a) Educational Allowance @ Rs 100 per worker per year for children's study (b) Scholarship of Rs 100 to 2,000 for children studying above 5th std including professional courses.		
		3 Marriage Grant	@Rs 1,000 per worker for daughter's marriage		
		4 Death Ex-gratia	@ Rs 1,000 per worker		
		5 Distress Relief	@ Rs 2,000 per worker for his period of incapacity to work due to sickness or accident		
		6 Invalidity Pension	@ Rs 100 per month for permanent invalidity and paid till death		
		7 Group Insurance	Insurance coverage of Rs 10,000 per worker in case of natural death and Rs 20,000 for accidental death.		
		8 Special Superannuation Benefit Scheme	The worker is assured of a minimum amount of Rs 10,000 under TBF		
		9 Family Welfare Scheme	The worker is paid an amount of Rs 10,000 in the event of permanent disability due to accident. In the event of accident death, the same is given to his family		

Source: HWWB.



Note: Poolnames assigned by the board are numbers. We have used letters of the alphabet for clarity.

The funds are used for (a) welfare and (b)

administration. In this regard, the act

stipulates that a portion of levy collection

can be utilised for meeting the administrative

and establishment expenditures of both the

Board and local committees. There is,

however, a steady rise in the administrative

expenditure of the scheme. The annual

growth in levy collection on an average was

from Rs 1.43 crore in 1987-88 to Rs 2.03

crore in 1990-91. Simultaneously, the

administrative expenditure as a proportion

of levy collection moved up from 15 per cent

to 33 per cent during the same period. The

rising trend in administrative expenditure is

attributed to the peculiar nature of the scheme

functioning in the state, the Headload

Workers Board, besides engaging in many

welfare measures, has to play a major role

in the regulation of employment. This

requires an elaborate administrative machinery. The Board is, therefore, constrained to divert a sizeable portion of levy collection

to meet the growing administrative expenditure which otherwise could have been utilised for more welfare measures.

carning as well as number of days of employment of the workers. Nevertheless, the benefits under other welfare measures like medical, educational, family welfare, invalidity benefits are found to be scale neutral. In other words, the workers with lower wages are also equally benefited unlike in the case of bonus. festival allowance, etc, where the level of benefits are directly proportional to the wages earned by the workers.

IV Economic Impact of Scheme

The increasing cost of social security and its adverse impact on budgetary position have, of late, led to a rethinking on the need for a structural reorientation of social security measures in the Western advanced economies where a significant portion of the national income is devoted to social security. This has also drawn the attention of social

scientists who have ventured into theoretical as well as empirical work on the economic impact of social security schemes. The factor supply and redistributive effects of income transfer programmes have been the major. areas of intense empirical research. The theoretical framework within which many of the studies have been attempted is the standard life-cycle model. Various empirical works within the life-cycle frameworl subscribe to the argument that social security, because of its specific characteristics, has contributed to poor economic performance by reducing both labour supply and saving [see Aaron 1982]. These theoretical works, essentially pertain to organised sector labour force, and have limited relevance in the context of the unorganised sector. Nevertheless, they provide us with a framework to study the economic impact of the Headload Workers Welfare Scheme In

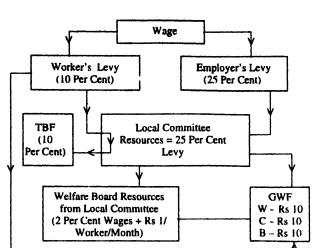


CHART RESOURCES FLOW

TBF-Terminal Benefit Fund; GWF-General Welfare Fund; W-Workers' contribution; C-Committee's contribution; and B-Board's contribution.

The pattern of welfare expenditure revealed that bonus and holiday wages account for almost 85 per cent of the aggregate welfare expenditure, while the share of other welfare schemes, most of which are administered directly by the Board, is very low (Table 5). The benefits from bonus and holiday wages are basically linked to the workers' days of employment and wages. As a result, the workers who get more days of employment and earn higher wages are likely to be the major beneficiaries.

Our field study revealed that the majority of the workers are benefited from the welfare measures extended under the scheme despite the fact that the non-wage benefits especially bonus and holiday wages are found to be inequitable as they are linked to the current

TABLE 6 REDISTRIBUTION AND ADDITIONAL INCOME BENEFIT

Pool	No of	Annual		Actua	d Ber	nefits I	₹ece i	ved by	/ Wo	rkers		Benefit as
	Workers	Wages	В	onus	H	W	M	edi	Ed	u	Total	Per Cent
	(Sample)	1990-91	No	Amt	No	Amt	No	Amt	No	Amt		of Wages
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
A	5	30894	5	2560	5	210	5	144	4	100	4014	13
В	1	1811	-		-		1	1300	-	-	1300	72
C	3	4920	5	550	3	210	3	983	i	100	1843	37
D	4	15000	4	1415	4	210	3	878	2	100	2603	17
E	1	2933	l	323	l	210	1	1200	-	-	1733	59
F	4	8856	4	976	4	210	2	500	-	-	1686	(9)
G	5	17375	.5	1911	5	210	5	493			2614	15
Н	1	18182	1	2000	1	210	_	-	-	-	2210	12
i	10	5648	10	657	10	210	6	488	5	100	1455	26
j	4	25222	4	2194	4	210	2	813	1	100	3317	13
K	ı	19474	1	2142	1	210	ì	200	-	-	2552	13
L	4	9402	4	1034	4	210	ı	2000	4	100	3344	36
M	2	12082	2	1329	2	210	1	800	2	100	2439	20
N	4	15742	4	1623	4	210	1	1518	2	100	3451	22
Average		13798		1517		210		813	_	100	2741	30
C V		0.61		0.61		0		0 47		0	0.39	-

Source: Local Committee (EKM) for wage and bonus data, and others, survey data BON - bonus, HW - Holiday wages, MED - Medical; ED - Educational.

diame as they are mixed to the current Hw - Holiday wages, MED - Medical; ED - Educational.

the case of headload workers before the introduction of the scheme, they remained totally unprotected against the uncertainties of employment and income. One could, therefore, expect an entirely different behavioural response from this category of casual workers once they have been brought under social security. The scheme ensures some sort of job security and income redistribution. The enquiry into the economic impact of the scheme attempted in this study is mainly centred around the employment effects, income and redistributive effects and saving effects of the scheme against the setting of the labour market behaviour of casual workers.

EMPLOYMENT EFFECTS

Studies which have gone into the employment effect of job security measures revealed that, in the event of the implementation of job security legislation, an employer is bound to incur additional 'adjustment cost' [Fallon and Lucas 1991]. A higher adjustment cost may, in turn, induce an employer to shift from labour-intensive to more capital-intensive production technique. Another possibility is that job legislation would raise the cost per employee which may lead to the expansion of working hours of the existing employees and fewer new recruitments. The ultimate impact is reduced demand for labour.

The regulation of employment of headload workers envisaged in the scheme, inter alia, renders some sort of job guarantee to the worker. The obligations on the part of the employer, such as compulsory use of registered workers, strict adherence to payment of wages as stipulated under the scheme and payment of levy would place additional adjustment cost and, therefore, are likely to affect the demand for labour. Our field study attempted to capture such possible employment effects. Of the 78 workers surveyed, 32 per cent replied that there was not any marked change in employment after the introduction of the scheme, while 40 per cent replied decrease in employment and another 28 per cent reported increase in employment. Those who reported falling employment attributed it to the following reasons. Firstly, in some areas more workers have been deployed during the formation of different pools resulting in a fall in the per capita availability of work. Secondly, consequent upon the introduction of the scheme, the employers began to reduce their dependency on unattached workers and more on attached workers who are on the regular pay rolls of the establishments. Thirdly, some employers have shifted their operations from scheme areas to non-scheme areas in order to evade the payment of levy. Among these, the third factor may have the larger impact on employment for the workers under the scheme. However, the shifting of loading and unloading activities from scheme areas to non-scheme areas has another interesting dimension. It may be noted that the headload work in and around trade and commercial centres has all along been the monopoly of a group of workers in the urban centres and there is total restriction of entry to workers from other centres. In this context, the shifting of their activities by the employers to distant places outside the scheme areas especially to suburban centres provides opportunities to the workers in such areas to share a portion of the work previously monopolised by the urban headload workers. In effect, the scheme has, to a small extent, contributed to a kind of 'diffusion of employment' from the earlier concentration in the urban centres. Thus, while the situation in which employers depend more on attached workers and shifting of activities to non-scheme areas cause some reallocation of work between workers within and outside the scheme, its possible effect on the overall demand for workers in the labour market is not very conspicuous.

Regarding labour supply aspect, the standard labour-leisure model states that income transfer programmes would tend to reduce labour supply both from the side of the beneficiaries and the contributors given the budget constraints. These assumptions have limited validity as far the headload workers are concerned for the following reasons. Firstly, at the existing levels of wage earnings and employment, workers' choice would not be governed by any simple trade-off between income and the

irksomeness of work. Secondly, all welfare benefits under the scheme are linked to the contribution by the workers and employers which are determined by the workers participation and level of wages earned by them. Hence, one may not find a backward sloping supply curve in the case of this segment of unorganised sector labour force following the introduction of the welfare scheme. At the same time, it was observed that the workers handling heavy materials entailing hard work frequently remained absent on account of health hazard. However, now the scheme benefits these workers. Once a worker comes under the scheme, even if he remains absent for a few days, his entitlement to employment is unaffected as he has become a regular worker in a pool. The situation was entirely different before the introduction the scheme when if a worker had remained absent for a few days, there was no guarantee that he would get employment once he came back for work. The scheme thus provides the worker with some security in terms of employment.

INCOME AND REDISTRIBUTIVE EFFECTS

Apart from job security, the scheme also ensures some stability in income to the workers. The system of monthly payment of wages by the local committees provides regularity of income and the fortnightly advance wage payments ensure short period liquidity. The workers say that initially they faced difficulties in adjusting to the new environment. Earlier, workers used to spend

TABLE 7: POOLWISE MONTHLY CONTRIBUTION AND SAVINGS BY WORKERS

Pool	Average Monthly Wages	Out-go f	rom Wa	ges	Saving in	Gross Savings	Saving As Per Cent of
	(Rs)	Levy 10 Per Cent	GWF Rs 10	Total	LIC	(4+5) Gross	Wages (6/2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	2893	289	10	299	187	486	17
В	531	53	10	63	60	123	23
С	2318	232	10	242	109	351	15
D	548	55	10	65	108	173	32
E	548	55	10	65	89	154	28
F	1910	191	10	201	113	314	16
G	2025	203	10	213	183	396	20
Н	471	47	10	57	57	114	24
1	2027	203	10	213	188	401	2.0
j	1720	172	10	182	180	362	21
K	853	85	10	95	25	120	14
L	1340	134	10	144	194	338	25
M	978	98	10	108	170	278	28
N	853	85	10	95	60	155	18
0	1876	188	10	198	146	344	18
P	1355	136	10	146	130	276	20
Q	2196	220	10	230	207	437	20
Ř	1034	103	10	113	179	292	28
S	1811	181	10	191	224	415	23
T	1270	127	10	137	49	186	15
U	1177	118	10	126	98	224	19
Average	1377	140	10	150	118	268	21
cv	0.68	0.51	0.0	0.47	0 44	0.42	-

Source: (1) Local Committee (EKM) and (2) Survey data.

whatever they got on working days and remained in virtual poverty on non-working days. Now with the regularity in income, the workers' household consumption pattern is adjusted to a 'permanent' income. The regularity of employment and stability of income also confers social recognition on these workers, who were always pushed down in the social hierarchy not only because of the menial nature of employment but also because of their chequered lifestyle.

The redistribution of income under social security takes place as the incomes of the beneficiaries go up through income transfers by means of social insurance or social assistance. This is attained through 'horizontal redistribution' and 'vertical redistribution' process.10 In the case of Headload Workers Welfare Scheme, there is enough scope for redistribution of income. The Board (local committees) collects levy from the employers and the same is distributed to workers in the form of nonwage financial assistance as well as social security measures. We have made an attempt to measure the incremental income received by the workers through redistribution. The method adopted is by comparing pre-transfer and post-transfer income gains. The pretransfer income is basically the wages whereas the post-transfer income consists of wages and other monetary benefits out of social security schemes. In our estimates, we have found that, on an average, the additional income received per worker comes to about 30 per cent of the annual wages, though there exists wide variation among the workers (Table 6). However, the variation in the receipt of additional income is much less (39 per cent) than the variation in the wage earnings (61 per cent).

The redistribution of income through the scheme is found to be more equitable. The egalitarian implication is, however, more visible in the case of welfare measures like medical assistance, and educational assistance, while it is relatively less in respect of non-wage payments like bonus since these are linked to workers current earnings. The redistribution also achieves some measure of 'Pareto Optimality', while the workers gain in the form of additional income and social security, the employers may be offsetting their economic loss against the gains in industrial peace. Furthermore, once the employer has paid 25 per cent levy, he is not bound by any other obligation like payment of bonus and advances excepting to meet the stipulation of a 15 per cent revision of wages once in two years, for, such things are now within the purview of the Board.

SAVING EFFECT

Theories formulated within the life-cycle framework postulate that income transfer programmes in general tend to cause a fall

in saving. This is because the expected retirement transfers may be perceived as increment to net wealth resulting in increased consumption [Ando and Modigliani 1963]. We have found an entirely different feature in the case of headload workers following the introduction of the scheme. In our analysis, we could notice that there are two types of outgo from the wages of the workers. These are: (a) monthly levy contribution to the Board at the rate of 10 per cent of the wages towards terminal benefit fund and (b) monthly contribution towards general welfare fund at the rate of Rs 10 per month. Since these two types of outgo are not meant for the direct consumption of workers, they can be considered as savings by the workers. Besides these compulsory savings, the workers have LIC policy and 'Chits' (local system of saving with private paries). The survey results showed that a significant portion of the wages earned by the workers are saved either compulsorily in the form of levy or voluntarily like the LIC premium or chits.

On an average, savings which include monthly contributions and LIC premiums come to about 14 per cent of the monthly wages, although there exists marked variation in monthly savings among workers (Table 7).

The study found that since the wages are paid through the banks, the workers have developed a banking habit which is quite incredible as far as casual labourers are concerned.

V Concluding Observations

Experience the world over is that occupation-linked social security measures remain elusive to the majority of workers in the unorganised sector despite the fact that they are among the most deserving in society. This is all the more conspicuous in the case of casual workers who in the absence of any formal social security fall into destitution once they are out of the workforce. This perpetuates poverty among working classes. In the Indian context, some of the state governments have introduced social assistance measures like old age and destitute pensions. But universalisation of social assistance schemes to cover the entire workforce in the unorganised sector is not a feasible proposition due to the poor resource base in the backward economies. This apart, introduction of formal social security for casual worke 3 is also constrained by the peculiar problems of the unorganised sector such as irregularity of employment and income and above all the absence of a permanent employer-employee relationship.

The experience of Kerala in the introduction of social security for the casual workers in the informal sector is, however,

quite unique. During the latter half of the 1980s and early 1990s, the state has introduced a number of social security schemes for different categories of workers in the unorganised sectors by constituting welfare funds through contribution from workers, employers and the government and these funds are administered by tripartite statutory welfare fund boards.

Our enquiry revealed, first of all, that the welfare funds scheme has brought about drastic changes in the living conditions of the workers both socially and economically. As regards headload workers werlfare scheme, despite some inherent drawback of limited coverage (at present the scheme covers only around 4 per cent of the total headload workers engaged in major market centres), it ensures some regularity of employment and income for the workers.

Although some of the welfare measures under the scheme are linked to days of employment and wages carned by workers, the benefits in general are found to be scale neutral. Moreover, the workers also gain incremental income through redistribution. The steady and regular income has also changed the lifestyle of the workers which elevates their status in society.

The regulation of employment of headload workers under the scheme ensures discipline among them as also facilitates a peaceful atmosphere in the workplaces which in the past used to witness sporadic clashes between workers and employers in the loading and unloading of goods and wage settlements leading to severe law and order problems. The scheme warrants a renewed role of trade unions more in the form of welfare activities by supporting the welfare board authorities in the implementation of the scheme.

On the employment front, the scheme has not made any profound negative impact, rather it seems to have resulted in some sort of reallocation of employment between workers within the scheme and outside. This is in the wake of employers preferring attached workers who are on their regular payrolls as also shifting of activities to nonscheme areas to avoid payment of levies.

To sum up, the welfare fund scheme is found to be a new experiment not only in providing social security to the underprivileged segments of the workforce but also in the financing of social security for unorganised sector in a resource constrained economy. In the operation of the scheme, the government acts as a catalyst, while the welfare measures are financed with the levies collected from the employers and workers. As far as workers are concerned, the contribution not only gives them a sense of participation but also enables them to wrest a legitimate claim from their employers. Likewise, contribution from employers facilitates private sector participation in government-sponsored social security. Above all, the welfare fund scheme of financing of social security to the weaker section is relatively superior to other social assistance measures provided by the government because the former is essentially a self-financing mechanism, while the latter draw upon budgetary resources which a resource constrained government cannot afford for long. On this line, welfare fund schemes can also be considered as an alternative social safety net to protect the workers in the unorganised sector. Considering these positive aspects, the Kerala experiments can be a model for other states in their attempt at alleviation of poverty among weaker sections.

Notes

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- 1 Planning Commission report (draft Seventh Five-Year Plan, 1978-83) estimated that 91.2 per cent of the all India employment in 1971 was in the unorganised sector. Based on the CSO definition of unorganised sector, Banerjee (1988) estimated the workforce in the unorganised sector at about 90 per cent of the total
- 2 Some of major studies which went into the major issues of urban unorganised sector in the Indian context are. Vijay Joshi and Heather Joshi (1976), T S Papola (1981) and Harold Lubel (1974). N Chandra Mohan (1978 and 1981).
- 3 Going by the calorie criterion as well as per capita expenditure criterion, the casual workers households both in the rural and urban areas constitute the largest part of the poor. Though the literature as well as studies on Indian poverty showed that over the period, the incidence of poverty is on the decline, the latest estimates by Planning Commission for 1987-88 also reveal a more or less equal distribution of poverty between rural (37.6 per cent) and urban (38.9 per cent) areas (see Economic and Political Weekly Research Foundation, EPW, August 21, 1993).
- 4 Public provision of social welfare and social infrastructure facilities entail large subsidies. Most of these subsidies benefit the better off groups who are able to 'capture' these subsidies. [Economic Reforms. Two Years After and The Task Ahead, Discussion Paper, Government of India, Ministry of Finance, Department of Economic Affairs, 1993, p 22].
- 5 Among the workers in the age group of 22 to 30 years, 32 per cent had studied up to primary or below primary, 63 per cent completed middle level (3rd to 9th standard) and 5 per cent even passed the school leaving certificate (i e, SSLC).

- 6 The primary condition that the board insists on before admitting a worker to the scheme is that he should be a 'genuine' headload worker as defined in the act. The second criterion is that he should be a 'registered' worker as stipulated under Rule 26A of the Kerala Headload Workers Rules, 1981.
- 7 For a detailed review of literature on social security and its economic impact, see Danziger, Haveman and Plotnick (1981).
- 8 The instances quoted by the workers are that some of the employers dealing in cigars and electrical goods have already shifted their godowns from Ernakulam market centres to suburban areas like Kalamassery, Alwaye, etc Similarly, the workers said that the wholesale trading of vegetables and plantain, earlier largely concentrated in Ernakulam market centre, is now diverted directly to retail outlets from place of origin by the wholesale traders
- 9 This is different from the textbook treatment of the labour market, see Solow (1990).
- 10 'Horizontal redistribution' is said to occur if social security schemes redistribute resources between different age, gender, regional or other groups. It also includes the transfer of resources from those who are in full employment to those who are unemployed or have already retired, from those who are healthy to those who are ill, and from those who have no children to those who do. A resource flow between different income groups, whether progressive or regressive, is usually described as 'vertical redistribution' [Midgley 1984].

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More Politics of Business than Business

P M Mathew

SMALL-SCALE industries sector in India has been very little examined against the background of economic reforms. This is probably for the reason that very few people are really concerned about having a scientific understanding of the problems of this sector from a policy angle. The little literature that has emerged is either purely academic with very little of practical utility or initiated by some retired civil servants. Naturally, the quality of studies in this area is poor and they have very little practical utility from the point of view of developing this sector.

S Nanjundan (EPW, January 27), with his significant background in the area of small industry development, makes an excursion into the current issues of this sector in India in the context of economic reforms. Based on a review of policies and implementation from 1950s through to the present day, he argues that there has been a significant large sector bias in small-scale industries policies in the country. He substantiates this with specific focus on the structure and composition of the recently appointed expert committee to review policies and programmes for the small-scale industries sector. Nanjundan points out that harping on the age-old thrusts like finance, technology, entrepreneurship, regulations, etc, is not likely to be helpful in generating employment opportunities in this sector. The lofty ideals on which the programmes for small industries development started in the mid-1950s degenerated from the mid-1970s. The thrust of promoting viable products and viable output-scales based on intermediate/ appropriate technology got blunted into a scramble by a lobby to share with the licensed monopoly large-scale sector in the allocation of scarce and imported raw materials, equipment and financial resources.

Nanjundan finds the stranglehold of the bureaucracy to be the core of the problem and argues for organisation for greater decentralisation of power at various levels. It is very interesting that the role of SSI associations has been highlighted. Nanjundan also quotes the study conducted by the Swiss Development Co-operation (SDC) through NABARD in 1994, wherein the need for strengthening SSI associations has been brought out. This study includes a national report and eight state-level reports. Considering the wide coverage and the field data collected, the NABARD study is a pioneering one, though it has not received the attention it deseves. The study has brought forward a number of potential areas which should be taken up by policy implementing agencies. This study went into the wilderness, probably for the reason that the amount of foreign funds it could bring into the country was limited. We are living in a phase of history where small industry promotion has been initiated with a missionary zeal by a number of official agencies. However, the zeal of the missionary dries up as lubrication through foreign funds remains doubtful. Probably our university professors may like to depute half-a-dozen students to try their PhD on this subject. Nanjundan points out that the heterogeneity of the small industry sector and the steady erosion of its own representative organisations have willy-nilly aided the government's natural inclination to adjust the policy to suit the requirements of established large-scale industries. How far the causation is correct is doubtful. SSI associations were never powerful and, even when organisations like FASSI were unified. they have not raised many relevant issues regarding policy formulation. For the layman the picture of an SSI association is of an 'evening club' where the members drink and revel. Calculation of cost and benefit is the very rudiment of business. A micro entrepreneur who cannot afford such merrymaking is naturally scared away from this big 'tamasha'. It is natural that a number of SSI associations, large and small, degenerated over time. It is also not a secret that some of the so-called 'membership associations' are finding it quite hard even to maintain a reasonable membership. But even with all these problems, such associations get substantial official patronage in the form of representation in official committees and foreign teams and support for maintaining an infrastructure, etc, even without any significant backing of members.

The question is not only one of centralisation; an equally important issue is that tendencies and policies towards centralisation are facilitated.

Following the NABARD study, another all-India study on the role of small industry associations was conducted last year. This author who co-ordinated the study on behalf of SDC in several states could get an opportunity to identify the reasons why SSI associations are remaining dormant and why they have been forced to dance to the tune of the bureaucracy. Our finding is that in regions of the country where there are some reasonably dynamic associations, they have

been able to provide a variety of services to the member entrepreneurs. The concept and hegemony of SSI associations in India are still largely in their primitive stage. Lobbying has been pursued as the overwhelming function of an association. This culture, obviously, has to change. Unless many clusters of small enterprises emerge and demand-driven services are demanded and offered, the bureaucracy is not likely to give way to the business community. An average IAS-man is not better than a small entrepreneur of matric standard for many practical purposes. But for the latter to assert his experience is not so easy; herein lies the importance of the culture and strength of an association.

The experience however is far from satisfactory. Our study has shown that the activities of small producers' associations are strictly confined to the better-off among small-scale industries; even here their strength and role are nominal. In the micro enterprises sector, where the socially vulnerable are a significant group, there is absolutely no concept of a producers' association. Their patronage has been wholly taken over by the NGOs and the cooperatives. How do they perform? How beneficial is their role as regards the interests of small producers? Such things need not be discussed at length because structurally the co-operatives and NGOs do not cater to the interest of micro entrepreneurs as business entities.

To talk about employment generation is noble and good. However, to have a productive system which generates employment on a sustainable basis is so difficult. The question of generation of sustainable employment is crucial; sustainable employment emerges only as a fallout of sustainable income generation. Panchayati raj is nice to talk and hear about. Probably the powers of the managers and clerks in the district industries centres may be brought down to the level of a gram panchayat. However, bureaucracy is bureaucracy; they have been directed to depend upon political will and competencies. What is really lacking is that rare breed of politicians who have a clear vision and competencies.

The business of small industry development in many countries is itself a large business. The Prince of Wales runs his Prince's Business Trust for employment generation among the poor educated unemployed; the counterparts in India have also contributed their mite to evolve a number of yojanas which have ended up in nothing but chaos. Being motivated is bad; having no motivation is worse.



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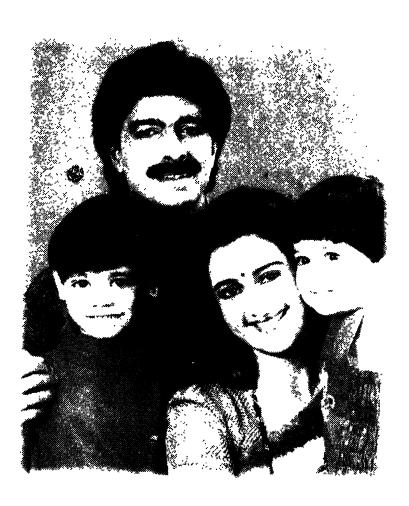
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Vol XXXI No 32

August 10, 199

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- **ATLANTA OLYMPICS:**THE CORPORATE GRAB BAG
- KARNATAKA: POLITICS OF COGENTRIX
- DEMOCRATIC TRANSITION AND CHALLENGE OF TRANSFORMATION
- ** HAJI MALANG: ATTACK ON SYNCRETIC CULTURE
- INDONESIA: BEGINNING OF END OF 'NEW ORDER'?
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ECONOMIC AND POLITICAL WEEKLY

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Indian Agriculture and Global Market

Discussion of the competitiveness of Indian agriculture in the context of the country joining the WTO has ignored major questions such as global commodity prospects in terms of prices and stability/instability and the movement of domestic and world market prices and of agricultural and non-agricultural prices within the country. Nor has the overriding issue of the structure of the global market been brought into the discourse. A closer look at the competitiveness of selected Indian crops in the light of evidence on domestic and international prices, the world commodity situation and the structure of the global market for agricultural commodities.

The Partition: Memory and History

Memory is a complex phenomenon that reaches out to far beyond what normally constitutes a historian's archives, for memory is much more than what the mind can remember or what objects can help us document about the past. Turning on the question of difference between history and memory, a discussion of a set of essays first serialised in a Bengali newspaper in 1950 which capture the sense of tragedy that the division of the country represented to the authors.

2143

Democracy: Incomplete Agenda

The globalisation of democracy as *the* legitimate form of government has not been accompanied by efforts to widen the universe of democracy to take account of changes in social systems and cope with agendas of transformation.

2154

Dear Money

The heavy burden imposed by high real rates of interest both on the government budget and on productive activity in the economy is coming to the surface ever more sharply and there are ominous signs already of a slow-down of industrial growth. 2119

Politics of Cogentrix

Curiously enough, the main actors in the agitation against the Cogentrix power project in Karnataka are local capitalists and commercial interests, while environmentalists have provided the needed legitimacy to the campaign.

2129

Back to Old Politics

Just when the dalits in UP appeared close to reaching out to power, the BSP has, through its alliance with the Congress, revived the very alignment which the dalits had all along struggled to shed. On the other hand, after their failure to put together an anti-BJP front including the Congress, the Samajwadi Party and the Janata Dal are reverting to the old political grouping of the backward castes with thakurs and jats.

2127

Name Game

The Shiv Sena in Maharashtra is seeking to rouse communal sentiment and disrupt cross-communal syncretic traditions through a campaign to rename a popular shrine of a Sufi saint in Mumbai.

Privatised State

In Suharto's Indonesia the privatised state has been a tool in the hands of a small elite who want to perpetuate their power to expand their illegally-gained wealth. The iron hand with which the regime maintains itself is the reason why Megawati and her PDI can count on tar more support from diverse quarters than can be explained by nostalgia for Sukarno and the past.

2135

Atlanta's Gold

What the Atlanta Olympics highlighted was the war of capital at the highest levels within the corporate gulag. The billions of dollars invested in TV time and the billboards emphasised how the Olympics were the object of massive corporate colonisation.

2133

'In Praise of RSS'

IT is indeed sad that very slanderous articles like 'In Praise of RSS' are published in your scholarly journal (July 27). If Godse was in the RSS and later drifted away from it and then shot the Mahatma, could we say that it was RSS which inspired him to assassinate Gandhiji? Every naxalite (and there are different sects among them) started off with either the CPI or CPI(M). All of them are indulging in extortion and are killing one another, but can we, by the logic of P R Ram, say that it is the CPI(M)/CPI who are the real organisations behind the mindless murders?

Ram's statement that "many enquiry commissions have implicated the RSS, even directly in many communal riots" is a blatant lie, studiously propagated by those who are self-professed "left democratic, secular, intellectuals". Firstly, hardly any report of the enquiry commissions into communal riots has ever been published and not one of any published has held that the RSS initiated the riots. Once riots begin, not only will the attackers be repulsed but certainly numbers prevail in the end.

Another untruth propagated is about the RSS's front organisations. The fact is that they are no more numerous than those of the Marxist parties. Would the communist parties own up all the acts of their fronts, the trade unions, the civil liberties outlits, the youth, student, science, etc, organs? The author accuses the RSS of the propagation of an 'authoritarian' model of society. What a canard! The Indian Marxists and communists of all sects are the ones that are preaching concepts like 'dictatorship of the proletariat', 'vanguard role of the only one party (i.e., the communists'), one party democracy, one-candidate elections, only one 'right' thought to be propagated, all history to be periodically rewritten to glority the current leader/helmsman of the only party allowed and so on. And it is indeed odd that they accuse the RSS of these very practices which are their stock in trade in every country they once ruled and

Ram holds the RSS to be "at the root of communalisation of society". Does he know which was founded first—the Muslim League or the RSS; the Khilafat movement or the RSS; separate electorates and weightage for Muslims or the RSS; Aligarh Muslim University or the RSS?

Finally, are not the JNU historians, intellectuals, CPDRs, PUCLs, people's science societies, etc, the extended arms of the Marxist/communist/naxalite outfits which themselves claim to belong to the political multinational world communism (former Comintern/Cominform)?

T MANI CHOWDARY

Secunderabad

Family Planning and the Poor

CHOOSING a permanent contraceptive is not as simple and easy as reported by Rajan, Mishra and Vimla (July 20). Son preference matters in all the states, more in rural areas than in urban. It has been observed that the middle class is more influenced by the small family norms. The poor are largely unaffected by the expensive and wasteful campaign by the champions of small family norms, despite the many incentives offered by official and non-official agencies and financed by the ministry of health and family welfare of the government of India. With new laws coming in, the lower and backward castes want more children

Since funds from national and international agencies are easily available for studies on population control, cooked up data are being presented to show successful completion of projects. The ministry of health and family welfare is no exception as the jobs and promotion of officials depend on showing progressive data. Everybody knows that the country's population is increasing.

Instead of the present wasteful efforts, a effective and permanent contraceptive wo be to spend this huge amount of money improving the economic conditions of the who are indifferent to population contracts are generally poor states. I Bihar, Orissa and MP, for example, provenough food for thought to all those worr about population growth. I am not convince with the data issued by the ininistry given the authors' Table 9. This space insufficient to go into details.

One interesting development is that, unlin the past, it is easier now to marry daughters without a brother provided father has some assets. In large towns workgirls are being preferred as life partners a sons-in-law and daughters are render equal if not better service than sons a daughters-in-law. This social change apparent in large towns and with famil having little or no roots in villages.

The desire to have a male child is base on a social and to a great extent a religionecessity. It is also an economic requirem for agro-based families. As abortion a detection of sex before birth have been quite common in cities, sterilisation generally avoided. It has a psychologi impact as it takes away the capacity to produce think hour large population could be made an as rather than a liability. Let us beware of concern being shown by the rich natic

S K Shar

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Flagging Industrial Growth

INDICATIONS are that the impressive industrial growth of the past two years will not be sustained in the current year After touching an annual rate of 8 4 per cent in the five years before the initiation of the so-called economic reforms industrial growth had suffered a setback in the following three years from 1991-92 to 1993-94 when the index of industrial production (base 1980-81=100) rose by 0 6 per cent 2 3 pcr cent and 6 per cent respectively. In the next two years however, there was a smart recovery to 94 per cent in 1994 95 and 12 1 per cent in 1995 96 Though the growth of industrial production in these two years was fairly broad based, the sectorwise performance was mixed. The infra structure sector comprising mining and quarrying and electri city registered relatively moderate increases of 7 per cent and 8 per cent whereas manufacturing achieved a growth of 9 \$ per cent in 1994-95 and 13.7 per cent in 1995-96. As per the use based classification, the outstanding performers were capital goods (24-8 and 19-4 per cent) and consumer durables (10 2 and 38 5 per cent) though in both cases the growth in these two years to a large extent only made up for the poor performance in the first two or three years of the reforms. In 1995-96 the index for capital goods industries was 31.1 pci cent higher than five years ago in 1990 91, whereas in the preceding five years the rise had been by as much as 107 pcr cent Similarly, the growth of consumer durables in the last five years works out to 56 8 per cent compared to 77 3 per cent in the preceding five years. The general index too shows a rise of only 33 6 per cent in the last five years compared with 49 6 per cent in the previous five years. The government's claims that the reforms have given a decisive boost to industrial growth are thus clearly unwarranted, especially considering the signs already visible of a deceleration of industrial production this year

The first ominous portent is the persistent sluggishness of the infrastructure industries. Flectricity coal steel cement crude oil and petroleum products, with a combined weight of 28 8 per cent in the general index, grew by 7 8 per cent in 1994-95 and 7.7 per cent in 1995-96 pointing to a growing gap between demand for and supply of infrastructural facilities In the first two months of this year the growth of these industries has slowed down further. Their growth during April May this year was 6 6 per cent against 11 6 per cent in the corresponding period of 1995-96. And the picture would have been much worse but for the relatively good performance of cement and coal within this group. Cause for the most concern is the sharp drop in the growth of power generation to an annual rate of just 3 per cent in the first quarter of 1996 97 compared to 12 I per cent in the corresponding period last year. As it is, the deficit in power availability is estimated to have gone up from 7/3 pci cent in 1993/94 to 9/2 per cent in 1995-96

According to the industry ministry, during April May this year the growth of 24 selected industries which have a combined weight of 50 37 per cent in the index of industrial production had slowed down to 5 3 per cent. Apart from the six infrastructure industries mentioned above. 18 other industries with a combined weight of 21 6 per cent grew by only 2.9 per cent in contrast to a growth of 17.4 per cent during April May 1995. This has happened despite some industries in the group, such as sugar and automobiles continuing to register impressive though lower growth rates. Sugar output rose by 88 per cent in April June this year production of commercial vehicles was higher by 22.1 per cent and that of passenger cars by 28 per cent.

A major indicator of the slackening of industrial growth is the slowing down of expansion of commercial bank credit Between March 15 and July 19 this year scheduled commercial banks non-food credit expanded by Rs 3 527 crore (1.5 per cent) against Rs 6 758 erore (3 6 per cent) in the comparable period last year. Of course, high interest rates are an important cause of this. In regard to long term funds the picture is mixed and how things will finally turn out will depend on the capability and readiness of companies to mobilise funds from the capital market through bonds and equity and from abroad through GDRs and ECBs apart from borrowing from the term financing institutions. While the disbursements of these institutions increased by 40 per cent from Rs 3 484 crore in April May 1995 to Rs 4 877 croic in April May 1996, their sanctions were actually lower by 34.4 per cent from Rs 7.320 crore to Rs 4,804 crore reflecting manufacturing companies hesitation to commit themselves to long term loans at the prevailing high rates of interest. There are indications that GDRs and f CBs as well as bond issues if not equity issues in the domestic market may be somewhat higher this year than last year FDI inflow is also officially expected to be \$4 bn this year compared to \$ 1.98 bn last year. Actual FDI inflow in the first two months of 1996-97 was \$ 375 mn against \$ 352 mn in the same months last year. It is difficult to gauge at this stage how the availability of long-term funds for private sector investment would fare this year and to what extent they would make up for the possible decline in public sector investment

Trends in exports and imports too point to a slowing down of industrial activity this year. Exports in the first quarter at \$8,213 mn rose by 14.6 per cent against a rise of as much as 27.7 per cent in the first quarter of 1995.96 and 21.4 per cent in the whole of that year. Even more significant is the deceleration in the growth of imports. In the first quarter of this year, imports at \$9.146 mn rose by 14.4 per cent against

a rise of 37.5 per cent during April-June 1995. Even this level of import growth this year has been because of larger petroleum imports which rose by 44.2 per cent from \$ 1,585 mn in April-June 1995 to \$ 2,284 mn in April-June this year. The growth of non-POL imports has been just 7.1 per cent this year against 41 per cent last year.

The sluggish behaviour of saving and investment constitutes a broader macroeconomic basis for the misgivings about the sustainability of the high industrial growth of the last two years. To make possible the absorption of \$4 bn (Rs 14,500 crore) of FDI and generally to finance a higher level of domestic investment the rate of domestic saving has to be significantly stepped up, whereas indications are that the domestic saving rate has stagnated at around 23 per cent of GDP for three years from 1993-94 to 1995-96 (with in fact a slight fall in 1995-96) and domestic investment at around 23.5 to 24 per cent. Making a rough and ready assumption that the current account deficit this year will be limited to 2 per cent of GDP, any substantial step up in investment to 27 to 28 per cent will require a domestic saving rate of 25 to 26 per cent in 1996-97 - an increase of two percentage points or more which is simply not in sight. The RBI has released CRR accumulations to augment liquidity. There has also been an attempt to attract larger portfolio investment by Flls. But experience shows that such injection of external liquidity gets absorbed largely in stock market, real estate and inventory assets and there is really no substitute for domestic saving for giving an enduring push to investment.

BHIWANDI TRAGEDY

Infrastructural Breakdown

THE common perception of a disaster is that it is a rare occurrence, the outcome of an exceptional set of circumstances when all fail-safe mechanisms have given way. Thus, people should not be dying of gas leakages because in the first place such a leakage should not have occurred; secondly, even if it did there are in place structures which would prevent death and mitigate the suffering of the people affected and limit the damage; and third, even if this were not possible, there are efficient mechanisms to compensate those affected, by whatever means, for the damage caused by the negligence of the state and its agencies. But people do die and suffer from causes they have no control over and circumstances which have occurred because of the failure of the welfare state to make provisions to ensure a safe and sufficient livelihood for its citizens

This is the story of Bhiwandi in Maharashtra. Over two lakh workers are employed here in one of the oldest established modern industries in India, textiles, most of them migrants pushed out of their native villages and towns to look for jobs, living on a pittance because the concept of minimum wage does not exist, eating at canteens and messes which have hardly ever seen a visit by a food inspector. Earlier this week hundreds were taken ill after eating at their regular mess or 'bissi'. At the hospitals, some private some public, they were treated with the 'usual' remedies for an 'ordinary' bout of food poisoning. It was only when some of them, malnourished and with little immunity to any pathogen, took a turn for the worst that the medical community got its act together and decided that it must be a case of botulism, caused by micro-organisms in stale food and that the victims needed an antitoxin for the lethal neurotoxin. This of course was a first approximation, an educated guess - the diagnosis has yet to be confirmed by a battery of tests which the Food and Drugs Authority in the state as well as several other institutions are ill-equipped to handle. As of now there is no report of any of the hi-tech private hospitals with their ultra-modern laboratories volunteering to do the work to facilitate speedy diagnosis.

And then there was another problem - in none of the sophisticated, long-established or modern institutions of medical science anywhere in the country was the antidote available. So it had to be flown from Poland and, reports say, will arrive only by the end of the week, by which time it may be too late to save the patients. And what is even more surprising is that nobody is certain that the antidote will even work because botulism has not been confirmed. One authority has been quoted as saying that "if the antidote does not work, we'll know it is not botulism". In which case why was it not possible to acquire a few trial doses immediately, rather than a huge consignment which may be of no use? This underlines another aspect of health disaster management: there appears to be no scientific logic or design in the search for the causative agent - whether it is plague or botulism the entire exercise is a combination of hits and misses. Admittedly, the situation is not the same as a deliberately planned research programme. However, what is increasingly obvious is that little thought is given to equipping the medical institutions and their staff to deal with emergencies which require a minimum acquaintance with scientific search.

There are a host of questions which arise: what has the labour authority done to improve conditions in the thousands of powerloom establishments which carry on in abysmal conditions of work and pay for those employed? When the entire powerloom industry in the area is manned by migrant workers, surely, the state's labour welfare board should take cognisance of this fact and provide for or facilitate the provision of safe and adequate food and shelter and appropriate medicare? Given that Mumbai and its

医神经 医气管造器 environs with its dense population, poc housing, unsafe food and water supplies ar so vulnerable to hazards such as foo poisoning and myriad other infections an illnesses, some commonly known others ran should there not be efficient coping system in public hospitals and medical institutions It is indeed surprising that Maharashtra': particularly the Mumbai-Pune belt's, moder medico-research institutions could not pro duce expertise to deal with the disaster an the experts had to be flown in from New Delh Hyderabad and, of course, Atlanta in the US

Disasters often lead to some thinking o disaster management and infrastructura changes are made to cope with them. Bu these remain local innovations and inputs After the Bhopal disaster, several infra structural changes were made and disaste management exercises were instituted, bu they have remained localised, in Bhopal and in other areas where such disasters hav occurred. After the plague, Surat has see considerable change with better plannin and city administration, but again there ar hundreds of cities like Surat which are waitin for medical disasters to occur. What is neede is a coherent policy for minimising th chances of such tragedies occurring and the mobilising the infrastructure, includin supplies, literature and education for copin with the disaster. At this point of time, wit a state preoccupied with globalisation infrastructure development means quit something else and certainly the problems c the masses are minor irritants in the race t expand India's economic horizons.

GUJARAT

BJP in a Spot

SHANKERSINH WAGHELA's decision 1 go ahead with his rally of BJP dissidents o August 20, in spite of being issued a shocause notice, not only precipitated h expulsion from the BJP, but has also pave way for a formal split of the party in Gujara The BJP is mobilising all its organisation strength to isolate Waghela and counter h threat to its government in the state.

By engineering the defeat of Waghela the Lok Sabha polls and by removir Kashiram Rana from the presidentship of tl state party unit, the BJP's national leadersh decided at the national executive meeting Bhopal to toe the line of the RSS-VI: combine in Gujarat. Waghela's revolt, backe by 48 MLAs in September last year, again the actions of Keshubhai Patel had caug the RSS-VHP lobby napping. As a resu Keshubhai Patel had to relinguish his chi ministership while Narendra Modi, an R. man, had to be removed from the post general secretary of the state unit. The Pate Modi faction got its own back when succeeded in defeating a large number pro-Waghela candidates in the Lok Sab

elections. Convinced of the relative strength of the Patel-Modi faction, the party high command decided to adopt a hard line against the dissidents in Gujarat. The leadership now feels that Waghela no more commands support of the MLAs who stayed put with him in Khajuraho. It had to take a soft stand towards him then, for not only would a revolt by him have threatened the Keshubhai Patel government but it could have adversely affected the patry's prospects in the parliamentary elections.

The BJP's partisanship towards the RSS VHP lobby in the state is evident. The party high command has taken no action against those belonging to the Modi faction who were involved in hooliganism against Atmaram Patel, a senior cabinet minister and a Waghela supporter, after the civic reception given to the then prime minister Atal Behau Vappayee in Ahmedabad Instead the axe tell on Kashiram Rana The RSS-VHP combine which was not successful in defeating Rana in Surat in the Lok Sabha polls thus avenged its disgrace. On the other hand Keshubhai Patel was put in charge of Gujarat and his supporter Vajubhai Vala replaced Rana as the president of the state unit The ascendance of the Patel Modi faction in Gujarat became clear when most of the 12 state party observers appointed to select candidates for the posts of mayors in the six BJP controlled municipal corpora tions were seen to belong to the Patel lobby

Recent developments in the Gujarat BJP are a clear signal to Suicsh Mehta and Kashirani Rana to distance themselves from the Waghela faction. Mehta has been assured that there is no threat to his ministry and supporters of both Mehta and Rana were included among the observers for selection of mayoral candidates. Formation of a new party by Waghela will affect the social base of the BJP in the state. Though the BJP leadership has taken the precaution of substituting an OBC Rana with an OBC Vala the exit of Waghela may reduce the party's support among the kshatriya community Waghela is also shrewdly exploiting the discord between the BIP and the Shiv Sena in Maharashtra by making overtures to Bal Thackeray to support his cause in Gujarat If Thackeray who has scores to settle with the BJP for embarrassing his party over Chhagan Bhujbhal and the Kini murder case decides to befriend Waghela the political equation for the BJP is going to get disturbed in Manarashtra too

NARMADA PROJECT

Evading Issues

AT the prime minister's intervention the dissonance over the height of the Narmada dam among the riparian states has been resolved for the time being. The dam height will on paper remain at 455 feet (139 metres)

but the current construction schedule is to allow the Gujarat government to complete the construction up to 436 feet (133 metres) This was the decision reached at a meeting of the three state governments which had come together on a directive from the Supreme Court The apex court processing a petition by the Narmada Bachao Andolan to review the cost-benefit issues pertaining to the project had directed the state governments to look into the matter and arrive at an agreement on the height of the dam. It may be recalled that the Madhya Pradesh government had suggested that the dam height should not go heyond 436 feet although the state chief minister at a recent press conference had suggested that the height of the dam could be reduced to 384 teet (117 metres). Its argument has been, firstly that the volume of water in the Narmada was much less than when the project was conceived and, secondly, that there would be fewer tamilies displaced with the reduced height. The three states now appear to have decided to concede the Gujarat government's demind for keeping the projected height at 455 feet, with the proviso that after reaching 436 feet there would be a review of hydrological data on the volume of water over the next live years

The Narmada Bachao Andolan has rightly pointed out that the entire process of airriving at a decision does not appear to have considered the ciucial question of displacement and rehabilitation. Reducing the height of the dam means a reduction in the area submerged and the number of familie uprooted Even if one were to concede that the project was a necessity for Gujarat the imperative was to arrive at the optimum height taking into consideration all these factors. Clearly, the decision reflects the clout of the Gujar it government in the deliberations and is indicative of the Deve Gowda government's limited perspective and priorities with regard to infrastructure development projects

What is noteworthy here is also the fact that earlier this month the Narmada Bachao Andolan had categorically stated that the Gujarat government s announcement that the Sardar Sarov ir Construction Advisory Committee had approved the raising of the spillway portion of the dam from its present height of 803 metres to 110 metres was incorrect. The Andol in had alleged that no such decision had been reached at the meeting which had not been able to resolve the contentious issues of environmental impact hydrological data and rehabilitation. It is surprising therefore that the prime minister's intervention has smoothed things to such an extent that there appears to be a moratorium on discussing technical issues concerning the dam. It has now been suggested more or less that discussion of these issues be put off for another five years - a highly risky proposition. If indeed the hydrological data point to a reduction in the volume of water in the Narmada making it unnecessary for the dam height to be what was proposed when the plans were first drawn up, the present decision is technically and financially unsound and raises new questions with regard to the cost-benefit analysis of the project And if new and more comprehensive data are available on the environmental impact of the dam ignoring the issue for five years may well lead to irreparable ecological damage As for the rehabilitation issue which appears to be a marginal concern of the three governments, it is surely significant that a section of the Gujarat oustees who had accepted the rehabilitation package are now returning to their old sites because of the inadequate facilities in the new areas

SEXUAL HARASSMENT

In the Public Gaze

TWO decades ago rape, whatever the class of the victim was rarely reported, unless it was an extraordinarily gruesome mass event Few rapes were reported to the police, especially when the victim involved belonged to respectable' society that is the middle and upper classes and was not a destitute. It is not that the situation has altered dramatically today but while there is always an element of shame that attaches to the victim in society there is more awareness among the victims and their families that the occurrence is not necessarily a consequence of the victim's behaviour and so there is need to seck redressal. Rape is an offence in the public gaze it is visible as an act of violence perpetrated on women, among the more extreme gestures of abuse and indignity And yet, while it is punishable in law, patri archal society still debates about the under lying causes and whether indeed the victim was in fact the one who prompted the act

The Bajaj-Gill case in Punjab and the judgment whatever the immediate circumstances locates sexual harassment as an offence in the public sphere. The fact that Gill is a celebrity is in a sense immaterial to this. As also the fact of IPS IAS tensions. Any case which has been so diligently puisued by the victim in an effort to obtain redressal may well have achieved the same purpole. Only it would not have received the same sort of media coverage, which is what makes sexual harassment not only a punishable offence but visibly so.

The Gill verdict will undoubtedly have the effect eventually of women becoming more aware of the fact that codes of behaviour so long accepted which incorporated gestures or actions demeaning to women may in fact be objected to. It may also contribute to a shake-up of accepted forms of social intercourse. What constitutes sexual harassment is under much debate and there will be many definitions of what is objectionable and what is not. However, it is also true that none of

this will affect the lives of working class women who toil to eke out a living, where the daily grind includes having to put up with the lewd remarks and gestures of contractors and supervisors, of being physically pulled and pushed 'in the course of work' and of putting up with the innuendoes of male colleagues on the factory floor. There is need therefore to disseminate information about the case and the judgment to working women everywhere. Only then can the construction of a different social perspective where dignity is accorded to all women move forward. This is important, for the changing of social perceptions of women has to go together with the transformation of the material conditions which make for the subjugation of women.

MADHYA PRADESH

Evenly Balanced

FACED with determined efforts to dislodge him from the state chief ministership, Digvijay Singh is holding on to his position skilfully. His latest move demanding the resignations of all the ministers in his cabinet has won him a respite before the tug-of-war between the pro- and anti-Rao factions in the state resumes

The demand for the removal of Digvijay Singh gathered momentum after the dismal performance of the Congress(I) in the Lok

Sabha elections. As a result of the infighting in the Congress, the BJP which had won 12 seats in the 1991 Lok Sabha elections was able to capture 27 seats this time. Digvijay Singh who throughout the campaigning had followed directions from the centre, attributed the electoral defeat to the departure of 'tall leaders' like Arjun Singh and Madhavrao Scindia from the party. Immediately, state leaders owing allegiance to Narasimha Rao who include Manak Agarwal, Pradesh Congress Committee spokesman, Parasaram Bharadwaj, the Madhya Pradesh Congress Committee president, Subash Yadav, the deputy chief minister, Dilip Singh Bhuria, the tribal MP, and Shyam Charan Shukla, ex-chief minister - ganged up and hurled a barrage or charges against the functioning of Digvijay Singh. Besides reviving the demand for a tribal to be made chief minister and accusing the administration of bureaucratic mertia, the dissident leaders held Digvijay Suigh responsible for not initiating action against those MLAs and ministers who openly canvassed against the official Congress candidates in the parliamentary elections. It was the latter charge that was taken up seriously by the AICC when it asked Digvijay Singh to axe seven ministers allegedly close to Scindia and Arjun Singh and to shift six other ministers to minor portfolios

Digvijay Singh whose prime objective has been to ensure the survival of his government

no matter what the upheavals at the centre, has seen to it that a reshuftle of his cabinet does not hurt any of the major factions in his ministry. Thus by asking for mass resignation of ministers and allowing the ministers charged with anti-party activities to place their case before the party high command, he has cleared the way for a reshuffle without antagonising any faction. Moreover, Digvijay Singh knows that neither the pro-Rao lobby nor the pro-Arjun Singh and Scindia lobby are in a position to control Madhya Pradesh on its own. The defeat of Arjun Singh in the Lok Sabha elections and the overall pathetic performance of Congress(T) in the state have dampened the spirits of Arjun Singh's supporters. In case the Ariun Singh and Scindia faction contemplates any drastic action, the chances are that the BJP and the BSP will stand to gain. Narasimha Rao who is already facing a stiff challenge to his position at the centre, cannot alienate Digvijay Singh and risk endangering the Congress government in the state. In fact the waterthin majority that the Congress has in the state assembly is ironically preventing the two major factions within the state from pulling the carpet from under the Digvijay Singh government. The two factions can sustain their evenly-matched relationship only if Digvijay Singh remains at the helm of affairs. That, for the moment at least, is Digvijay Singh's strength.

Announcement

The Economic Research Unit of the **Indian Statistical Institute**, **Calcutta** will host a **two-day conference** during the period **6-7 Jannuary 1997** on **'Economic Reforms in India'**. Analytical papers of both theoretical and empirical nature related to the above theme are solicited. All papers will be refereed and some travel grants are available for authors from outside Calcutta whose papers are accepted for presentation at the conference.

Papers are to be submitted in duplicate to:

Professor Sugata Marjit / Professor Abhirup Sarkar Economic Research Unit Indian Statistical Institute 203, B.T. Road, Calcutta - 700 035, India Fax 33-556-6680

e-mail: marjit@isical.ernet.in or abhirup@isical.ernet.in

by 15th November 1996

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CURRENT STATISTICS

EPW Research Foundation

Maintaining its rising trend for the third consecutive week the annual inflation rate touched 5.2 per cent is on July 20 essentially due to the petroleum per e-links implicit. In WPI for the fuel group rose from 295.1 to 322.3 in four weeks. The rise in CPI IW in the first quarter of 1996.97 was 8.8 per cent. The government's recourse to ad hots remained high at R_{3.70.705} crore as of July 12.2 and R_{3.10.705} crore as of July 19.4 in increase of R_{3.70.705} crore as of July 19.5 in increase of R_{3.70,705}

Macroeconomic Indicators

Macroeconomic inc	ncators										
	Weights	July 20			V	anation (Po	er Cent)	Point to Po	ount		
Index Numbers of Wholesale	-	1996	Over	Over 1	2 Months	Fiscal Yc.	ar So Far			993 94	1992 94
Prices (1981 82 - 100)			Month	Latest	Previous	1996 97	1995 96				
All Commodities	100 0	3100	12	5 2	83	3 6	27	49	104	108	- 70
Primary Articles	32 3	323 7	06	67		50	76	ŠŹ	127	113	30
Food Articles	174	365 9	0.4	97	4 1	6.3	4 4	97	119	14	51
Non Food Articles	101	33 5	11	25	126	39	0.8	11	155	24 9	14
Fuel Power Light and Lubrican Manufactured Products	ıs 107 570	322 3 300 0	9 <u>2</u> 0 3	13.4	1 8 10 4	127	()] 3 3	0 I 5 I	2 4 10 7	111	15 2 7 9
Food Products	ίό ἴ	286 0	ΪŹ	, 0		50	27	άi	81	123	68
Food Index (computed)	27 5		0.6	12	39	5 9	3.8	6.6	10.6	70	5.8
All Commodities (Average Basis	5)	205.4									
(April 1 July 20 1996)	100 0	305.4		61	10 1	4 8	60	77	10.9	- 8 3	10.1
		l atest			V:	arration (Po	LI CENT)	Point to Po	ount		
Cost of Living Indices		Month	Over			Fiscal Yca		995 96 1	994 95 1	993 94	1992 93
			Month	Latest	Previous	1996 97 1	995 96				
Industrial Workers (1982–100)		333 ()	15	8 8	10.5	44	4 1	8 9	97	99	61
Uiban Non Min Frip (1984-85-	-100)*	261 0		97	97	70	7 2	,,,	99	h 3	68
Agri I ib (July 60 to June 61 10		1431 3		8.8	120	2 5	12	7 1	10 6	11.6	0.7
@ Derived based on lin	king factor be	tween old.	and new s	crics (198	6 87=100)	* Fo	or 1995 9	6			
							uration				
	July	v 5			il Year So		21 12 17 1		_		
Money and Banking (Rs crorc)		,	Month	1936 9		995 96	1995	96	1994 95	19	993 94
		~									
Mency supply (M)	6269		6 (1 0)	251 10 (4		16 (1.6)	69696 (8617 (17.4		7 (193)
Currency with Public	126° 1924		(² 6 5 (1 4)	- 8-13 (<i>1</i> - 12241 (2		66 (9 ½) 6 (=1 3)	17464 (571 <i>1</i> 6 (8606 (22 9 8956 (16 0		() (2() 9) (5 (18 7)
Deposits with Blinks Net Blink Credit to Govt	2803		3 (2 6)	2331479		03 (9 7)	40252 (16325 (7 9		5 (16.3)
Bink Crudit to Commi Sector	340		8 (0 9)	130 (0		46 (1.8)	48981 (•	4991 (184		61 (7.5)
Net Foreign Exchange Assets	809		8 (3.5)	3681 (4	8) 50	8 (07)	514 (07) 2	3298 (44 3		(110.9)
Reserve Money (July 12 1996)	1919		(22)	2415 (1		29 (8 8)	25056 (0608 (22.1		2 (25.2)
Net RBI Credit to Centre	1376			18917 (15		5 (21 2)	19855 (5965	20 1)	2 י) 2130 1750		(60) (() 3)
Ad hoc Tic isury Bills Scheduled Commercial Banks (1			,	20705	1606	1	1901		1730	O	3()()
Deposits Office of the Control of th	414		11 (1.2)	125427	9) 625	7 (16)	45486 (113) 5	3630 (16.1	5214	14 (18 6)
Adv inces	7518		9 (10)	7)6((18 (0 0)	10540 (0638 (23.8		66 (7-3)
Non-Food Advances	240		8 (14)	1687 (0		8 (15)	43024 (7/97 (23.4		75 (5.8)
Investments	172		4 (2 6)	8196 (5		71 (70)	1 1887 (4172 (10 5		11 (26.9)
* Based on March 31 figures af March 29 1996	ter closure of	i forciume	nt accoun	its except	10r 1995	90 (full ye	ar) and ry	990 97 W.M	iere the hai	iking dat	rejucto
Index Numbers of Industrial \				. —			rai Avera	ges	~~~		
Production (1980-81-100)	190	96 1995	96 19	994 95	1993 94	1992 93	1991	92 199	0 91 19	89 90	1988 89
General Index	100 0 33	2 9 284 30	12 1) 25	3 7(9 1) 3	31 1(5.6)	218 9(2 3)	213 9(0	6) 212 6	ו (י 8)	4(8 6) 18	(0 9(8 7)
Mining and Quarrying	11.5 340	0 4 265 7	7(69) 241	3 5(7 3)	31 2(3.4)	223 7(0 6)	272 5(4	5) 221 20	(63) 211 (6(7.9) 19	7) 1(3 7)
Manufacturing						210 7(2 2)					
Electricity	114 36	4 2 340 ()(91) 314	4.6(8.5)	290 0(7 4)	269 9(5 0)	257.0(8	5) 236 8	(7 8) 219 7	(10.9) 19	28 2(9 5)
	Aug	ust I Mo	nth Yo	ır 1 190	5 97 So F1	r 1995	96	<u>1</u>	nd of Fisc		
Capital Market	Ĩ	996 Aլ	o Ag	go Tro	ugh Pca	k Trough	Pirk	1995 9	6 1994	95	993 94
BSF Sensitive Index (1978 79=	10/0 2520	9(4.4) 379	3391(20.71	1367 406	9 2826	3581	3367(3.3)	3261(13	7) 377	19(65.7)
National Index (1983 84_100)			22 1573(549 183				1606(-12		10(79 2)
BSE 200 (1989 90 100)				28 8)	345 41			145 (63)			50(923)
NSE (Nov 5 1995 100)		1037 110			1107 119						
Skindi i GDR Index (April 15 1	994-100)73(161) 8	31 87(19 1)	79 9	0 61	91	79(1 3)		78 -	
Foreign Frade M	ıy Cumula	tive for Fis	cal Year S	o fai				-= -			
		96 97	1995 96		15 96	1991 99	i 14	99 1 94	1992 93	19	91 92
Exports Rs crore 94	5 10090	(26 1) 15	5128 (27 1) 106464	(29 3) {	32330 (18 4	6954	7 (30 4)	53688 (21	9) 1101	i (35 3)
US \$ mn 27			1815 (27 C			26233 (18		3 (20 4)		(4) 178	
Imports Rs crore 115	46 21751	(36.0) 14	59)4 (31.3	121(47	7 (37 L) 8	38705 (21.8	3) 7780	6 (157)	(3375 (33	24) 4/8	51 (10 አ)
US 9 mn 33			5091 (31 1) 3637(28251 (21.7		12 (6 8)	21582 (17		
Non POL US \$ mn 25 Balance of Trade Rs crore 20		(17.2) 3 2671	የዓያር (35 4 86		1 (29 6) - 1 15182	22538 (29) 637		6 (10 6) 3259	15782 (13 90	23 1404 587	3809
	70 96	772	20		4539	201		1039		345	1545
					·		ion Over				
Foreign Exchange Reserves		28 Mai 2 195 — 199		ith Ye	or En	ual Year So	Fir 10	95 46 T	04 95 10	103 01	1992 93
(excluding gold)	1770 19	לילו נקי	MOI MOI				5 96		· /¬ · / l ⁻	.,, ,,	. / / _ / /
	64386 626									7430	5785
US \$ mn	17993 197	793 1712	28 3	38 1	800	865 1	()23	3688	5640	8724	731

	Nunbers of Industrial	Weight	1995-96	1994-95	1993 94	1992 93	1991-92	1990-91	1989 90	1988-89	1987-88	1986-87	1985-86
	ction: Major Groupwise 81=100)												
Genera	l Index	100 00	284 1 (12 1)	253 7 (9 4)	232 () (6 ()	218 9 (2 3)	213 9 (0 6)	212 6 (8 2)	196 4 (8 6)	180 9 (8 7)	166 4 (7 3)	155 1 (9 1)	142
Mınıng	and quarrying	11 46	265 7 (6 9)	248 5 (7 3)	231 5 (3.5)	223 7 (0 5)	222 5	221 2 (4 5)	211 6 (6 3)	199 I (7 9)	184 6 (3.8)	177 9 (6 2)	167 5
Manuf	acturing	77 11	278 9	245 4	223 5	2107	206 2	207 8	190 7	1756	161 5	149 7	136 9
E le ctric	Lity	11 43	(137) 3400 (81)	(9 8) 314 6 (8 5)	(6 1) 290 0 (7 4)	(2 2) 269 9 (5 0)	(-0 8) 257 0 (8 5)	(9 0) 236 8 (7 8)	(86) 2197 (108)	(8 7) 198 2 (9 5)	(7 9) 181 0 (7 7)	(9 3) 168 1 (10 3)	152
Index 1	Numbers of												.,
	rial Production ised Classification												
Basic g	goods industries	39 42	292 0		254 9	2129	226 9	213 1	199 4	189 2	172 2	163 0	149
Capital	goods industries	16 43		3188	(9 4) 255 4	(2 6) 266 1	(6 5) 266 8	(6 9) 291 6	(5.4) 251.5	(9 9) 206 4	(5 6) 192 8	(9 2) 166 3	140
nterny	ediate goods	20 51	(19 4) 234 3	(24 8) 211 4	(4 0) 203 9	(-0 3) 182 6	(~8 5) 173 2	(15 9) 176 8	(21 9) 168 9	(7 I) 161 9	(15 9) 148 3	(18 2) 141 5	135
ındus	tnes		(108)	(37)	(117)	(54)	(20)	(47)	(43)	(9 2)	(4 8)	(4 4)	
Consui	mer goods industries	23 65		219 6	202 0 (4 0)	194 2	190 8	189 0 (6 8)	177 0 (6 5)	166 2 (6 1)	156 6 (6 5)	147 1 (7 I)	137
a Cor	nsumer durables	2 55	(12.8) 564.0		369 1	(1 8) 313 1	320 5	359 6	324 9	3173	260 l	241 2	202
		A	(38.5)		(18.0)	(-2 3)	(109)	(107)	(24)	(22 0)	(7.8)	(189)	100
n Co	nsumer non durables	21 10	209 6 (6 4)		181 7 (1 3)	179 3 (2 3)	175 3 (4 0)	168 4 (5 8)	159 2 (7 6)	148 0 (2 7)	144 1 (6 2)	135 7 (4 9)	129
Produc Code N			2011	1010		175.2	179.0	160.9	150.0	140.5	1 19 0	1.12	
	Food products	5 33	(146)	(134)		175 3 (~1 5)	178 0 (4 8)	169 8 (12 5)	(16)	148 5 (6 8)	(4 4)	(6 l)	125
22	Beverages tobacco and	1 57			137 გ (21 2)	1137	107 3 (2 4)	104 8		92 1 (8 5)	64 9 (13 8)	98 5 (12 1)	112
23	tobacco products Cotton textile	12 31	(20 0) 159 5		160 5	(6 0) 1 5 0 1	139 0	126 6		107 8	1112	1125	110
			(2.4)				(98)	(127)		(31)	(12)	(19)	4.5
25	Jute hemp and mesta textiles	2 00		92.4 (10.5)			90 8	101 6 (4 3)		101 9 (12 0)	91 0 (10 0)		97
26	Other textiles (incl. wear)	ng 0.82					97 2						112
	apparel other than footwe		(120)			-		(-32 0)			-	•	
	Wood and wood products furnitures and fixtures		(12 7)								161 7 (34 3)		223
28	Paper and paper products and printing publishing										166 3	163 2	
20	and allied industries	. 40		(14.1)	(6.6)								
29	Leather and fur products	0 49) 226.7 (7.7)							(44)			
30	Rubber plastic petroleur	n 400	1956	182 1	176 4	174 6	172 0	174 0	173 5			149 6	
31	and coal products Chemicals and chemical		(7.4)	(3.2)	(10)	(1.5)	(1 1)	(03)	(3.1)	(8 5)	(37)	(-22)	
	products except product	s 1251	356 8	327 4	297 6	276 9	261 2	254 1	247 6				154
	of petroleum and coal		(9.0)										
32	Non metallic mineral products	3 00) 262.7 (12.4)									160 3 (1 9)	
31	Basic rictal and alloys products	9 8(222 7		2190	168 5	167 8	158 8	143 7	144 9	135 6	126 8	117
34	Metal products and parts		(177)	, (,	(,0 0,	(0 1)	(- , ,	(2.0.1)	, (= +,	(0),	12.7		
	except machinery and	2 29						143 1					
35	transport equipment Machinery in achine tool		(16.0)										
	and parts except electrical machinery	6 24	1 242 ⁴ (17 3										
36	Flectrical machinery apparatus appliances	5 78				483 6	4937	163 (5 459 2	348 2	335 2	2547	200
	and supplies and parts		(20 1	(33.4)	(-62)	(-20)	(-12 4)	(22.7)	(319)	(3.9)	(31 7)	(27 0)	1
37	Transport equipment and	6 39											
38	parts Other manufacturing	0.90	(20 5) 302 8										
	industries		(130										

Notes (i) Superscript numeral denotes month to which figure relates e.g. superscript 4 stands for April (ii) Figures in brackets are percentage sariations, over the period of over the comparable period of the previous year.

COMPANIES EPW Research Foundation

INDIAN RAYON AND INDUSTRIES

Higher Sales

INDIAN RAYON AND INDUSTRIES, a Kumaramangalam Birla group company, closed the year ended March 1996 with a sales turnover of Rs 1,211 crore, up by 30 per cent from Rs 929 crore recorded in the previous year Other income moved up by 46 per cent Interest costs were up by 38 per cent Provision for depreciation and tax moved up by 47 per cent and 1 per cent, respectively The company ended with a net profit of Rs 185 crore, up by 41 per cent from Rs 131 crore recorded in the previous year The company has hiked dividend payment from 57 50 per cent to 62 50 per cent for the year under review

Indian Rayon and Industries has interests in grey and white cement, viscose filament yarn (VFY) textiles, carbon black, sea water magnesia, caustic soda and fibre glass. The cement division, the single largest contributor to the company's business, produced 2.36 million tonnes (mt) against 1.68 mt recorded in the previous year. Like in the previous year production was constrained by poor quality of coal and poor availability of wagons coupled with erratic power supplies.

Indian Rayon is one of the most economical producers of carbon black as it uses waste gases to generate power thereby cutting down on power costs. The division which has a market share of 24 per cent, produced 51 056 tonnes of carbon black against 43,140 tonnes produced last year. Entering the international market with an export of 100 tonnes in the previous year, the division exported 1,050 tonnes for the year under review.

Production at the textile division was affected due to an illegal strike at the company's plants at Rishra. The strike which started in mid-February this year lasted till May Severe competition in the international markets notwithstanding, the exports of the division stood at Rs 29 crore, about 34 per cent of its total turnover.

The company's white cement division produced 2 36 mt of cement as compared to 1 68 mt in the previous year, a risc of 40 per cent. The white cement division recorded capacity utilisation of over 100 per cent and received for the second year in succession an export award from the government of Rajasthan for its outstanding export performance, in spite of the fact that the company had curtailed exports to meet higher domestic demand.

Indian Rayon has installed an additional capacity of 1 2 mt for cement and 20 mw for thermal power generation. The cement division now has a capacity of 3 mt for

clinkerisation, 4.2 mt for cement grinding and 38.5 mw for captive power generation. The company is installing a second line for white cement which will take the capacity to 3.30 lakh tpa from the existing 1.50 lakh tpa.

The company spent Rs 119 crore in the last two years on capacity additions, backward integration and modernisation of its three textile units. The company is also expanding the capacity of the insulator division from 6,000 tpa to 10,000 tpa. After the expansion the combined production of the insulator units will be in the range of 30,000 tonnes.

The company is currently implementing its sea water magnesia project at a cost of Rs 272 crore, which is expected to be commissioned by September this year

The company is also setting up a caustic soda plant at Verawal at a cost of Rs 104 crore. About 25 per cent of the production of the plant is intended for captive consumption by the company's rayon division. A 165 mw co-generation thermal power plant is being set up at the rayon division at Verawal at an estimated cost of Rs 74 crore and is expected to be commissioned by mid 1996. An additional 12 mw captive power plant, an extension of this plant, is also planned at an estimated cost of Rs 40 crore.

SANDOZ

Fall-Out of Global Merger

Making an entry into India with trading and formulations Sandoz (India) moved on to dyestuffs, seeds industrial chemicals and agrochemicals During the year under review, the company hived off its chemicals business into a new company called Clariant India. The company has plants in Gujarat and Maharashtra.

Sandoz closed the year ended March 1996 with a sales turnover of Rs 224 crore a fall of 23 per cent from Rs 293 crore recorded in the previous year. Other income was up by 63 per cent. Interest costs were down by 42 per cent. Provision for depreciation and tax was down by 57 per cent and 20 per cent respectively. Net profit fell by 18 per cent to Rs 15 crore for the year under review. A dividend of 40 per cent has been recommended by the company. Sandoz announced a voluntary retirement scheme in July 1995 which was opted for by 137 employees. The company incurred a cost of Rs 5 crore on the scheme.

Domestic sales of the pharmaceuticals division rose by 14 per cent over the previous year. The exemption of import duty on life saving drugs, viz, Leucomax and Sandostatin, was fully passed on to the consumers. The

company has come out with Leponex for schizophrenia, Parlodel for infertility, Sirdalud for spasticity and Lamisil for fungal infections

Inits seeds division, Sandoz has developed seeds that ensure improved yield have higher nutritional content and are highly disease resistant. The company introduced a virus resistant tomato variety which was well received. In July 1995, the company shifted its base of operations to Pune and plans to set up a research station there for evolving new hybrid varieties. Sales of the division grew by 35 per cent over the previous year.

In the agrochemicals sector the company maintained its sales in spite of a variable monsoon and competitive pressures. The company successfully placed Ekalux in the markets all over India Ekalux is the first emulsion in water formulation (aqua flow). Sales of non-quinalphos products were higher than in the previous year.

The company's exports doubled to Rs 42 crore for the year under review Major exports came from the pharmaceuticals division. The company achieved record levels of calcium salts production and was able to fully utilise its pharmaceuticals plant in the Kandla Free Trade. Zone

The pharm a cuticals division is to launch an anti-fungal drug called I amisil which is highly effective in treating a wide range of skin and nail infections. The drug is to be sourced from Sandoz Pharma, Switzerland

Sandor is considering bringing its nutritional products in the Indian market. This will involve setting up a new nutrition division. Internationally the company caters to four important segments of nutritional needs viz, clinical nutrition sports nutrition, special nutrition or reform products and health food drinks. The company is undertaking a research of the Indian market to assess the demand for nutritional products tastes and habits of the Indian consumers as also the economic viability of the project. The company is introducing a new synthetic peptide drug for treating cancerous tumors.

The global merger of Ciba Geigy and Sandoz has resulted in the formation of a new entity called Novartis. The integration process to form Novartis. India has begun and is expected to be completed by the end of the current financial year.

BASF INDIA

Expansion Plans

Beginning operations as a monopoly producer of thermocole technically known as styropore BASF India has over the years diversified into leather chemicals expand

	Indian	Rayon	San	doz	BASF India		
Financial Indicators	March 1996	March 1995	March 1996	March 1995	March 1996	March 1995	
Income/appropriations						~~~~	
1 Net sales	121069	92836	22416	29281	20087	17200	
2 Value of production	120475	94084	22611	29160	20506	17325	
3 Other Income	9288	6377	1215	746	1233	1049	
4 Total income	129761	100461	23826	29906	21739	18373	
5 Raw materials/stores and	41004		4404	Sto Se	10050		
spares consumed	41326	32061	4691	7872	10379	9078	
6 Other manufacturing expenses	21145 8927	16465 6541	8598 2176	100 99 2127	2424 1542	1535 1371	
7 Remuneration to employees 8 Other expenses	21761	18364	5645	5730	3569	2941	
9 Operating profit	36602	27030	2716	4078	3825	3448	
10 Interest	9709	7042	203	351	1063	798	
11 Gross profit	27623	20338	2708	3672	2768	2657	
12 Depreciation	5842	3980	282	651	527	425	
13 Profit before tax	21775	18353	2426	3021	2239	2232	
14 Tax provision	3300	3255	960	1200	230	965	
15 Profit after tax	18475	13098	1466	1821	2009	1267	
16 Dividends	2809	2215	318	.398	345	292	
17 Retained profit	15666	10883	1148	1423	1664	975	
Liabilities/assets	4406	4467	706	704		1150	
18 Paid-up capital 19 Reserves and surplus	4495	4467	795 4172	795 5255	1150	1150 6656	
20 Long-term loans	120193 76051	104169 55892	372	5355 1214	8317 9100	2299	
21 Short-term loans	13871	15347	1142	678	3132	3112	
22 Of which bank borrowings	13871	15347	1042	678	2455	2587	
23 Gross fixed assets	173203	130355	1784	7566	18185	10519	
24 Accumulated depreciation	44455	39147	280	5389	3756	3245	
25 Inventories	21634	19799	4738	6441	4732	4162	
26 Total assets/habilities	235612	202238	11597	14668	26039	17561	
Miscellaneous items							
27 Excise duty	0	14971	1010	2557	3074	2983	
28 Gross value added	39035	28653	4988	6010	5434	4870	
29 Total foreign exchange income	17044	14019	4228	5402	2921	2899	
30 Total foreign exchange outgo	24871	16939	7288	4897	4877	3735	
Key financial and performance ration 1 Turnover ratio	,						
(sales to total assets) (%)	51.4	45.8	193.3	199.6	77.1	97.9	
32 Sales to total net assets (%)	56.4	51 6	345 9	364 1	92.6	130 1	
33 Gross value added to	55.1	•••			70.0		
gross fixed assets (%)	22.5	22 0	279 6	79.4	29.9	46.3	
34 Return on investment							
(gross profit to total assets) (%)	11.7	0.01	234	25.0	10.6	15 t	
35 Gross profit to sales							
(gross margin) (%)	22 8	21.9	12 1	12 5	138	15.4	
36 Operating profit to sales (%)	30 2	29.1	12 1	139	190	20.0	
37 Profit before tax to sales (%)	18.0	176	108	10 3	11.1	13.0	
38 Tax provision to			90.	20.5	40.0	40.0	
profit before tax (%)	15 2	19.9	39 6	39.7	10.3	43.2	
39 Profit after tax to net worth	14.8	12 1	29,5	29.6	21.2	16.2	
(return on equity) (%) 40 Dividend (%)	62.50	57.50	40 00	50.00	30.00	30.00	
41 Earning per share (Rs)	41.10	29.32	18 44	22.91	17 47	11 02	
42. Book value per share (Rs)	277.4	243 2	62.5	77.4	82.3	67.9	
43 P/E ratio (based on latest and						••••	
corresponding last year's price)	9.8	15.7	19.4	17.C	14.7	32 7	
44 Debt-equity ratio							
(adjusted for revaluation) (%)	61 0	514	7.5	19.7	96.1	29.5	
45 Short term bank borrowings							
to inventories (%)	64.1	77.5	22 0	10.5	519	62.2	
46 Sundry creditors to							
sundry debtors (%)	53.5	80.5	1472	156.4	68 5	77.4	
47 Total remuneration to employees					••		
to gross value added (%)	22.9	22 8	43.6	35.4	28 4	28.2	
48 Total remuneration to employees		~^	^.	~	7.		
to value of production (%)	74	7.0	9.6	7.3	7.5	7 8	
49 Gross fixed assets formation (%)	22.0		-76.4		72.9		
50 Growth in inventories (%)	32 9 9 27	-	-/0.4 -26 44	_	13.70	-	
(X) CHOUMDY IN INPOLIC OL	A 71	•	~20 44	-	13.70	_	

able polystyrene, agrochemicals and pest cides, tanning agents and dyestuffs. Leath chemicals account for more than 50 per cei of the company's turnover and the compan is in an advantageous position as it faces littl or no competition as far as leather chemical are concerned. BASF India has plants a Thane and Bokaro. In March 1996 it commissioned a plant in Mangalore.

The company closed the year ende March 1996 with a sales turnover of Rs 21 crore, up by 17 per cent from Rs 172 cror recorded in the previous year. Other incom moved up by 18 per cent. Interest cost rose by 33 per cent. Provision for depreciation moved up by 24 per cent, while that fo tax was down by 76 per cent. Aided by rise in technical advisory services th company recorded a rise of 59 per cent its net profits which moved up to Rs 20 cror for the year under review. A dividend of 3 per cent has been recommended by th directors.

Volume of sales from the leather chemicals division increased by 4 per cent compared to the previous year. The colours an dispersions division performed satis factorily with exports from the divisio increasing from Rs 4 crore to Rs 5 crore. I keeping with the growing demand in th dyestuff and construction industry, th company plans to expand capacity of th dispersions business. Operations from th chemicals division was satisfactory in spit of losing business in some important pro ducts to China. Sustained demand for th company's products from the consumin industries saw the division through. The sal of crop protection products during the yea increased by 19 per cent compared to th previous year. High fluctuations in th international prices for styrene, the majo raw material, affected the performance of th plastics division.

The Mangalore project which has bee completed in 22 months at a cost of Rs 10 crore has an installed capacity of 1,700 tonne annually for speciality dyes and another 8,50 tonnes for dispersions.

BASF has earmarked an investment c Rs 60 crore in various expansion plar undertaken at Thane and Mangalore to b completed over a period of two years.

A doubling of the dispersion capacity: Mangalore at an investment of Rs 3 croi is on the anvil as is an investment of Rs 1. crore in the manufacture of Helizirin pigments used in the printing industry. BAS is also setting up facilities for Tamol liqui used in the construction industry at Mangalo at a cost of Rs 3 crore.

To finance its expansion plans the compar is planning a rights issue of Rs 58 crore. part of the proceeds will go towards au menting the long-term working capit requirements.

High Cost of Funds Forces Industrial Slow-Down

The heavy burden imposed by the high real rates of interest both on the government budget and on productive activity in the public and private sectors is coming to the surface more sharply than ever before. There are in fact ominous signs of an incipient slow-down of industrial growth.

I Oppressive Real Rates of Interest

THE current financial sector developments seem to portend incipient signs of slowing down of industrial activity, for which the high cost of institutional credit for inventory and investment financing appears a major contributory factor. The oppressive character of the high real rate of interest in the economy imposing a heavy burden on both the government budget and productive activities has come to the surface more sharply than ever before. And this has been spawned curiously in an environment of abundant liquidity available in the system.

Apart from the sizeable release of cash reserves, high level of deficit spending by the government as reflected in the phenomenal expansion in ad hocs and net RBI credit to the government has contributed to the acceleration in monetary expansion. But the demand for credit has slackened. Between March 15 and July 19 this year, the incremental credit-deposit ratio has dipped to 16 per cent against 64 per cent in the corresponding period last year. Even in absolute terms, nonfood bank credit has expanded by only Rs 3,527 crore (1.5 per cent) this year compared with a substantial growth of Rs 6,758 crore (3.6 per cent) during the comparable period last year. Instead, despite there being substantial excess holdings, scheduled commercial banks have further added to their investments in government securities this year (by Rs 10,258 crore) compared with last year (Rs 3,003 crore).

The emphasis on the bottomline for banks and public financial institutions (FIs), premature imposition of credit adequacy norms, dilution of their societal goals and unrestrained high interest rates offered on

funds mobilised by them have made the loan rates in the system generally usurious and sticky. As banks continue to charge lending rates of 20 per cent or over for the generality of their loans and the FIs in the region of 19-22 per cent, corporates have reportedly begun to slow down the availing of cash credit and term loans. Only a few of them can access the alternative commercial paper (CP) market where the rates have come down to 12-14 per cent. No doubt, in deference to the authorities' preference for lower interest rates, banks and FIs have made some gestures of reducing their prime lending rates (PLRs). For banks, the lowering of the effective cash reserve ratio (CRR) to 11.5 per cent and the downward revision of the one-year deposit rate from 12 per cent to 11 per cent would have brought down the cost of funds but for the intense competition among banks to mobilise deposits at free rates of interest for maturities beyond one year; these competitive rates at the margin may be further influenced now by the freedom given to big-size nonbanking financial companies (NBFCs) to fix their own deposit rates.

The reported reductions in PLRs by banks and FIs have been only symbolic and unequal to the needs of the real sector situation. While some major nationalised banks (SBI, PNB and Union Bank) have rolled back their carlier hike in PLR by one-half of one percentage point to 16 per cent, important foreign banks reduced it from 19.5 per cent to a range of 18 to 18.75 per cent. The IDBI and the ICICI also reduced their PLRs to 16 per cent - by one percentage point which was added barely a fortnight earlier in June. But, first, many other banks have refused to reduce their PLR. Secondly, almost all banks and FIs have their modal rates far higher at 20 to 22 per cent - than their PLRs. In fact, FIs have again breached their agreement to restrict the upper end of the lending rate structure within four percentage points of their PLR and, instead, begun to lend generally at around 22 per cent. Above all, these rates have remained sticky at a time when the general inflation rate has come down and more importantly, business expectations in regard to output and investment activities have suffered a setback.

HIGH COST OF PROMOTING GOVERNMENT SECURITIES MARKET

Besides the persistence of high cost of commercial credit, the RBI's well-intentioned policy of promoting the business of primary dealers (PDs) so that the secondary market for government paper could be deepened and strengthened has been exploited by the banks and PDs in concert in such a way that the cost of borrowing for the government has turned out to be much more than even last year. Effective July 10, 1996, RBI started paying commissions to PDs on the purchase of TBs and securities in the auction market to the extent of 25 paise for 91-day TBs, 50 paise for 364-day TBs and Re 1 for government securities on every purchase worth Rs 100 so as to provide incentives to PDs to develop the secondary market. As a supporting measure. RBI also reduced the refinance rate by one percentage point each to 11.5 per cent for TBs and 13 per cent for government securities. However, all four PDs, who have been sponsored by (or associated with) bigger banks, have prompted their parent banks to route their bids through PDs themselves with the obvious bait of sharing the commission offered by the RBI directly or indirectly through an adjustment in the resale price of government paper. Consequently, instead of competing with each other which would have imparted greater depth to the market and certainly lowered coupon rates in an environment of a surfeit of liquidity, the banks and PDs started colluding with each other to force the RBI to fix a higher yield rate as evidenced in the two government securities auctions in July where the cut-off coupon rates were higher than last year's for corresponding maturities and also higher than even the market expectations; likewise, the expected downward trend in the 364-day TB rate pari passu with the precipitate fall in the yield rate on 91-day TB

TABLE 1: CALL MONEY RATES

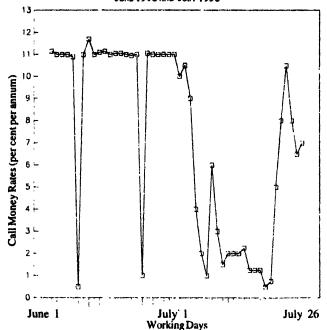
(Per cent per annum)

_		Ju	ly 1996			June 1996							
Items	26	19(RF)	12	5(RF)	28	21(RF)	14	7(RF)					
Weekly range	3.00-10.50	0.10-1.25	0.75-5.00	0.05-10.85	10.50-11.00	0.25-11.05	10.70-11.50	0.10-11.00					
	(8.50-11.00)	(0.25-12.00)	(10.50-14.00)	(1.00-17.00)	(14.00-19.00)	(0.25-21.50)	(13.50-17.25)	(2.00-12.00)					
Week-end (Friday)	5.75-7.00	0.25-0.10	1.00-1.25	0.05-0.10	10.50-10.95	0.25-0.50	10.85-11.05	0.10-0.50					
Weekly weighted average *	5.34	1.27	1.66	5.14	10.94	10.89	10.10	10.75					
DFHI lending rates (range)	1.15-9.10	0.10-2.25	0.75-5.60	0.50-10.95	10.90-11.10	11.05-0.10	10.90-11 15	0.40-11.15					

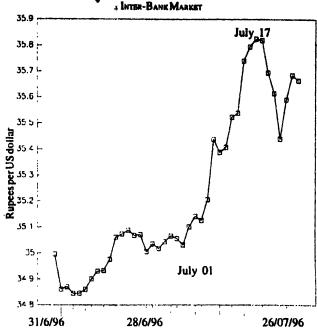
Weighted average of borrowing rates reported to the RBI by selected banks and DFHI, weights being proportional to amounts borrowed.

Figures in the parentheses represent weekly range during similar period last year.





GRAPH B: SPOT QUOTATIONS FOR THE US DOLLAR IN THE DOMESTIC



did not occur (see a subsequent section).

The above concerted action on the part of the PDs and banks was particularly conspicuous in the secondary market transactions in the freshly-issued dated securities and 364-day TBs during the second half of the month. Thus, immediately after the auction of the 13.62 per cent two-year paper on July 30, the succeeding two days saw huge outright SGL transactions in this paper: Rs 817 crore on July 31 and Rs 424 crore on August 1; there was a transaction of Rs 90 crore on the third day, thus absorbing Rs 1,301 crore out of the Rs 2,000 crore issued in these immediate sales. However, significantly, of these, only Rs 366 crore were at prices below par or at yield rates above the cut-off yield of 13.62 per cent. Thus, over 70 per cent of the secondary sales on immediate consecutive days were at above par value prices ranging from Rs 100.02 to Rs 100.55 or yield rates ranging from 13.6082 to 13.2978 per cent. It is a moot point as to which were those banks or other parties that failed to procure the paper at the primary auction on the previous day and bought it at a higher price the next day and what has prompted them to do so? It is quite likely that the PDs are arbitrarily sharing a part of the RBI commission with banks rather than selling the scrips at a discount. If so, it may appear an unhealthy practice. The same phenomenon was noticed in the July 17 issue of 364-day TBs issued at a cut-off yield price of Rs 88.80 and a yield of 12.61 per cent. Of the secondary transaction worth Rs 142 crore in this paper the next day, as much as Rs 132 crore were at higher prices and lower yields than the issue price or YTM. In this case, the secondary market transactions, however, constituted a small proportion out of the total issue of Rs 1,063.50 crore.

Bethat as it may, the payment of commission has had the unintended effect of further pushing up the coupon rate on government paper. The commission was a special and unusual device to facilitate the PDs to takeoff the ground as it were, but it would have served its objective if the PDs used the system to offer competitive rates and thus conferred some benefits of competition to the government in the form of getting funds at a better price. As opposed to this, PDs and parent banks acted in unision and many banks were reported to have either bid only through PDs or bid in the auction but deliberately quoted a higher rate so that their bids would get rejected and they could buy the paper at a discount from the secondary market through a PD. This way, the coupon rate got pushed up as the central bank had limited manoeuvrability in containing the coupon rate in a situation of sizeable deficit spending by the government.

There are many other dimensions to the unintended effects arising from the RBI commission. First, in absolute amounts, the discounts would mean a large sum, and are proportionately even higher in such papers as zero-coupon bonds (ZCBs). As part of its own promotional role, the RBI has chosen to bear the cost itself and not pass it on to the government as the cost of debt management. Even so, with coupon rates

being pushed up, the commission has imposed an additional burden on the exchequer even if partly indirectly. For a twoyear 13.62 per cent security, the extra burden may have been as much as 1.50 percentage points. Secondly, the resultant distortion in the yield curve is sure to be reflected in a further firming up of the rates for future issues of government paper, which is contrary to the objective of creating the institution of PDs. While the premise is valid that the PDs are in a nascent stage and hence the sumptuous support from the authorities, the unhealthy tendencies that the arrangement

TABLE 3: NOMINAL AND REAL YIELD ON SOME GOVERNMENT PAPERS ISSUED DURING JUNE-JULY 1996 (Yield per cent per annum)

To	/PI-Based Expected lation Rate*	Cut-Off Yield (Nominal)	Real Yield
l year (364-day TB)	6.22	12.61	6.39
2 years	8.13	13.62	5.49
3 years	8.73	13.70	4.97
4 years	8.58	13.85	5.27

Based on the moving averages of the latest monthly WPI for the respective number of months.

TABLE 2: DAILY QUOTATIONS OF HIGHS AND LOWS OF CALL RATES IN PER CENT PER ANNUM: SIMPLE STATISTICAL CHARACTERISTICS

	All Four Weeks		July 19 Week E			All Fou Weeks	r	June 1996 Week Ended				
	of the Month	26	19 (RF)	12	05 (RF)	of the Month	28	21 (RF)	14	07 (RF)		
Mean Standard	3.31	5.79	0.84	1.75	4.86	9.99	10.94	9.18	10.97	8.88		
deviation Coefficient of variation	3.20	2.51	0.57	1.48	3.90	2.89	0.10	3.87	0.26	3.83		
(percentage:	s) 96.66	43.34	67.25	84.34	80,21	28.92	0.91	42.16	2.37	43.43		

GRAPH C' ANNUALISED DAILY CASH/SPOT, 1-MONTH, 3-MONTH, AND
6-MONTH FORWARD PREMIA IN PERCENTAGE FOR THE US DOLLAR
BY THE DOMESTIC INTER-BANK MARKET

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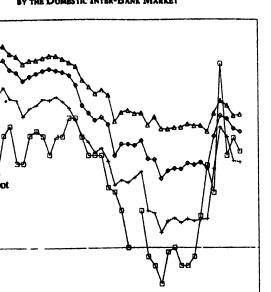
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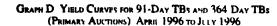
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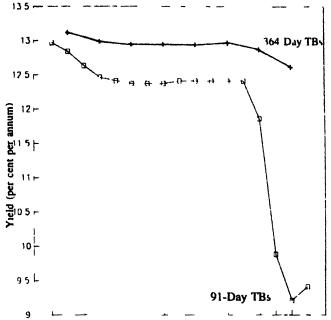
31/5/96

6-month



28/6/96





may create deserve to be nipped in the bud To begin with, the rates of commission offered are unduly high for sovereign paper handled in bulk Besides, it is possible to debar PDs from claiming commission if the relevant government paper successfully subscribed for 15 transferred to parent or associate banks or for that matter to any bulk buyer like bank or insurance company within the value-dated period for subscription. Also the modus enerands of financing such surrogate ourchases are required to be examined arefully Either the banks provide clean oans, or the PDs indulge in short-selling which is prohibited under the Securities Contract Act Finally such subventions are closely linked to the broader goal of achieving an enlargement of the market for gilt-edged securities outside the group of traditional and captive investors. The commission linked only to the successful subscription amount has the implication of artificially boosting the effective yield rate. Apart from the various repercussions highlighted above, it would also have a deleterious effect on the conduct of the RBI's open market operations.

26/7/96

Unlike in advanced countries where the government paper is sold primarily through PDs who in turn nurture the secondary market, banks and insurance companies will remain bulk subscribers at primary auctions in India It will take a while before PDs emerge as Table 4 Auctions of 91 Day Treasury Bills

dominant players in the market in terms of resources and expertise. The benefit of competition which the government ought to get in the form of competitive prices in an environment of large players in the market should not be negated by a policy that confers the largesse to the PDs at the expense of a realistic cost to the government. In such a situation, it is better that authorities lower their sight for PDs' growth and confer such benefit on them that would induce them to expand their clientele base for government paper amongst small institutional investors such as trusts, provident funds and corporates In this regard, the direct targeting of individuals, which is also being canvassed

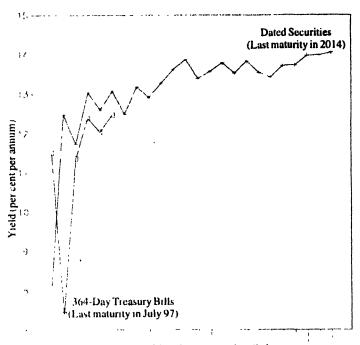
(Amount in rupees crore)

Date of	Notified		Tendered		s Accepted	Subscription	Cut off	Cut off	An	nount Outsta	ndıng@
Auction	Amount	No	Face Value (Amount)	No		e Devolvedon RBI (Amount)	Price (Rupees)	Yield Rate (Per Cent)	Total	With RBI	Outside RBI
1995	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~		······································								-
July 7	500 00	15	36 40	4	7 25	172 75	96 92	1271	495(100)	141475	3535.25
•		(4)	(320 00)	(4)	(320 00)						
July 14	500 00	12	38 00	8	9 00	441 00	96 86	12 97	5400 00	1855 75	3544 25
-		(1)	(50 00)	(1)	(202 70)						
July 2 I	500 00	40	474 95	5	202 70	147 30	96 86	12 97	5850 00	2003 05	3846 95
•		(3)	(150 00)	(3)	(150 00)						
July 28	500 00	69	871 38	43	429.58	000	96 91	12 75	6250 00	2003 05	4246 95
•		(4)	(2800)	(4)	(70 42)						
1996		` '	, ,	•							
July 5	500 00	191	2734 37	26	390 70	000	97 12	1186	6000 00	56 86	5943 14
		(2)	(600 00)	(2)	(109 30)						
July 12	500 00	193	2599 80	27	480 63	000	97.59	9 88	6000 00	56 86	5943 14
-		(1)	(400 00)	(1)	(19 37)						
July 19	500 00	156	1707 73	31	343 90	0 00	97 75	921	6000 00	56 86	5943 14
-		(2)	(600 00)	(2)	(156 10)						
July 26	500 00	97	1135 80	40	415 72	0 00	97 69	9 46	6000 00	56 86	5943 14
-		(3)	(575 00)	(3)	(84 28)						
Aug 2	500 00	82	1899 10	6	416 62	0 00	97 7 9	9 04	-	-	
-		(2)	(630 00)	(2)	(83 38)						

Figures in parantheses represent numbers and amounts of non-competitive bids which are not included in the total

@ Outstanding amounts are estimated for last few weeks of June 1996

GRAPH E. YIELD CURVES FOR 364-DAY TREASURY BILLS AND DATED SECURITIES - WEIGHTED AVERAGE FOR JULY 1996



Period to Maturity in Ascending Order

by the RBI, will have a heavy opportunity cost for the government which deserves to be avoided; the interests of the individuals are better served by financial intermediaries which mobilise savings from them.

Another problem in banks bidding through PDs is that the latter are merely acting as a post office in passing on the banks' bids to the RBI. PDs are expected to have better skills in bidding fine rates in this market, which should determine their success ratio in the auctions – an important criterion the RBI will look at in its year-end review of each PD. When banks bid through PDs and the bids get rejected because the bank bids are off the mark, the success ratio of PDs will be artificially boosted.

OPEN MARKET OPERATIONS

The RBI was seen to be quite active on the open market operations (OMOs) front during July but in a more business-like manner. It issued as many as ten price lists during July. It bought securities worth Rs 183 crore and sold securities worth Rs 292 crore. The net OMO sales thus were to the tune of Rs 109 crore. The non-aggressive stance of the RBI on buy and sell fronts is explained by the fact that the liquidity situation is yet well within control.

OTHER DEVLLOPMENTS

In an interesting development, the RBI started publishing the weighted average price offered by bidders on 91-day TBs effective from the auction held on August 2; this price would represent the average for all competitive bidders when there are no devolvements; if there are devolvements it would represent the average price for all categories: competitive bidders, non-competitive bidders (who get at

the weighted average of competitive bidders) and those devolved (at the cut-off price). In the August 2 auction, while the cut-off price was Rs 97.99 (yield of 9.04 per cent), the weighted average price of competitive bids was Rs 97.83 (yield of 8.89 per cent), suggesting a fairly narrow dispersion in the quotations (considering only 6 bids for Rs 416.62 crore were accepted out of 82 bids for Rs 1,899.10 crore). The information will bring in more transparency to the secondary market.

II Money and Foreign Exchange Markets

Call Money Market

The most perceptible impact of the easing of short-term liquidity was seen in the call money rates behaviour in July (Tables 1 and 2). From a band of 10-13 per cent witnessed since the beginning of the current financial year, call rates crashed to historically low levels of 3-4 per cent. The weekly weighted average of call rates as compiled by the RBI dipped from a range of 10.10-10.94 per cent

during June to 5.14 per cent, 1.66 per cent, 1.27 per cent and 5.34 per cent in the fo weeks of July, respectively (Table 1). The have been the lowest weighted rates achieve ever since April 1993. In the first week July, the rates even crashed to 0.5-1 per ce (Graph A), as the call money market wa dominated by a multitude of lenders and fe borrowers. Only some foreign banks we reported to have borrowed at low call rate not only for covering their FCNR(B) deposi but also for arbitraging between call mone market and cash/tom forward forex marke The rate did not pick up significantly eve after the initial flurry was discounted ar outflows of over Rs 2,700 crore toward subscription to the government paper too place. This was on account of inflows far i excess of outflows. Contributing to the depos growth over Rs 3,000 crore during th fortnight ended July 5 or remaining outsic it as liquidity inflows in July, were intere payments on food credit (Rs 500 crore redemption of TBs (Rs 950 crore) and F investments (Rs 1,074 crore). The market di show an aberration in the third week of th month in intra-day dealings, when the ca rates jumped from a low of 0.5 per cent | 10.5 per cent on July 23 as many banks ha locked in their funds in 4.6 per cent on-te TBs and traditional lenders, who had investe more than Rs 2,000 crore in 30-day deposit were absent from the market. Further, outflo of Rs 1,250 crore on account of secor instalment on part-paid government stoc and withdrawal of UTI from call mone market to pay dividend worth of Rs 2,00 crore on account of US-64, firmed up ca rates, which, however, closed at 5.5 per cer on the same day. Banks resorted to repo around this time after which the rates cam back to the 3-5 per cent range.

Foreign Exchange Market

During July, the rupee rate tended t depreciate (Graph B). Opening at Rs 35.0 on July 1, the rupee lost ground on the morning of July 3 to touch Rs 35.30 due to purchases by SBI and RBI. However, a exporters started selling US dollars, the rupe recovered some strength to reach Rs 35.1 in the next few days. The appreciation of the exchange rate could not be sustained as St started buying dollars on behalf of companies. However, as the rupee tended weaken on demand from the importing community, mainly diamond importers and the public sector on July 16, the RBI intervence

TABLE 5: Auctions of 364-Day Treasury Bills

(Amount in rupees, cror

Date of	Bids	Tendered	Bids	Accepted	Cut-off	Cut-off
Auction	No	Face Value (Amount)	No	Face Value (Amount)	Price (Rupees)	Yield Ra (Per Cen
1995						
July 5	8	24.68	4	4.68	88.72	12.71
July 18	13	14.50	10	12.50	88.37	13.16
1996						
July 3	67	896.15	37	637 15	88.60	12.87
July 17	143	1529.03	101	1063.50	88.80	12.61
July 31	28	375.16	6	91.89	88.8	12.61

in the spot market and tried to prevent the rupee from crossing the limit of Rs 36 a dollar. Nevertheless, the rupee stood depreciated by about 5 per cent since early July to touch Rs 35.79 on July 26.

During July, the RBI generally took a strong stance of buying spot dollars in view of the inadequacy of present level of forex against mounting import payments and heavy debt amortisation. At the same time, it also attempted to bring the forward premia down (Graph C). Its intervention thus was two-pronged—spot and forward market. On easy days in fact, it was even seen buying spot and selling forward so as to dampen the forwards without dipping into reserves. This resulted in some amount of roll over of the swap liabilities it had undertaken in February this year to curb the speculative activity then.

At the policy level, in order to reduce speculation and volatility in forward premia, RBI banned partial cancellation of forward contracts. However, it is reported that the corporates have attempted to bypass the ban by adopting certain devices. The forward premia generally remained firm till the end of July. A still more important policy change relates to the facility provided to corporates on their ECBs to hedge against exchange risk by entering into swaps, caps, futures and options in any foreign currency.

III Primary Market

Government Securities

Given the high market borrowing targets and the heavy dependence on ad hocs throughout the current fiscal, the government, on an average, came to the market once every fortnight. In addition to collecting the second installment of the partly-paid security

issued in June, the government came with fresh paper twice during July. It raised Rs 3,000 crore through a four-year ZCB on July 12 and a further Rs 2,000 crore through a two-year paper on July 30. Interestingly, despite oversubscription on both these occasions, the RBI was unable to effect a downward push to the yield rate. In fact, on both occasions, it cut off the coupon at higher prices than those offered last year and those expected by the market. While the market expected a cut-off of 13.60-13.62 per cent coupon on zero coupon bond, the RBI fixed the coupon at 13 72 per cent; similarly the yield on two-year paper was fixed at 13.62 per cent against the expected yield of 13.50-13.55 per cent and that offered at 13.50 per cent last year for a similar maturity. Besides being indicative of the liquidity perception of the market, the higher cut-off reflected the reluctance of the market to invest in dated government paper. In order that they do not have to buy the security, many players in the market bid up the price expecting the RBI to cut off the price at a lower level. The RBI, whose choice in cutting off at a lower rate is limited by the high net RBI credit to the government and is also by the bids received, has to per force decide on a higher cut-off. As a result, there is some aberration in the primary yield curve too. While the government paid 13.85 per cent for 10-year paper only in June, it had to pay 13.72 per cent on a four year paper and 13.62 per cent on two-year paper. The real yield on government securities have turned to be unusually high (Table 3).

91-day Treasury Bills

The auctions of 91-day TBs received overwhelming response from the investors as the government comfortably raised Rs

2,000 crore in the four auctions of July. The availability of funds in the system was evident in these auctions throughout the month with the rising number and amount of bids received and a sharply falling yield on this paper (Table 4). Rather than hike the notified amount of Rs 500 crore to mobilise larger resources at rates lower than that being offered on longdated securities, the RBI decided to lower the yield. The yield on 91-day TBs fell sharply from 12.41 per cent as at the end of June to 9.06 per cent in the auction held on August 2. On July 12, the yield on primary 91-day TBs touched single-digit level after 24 months (Graph D). The number of competitive bids received each time was in the vicinity of Rs 2.000-2.500 crore showing a phenomenal appetite for this paper in the market. Noncompetitive bids though small in number were significant in terms of amounts. This was the natural fall-out of the money raised by the states from the market in May. Uncertainty about the liquidity situation in the near future, prompted banks to enlarge their short-term portfolio. Moreover, with the PDs probably agreeing to share their commission. the banks evinced considerable interest intreasury bills auctions.

364-day Treasury Bills

The 364-day TBs also received generous response. In three auctions held during July the total bids received were to the tune of Rs 2,800 crore. The government collected Rs 1,793 crore. From 12.94 per cent yield paid in the last auction of June, the yield on this paper came down to 12.6 per cent in July Interestingly, however, the response to this paper saw drastic fall in the last auction held in July. From 143 bids received for Rs 1,529 crore in the auction held on July 17, the response fell to only 28 bids for Rs 375 crore

TABLE 6: OPERATIONS OF NATIONAL STOCK EXCHANGE (NSE) DURING JULY 1996

$\overline{\mathbf{D}}$	escriptors						Weeke	nding J	uly : Am	ount in C	rore of I	Rupces				
	•		26			19			12			5		To	tal durir	e July
		Oı	rder	Actual Traded	Or	der	Actual Traded	Or	der	Actual Traded	Or	der	Actual Traded	Or	der	Actual Traded
		Buy	Sell	Amount	Buy	Sell	Amount	Buy	Sell	Amount	Buy	Sell	Amount	Buy	Sell	Amount
ī	Treasury Bills	101.45	101.45	101.45	283.23	283.23	283.23	283.04	283.04	283.04	93.50	93 50	93.50	761.22	761 22	761.22
	i) 91-day Bills	96.45	96.45	96.45	229.23	229.23	229 23	268.04	268 04	268 04	68.50	68.50	68.50	662.22	662.22	662.22
	ii) 364-day Bills	5.00	5.00	5.00	54.00	54.00	54.00	15.00	15.00	15.00	25.00	25.00	25.00	99.00	99.00	99.00
2	Dated Securities	192.90	192.90	192.90	686.11	686.11	686.11	794.99	794.99	794 99	539.17	583 17	528.17	2213.17	2257 17	2202.17
	A GOI Securities	192.88	192.88	192.88	685.61	685.61	685.61	786.97	786 97	786.97	539.17	583.17	528.17	2204.63	2248.63	2193 63
	i) Converted	39.00	39.00	39.00	237.00	237.00	237.00	289.00	289.00	289.00	85.00	124.00	79.00	650.00	689.00	644.00
	ii) Regular	131.73	131.73	131.73	351.11	351.11	351.11	397.97	397.97	397.97	378.17	378.17	378.17	1258.98	1258 98	1258.98
	iii) Zero Coupon	22.15	22.15	22.15	97.40	97.40	97.40	85.00	85.00	85.00	66.00	71.00	61.00	270.55	275.55	265.55
	iv) Floating Rare															
	Bonds	-	-	_	-		_	5.00	5.00	5 00	10 00	10.00	10.00	15.00	15.00	15.00
	v) GCB	-	-	-	0.10	0 10	0.10	10.00	10.00	10.00	-	_	-	10.10	10.10	10.10
	B State govts stocks	0.02	0.02	0.02	0.50	0.50	0.50	8.02	8.02	8.02		•-	-	8 54	8.54	8.54
3	PSU Bonds	2.00	2.00	2.00	18.92	18.92	18.92	31.00	31.00	28.00	39 44	30,44	39.44	91.36	91.36	88.36
	i) Tax free	2.00	2.00	2.00	1.42	1.42	1.42	25.00	25.00	25.00	13.07	13.07	13.07	41.49	41 49	41.49
	ii) Taxable			-	17.50	17.50	17.50	600	6.00	3.00	26 37	26.37	26.37	49.87	49.87	46.87
4	Commercial papers	-	_		5.00	5.00	5.00	_	-		36.10	36.10	36.10	41.10	41.10	41 10
5	Certificates of deposits	20.00	20.00	20.00	5 50	5.50	5.50	24.20	24.20	24 20	_		-	49 70	49.70	49.70
6	Debentures	-	_	_	_	-	**	-	-	-	2.15	2.15	2.15	2 15	2.15	
7	Floating Rate Bonds	0.25	0.25	0.25	-	_	_	-	~	_	0.30	0.30	0.30	0.55	0.55	0.55
8	ID+IB	10.00	10.00	10.00	_	-		· -	-		-	-		10.00	10.00	10.00
G	rand total (volume)	326.60	326.60	326.60	998.76	998.76	998.76	1133.23	1133.23	1130.23	710.66	754.66	699.66	3169.25	3213.25	3155.25

⁻ No trading. ID Non-SLR Institutional Bonds IB SLR Institutional Bonds GCB Government Compensation Bonds.

													(7/)	wright in	rupees,	L <i>TUTE)</i>
.Descn	ptions		26	Weeke	nding Ju	ly 1996 19	: Yield	to Matur	ity on Ac	ctual Tra	ding	5			for the	
		Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY	Amt	YTM	CY
Tre	asury Bills															
	1-Day Bills										04457	214		06457	2.14	
) July 6, 1996	•	-		-	-		22.50	4.05		264.57	3.16 10.61		264.57	3.16	
11. 111			-		5.00	1.00		128.36	4.81		28.00 29.68	10.50		50.50 163.04	7.69 5.73	
iv		37 29	4.31		46.66	3.52		17.78	7.09		23.00	10 15		124.73	5.49	
v) Aug 3, 1996	30.00	4.34		67 74	4.47		35.87	5.90		32.20	11.56		165.81	6.13	
٧i		45.00	5.82		83.59	4 84		55.00	6.52		2 23	10.22		185.82	5.64	
VII		20.00 10.00	6 18 5 14		12.24	5.08 5.11		10.00	6.48		3 49	10.47		42.24	5.93	•
VIII	4 5 4 1000	10.00	5.29		12.00 44.02	7.40		15.00 20.00	6.83 8.54		20.00	9.97		40.49 94.02	6.22 7.96	
X		TO AN	-		-	7.40		32.75	10.89		35.55	11.59		68.30	11.26	
XI		5 00	5.88		5.00	7.48		10.00	10.97		10.00	11.87		30.00	9 84	
XII					6.00	7 85		1.00	11.22		33.00	12.29		40.00	11.59	
Xili		15.00	9 29		75.68	7.73		146.92	976		103.98	11.51		341.58	9.82	
) Oct 5, 1996	165.91	923		39.76	7.57		173 20	9.41		•	-		378.87	9.14	
XV) Oct 5, 1996) Oct 5, 1996	172 50 56 60	8.89 9.31		178.50	8.55		-	-		-	-		351.00 56.60	8.72 9.31	
	total	567 30	801		576 19	6.63		668.38	7.91		585.69	7 58	2	397.56	7.55	
	4-Day Bills												_			
1) July 19, 1996										10 00	11.52		10.00	11.52	
11	· · · · · · · · · · · · · · · · · · ·	43 00	5,46		49.00	4.48		3.50	7.27		59.50	11.23		155.00	7.40	
111			-		-	-		4.47	11.37		1 16	10.47		4.47	11.37	
IV V		-	•		36.00	12.16		5.25 39.00	12.37 11.92		1.15	12 47		6.40 75.00	12.38 12.04	
٧i		117 60	12.52		132 00	12.43		37.00	-		-			249.60	12.47	
	h-total *	160 60	10 63		217.00	10.59		52.22	1161		70.65	11.29		500.47	10.81	
2 GC	Of Dated Securities															
	Converted (Per Cent				155 50	10 10	12.00		10.60	10.00	101 75	10.00	10.00	rma (0	10.00	i
	·	143.09	12 55	13 32	155.70	12.49	13.30	177.16	12.60	13.32 12.33	101.75	12.83		577.69	12.60	13.32 12.33
i1 1i1		0.02	12.97	12.27	5.00	13 10	12.31	89.41	13.15	12.33	19.00 15.25	13.30 13.53	12.37 12.57	113.43	13 18 13.53	12.53
) 12 50,2004	35 80	13.70	13.25	37.01	13.68	13.23	134 70	13.72	13.26	26.24	13.77		233.75	1371	13.26
	b-total *	178.91	12.78	13.30	19771	12.73	13.26	401.27	13.10	13.08	162.24	13.10		940.12	12.96	13 17
B 1	Regular (Per Cent: Y	ear)														
) 6.25, 1996	-	-	-	-	-	-	0.02	17 26	6.51	-	-	-	0.02	17.26	6.51
11		5 (0)	12 04	13 20	40.00	12.42	12 15	10.00	8 15	10.68	-	-	-	10.00 45.00	8.15 12.48	10 68 12.27
ııı iv	10 40 4000	5.00 135.55	12.84 11.62	13.25	40.00 279.00	12.43 11.49	13.23	426.68	11.73	13.26	260.00	12.08	1331	101.23	11.74	13.26
v		1 1,1,,7 1	11.02	1.3.6.7	4.00	13.08	1096	4.37	13.00	10.95	-	12.70		8.37	13.04	10 95
VI			-	-	-	-	-	5.00	13.07	12.50	-	-	-	5.00	13.07	12.50
VII	13.65, 1998	5.00	12.35	13.34	6.00	12 37	13.35	12.00	12.39	13.35	11.00	1273	13.43	34.00	12.49	13.38
	ı) 13 65,1999	70.00	12.42	12.62		12.20	12.50	15 00	1291	13.44	11400	12.00	1266	15 00	1291	13.44 13.67
. IX		79 00	13 43	13.62	111.65	13.30	13 58	197 75 20 00	13 35 13,58	13 59 14 03	114.00 10.00	13.02 13.72	13.65 14.08	502 40 30.00	13.28 13.63	14.04
x xi		-	-		_	-	-	2000	1.3.20	1405	14.20	13.88	11 85	14.20	13 88	11.85
xii			-	-			-		-	-	25.00	13 39	12.30	25 00	13.39	12.30
	1) 13 85,2000	-	-	-	5.00	13.55	1372	5.00	13.59	13.74	-			10 00	13 57	13.73
XIV			•	-	4.50	13 80	8 01		-	-				4.50	13.80	801
xv		•		•	inn	1261	1246	12(0)	13.56	1147	13.72	13.84	12.88	13 72 22 00	13.84 13.55	12.88
	i) 13 75,2001 ii) 13 85,2001	-	•	-		13.53 13.43		12 (A)	15,00	1367	-	_		80 00		13 66
	m) 12 75,2001						13.34	-				-	_	0 24		13.34
) 14 00, 2005	6 28	1370	13.80	-	-	-	-	-	-	1.92	13.85	13.90	8.20	13.73	13.82
	i) 14 00, 2005 (INST	- (1	-	•			-	٠-	-	-	0.25	13.63	13.75	0.25		13.75
	1) 14.00, 2006	-	-	-		13.59		•	-	-	10.00	1401	12.26	0 25	13.59	13.71 13.23
	ii) 11.50,2006	•	•	-		13 90		-	-	-	10.00	14.01 13.90	13 26 13 53	15.00 47.00	13.99	
	iii) 11.50, 2009 iv) 10 50, 2014	•	-	-	39 00	14 01	13.50	15.00	14.05	13.67	8.00	1.790	13.33	15 00	14.05	
	b-total *	230 83	12.34	13.39	584.64	12.45	13.26		12.32	13.34	468.09	12.61	13.31	2006.36	12.43	
	Zero coupon (Per Ce															
	i) 0.00, 1999	50 00	13.70	9 19		13.66		231.00	13.56	9.57	67.00	13.71	9.63	422.30	13.61	9.53
) 0.00, 200 0	65 00	13.75		269.00	13.62	12.00	6 65	13 64	11.34	-	-	-	340.65		12.00 13.71
	i) 0.00, 2000(fII)	5.00	1381	13.71	242 20	1261	11 40	237.65	13.56	9.62	67.00	13.71	0.63	5.00 767.95	13.81 13.63	
	b-total .+B+C)*	120.00 529 74	13.73 12.80					1361 72	12.77	12.61	697.34	12.83		3714.44	12.81	
	RBI's Open Market		12.00	12 1117		12.00				12.01	07127		12			
_	Operations (Per Ce	nt) 500	13.79	23 29	25.55	13.72	13.81	131.00	13.69	12.65	391.89	13.55	13.41	553.44	13.60	13.34
	+B+C+D)	534.74	1281	12.90	11519	12.88	12.74	1492.72	12.85		1089.23	13.09	13.10	4267.88	12.91	12.8
	EPO										10400			222.00		
	i) 91-Day T Bill	-		-	79.00	-	•	10.00	-	-	184 00	-	-	273.00		
	i) 364-Day T Bill i) Govt Securities	120 75	•	-	114 00 168.00	-	•	17.00	-	•	90.00 300.00	-	-	204.00 605.75		
	ib-total	120.75	-		361.00	-	-	27 00	-	•	574.00	-	-	1082.75		
	ate Govt. Securities	1.52	1376	13.72		14.05	13.47		13.71	13.75	30.13	13.84	13.87			13.8
	ltotal	1384.90			2305.52			2244.34	•		2349.70			8284.46		

(-) means no trading YTM = Yield to maturity in percentage per annum CY = Current yield in per cent per annum * Yield rates of these sub-groups of t-bills and dated securities have been used for the graphs.

Notes: 1) Yields are weighted yields, weighted by the amounts of each transaction 2) Current yield has not been worked out for treasury bills.

at the auction held on July 31 The RBI was thus unable to reduce the yield on this paper (Table 5)

Other Instruments

The impact of easy availability of funds was felt on other instruments such as. CP and certificates of deposits (CDs) which saw interest rates falling The demand for CP increased as corporates desired to reduce their cost of funds With banks and FIs lending at high rates corporates found 16 18 per cent funds against this short-term paper advantageous L&T and ACC were reported to have raised funds through CP even at 15 5 percent Dabur and IL&FS also raised funds at 13 5 percent, while Plizer and Voltas were watching the market With rates on call money fallen to 3.5 per cent and TBs to a little over 9 per cent banks found CPs at 12 5-15 per cent an attractive proposition Rates on C Ds too declined from 16 5 per cent to as low as 125 per cent

IV Bond Market

The glut in the bond market continued during July but the attempts suffered a notional slowdown when the budget failed to announce a clarification with regard to ta ability of long term instruments, such as, deep discount bonds (DDBs) The controversy arose atter the CBDT ruling which treated the deterred or accrued income or redemption value of long-term instruments as interest income rather than capital gains which would attract tax at a lower rate of 20 per cent. The four DHs which had issued DDBs in the recent past had approached the Ministry of Finance (MoF) to announce relaxation in this area. The issue has bearing not only on the revenue receipt of the government but also for the development of long term instruments as tax liabilities of savings instruments have a significant say in guiding the investor

The structural misalignment and deficiencies of the debt market came into surface in the sense that despite the improvement in liquidity and decline in rates in some segments of the money market like call money, CPs CDs and PLRs the coupon rates on new issues of bonds continue to be pegged at higher levels. While PSUs are offering rates in the range of 17 to 19 per cent for maturity of 5 years and above, the private sector led by NBFCs offer still higher rates, between 20 to 24 per cent for shorter maturities up to 18 months. Moreover, currently, the debt market is undergoing structural transformation with many innovative characteristics being ascribed to such debt instruments. For example, the current IFCI bond issue offers a variety of options to meet the asset preferences of different strata of investors, with added features of up-front and redemption discount, put and call options, llisting at stock exchanges and collateral for housing loans. Further innovations were added to the debt market when the MoF permitted ICICI and SCICI to go in for (i) self registration which will do away with the delay associated with time and again vetting by SEBI and(ii) on-tap bonds which will help companies to mobilise resources as per availability of liquidity in the system at cheaper rates

V Secondary Market

The easy in liquidity led to an all-round fall in the yield levels in the secondary market in the first week of July. The fall was essentially in the yields on government paper at the shortend with the long end yields remaining virtually unaffected. This was indicative of the market scepticism towards sustainability of the easy liquidity position. Towards the end of July, secondary market trading picked up as banks began to route their bids through PDs. PDs had to offload their purchases for banks through the SGL transactions on the next day.

The short term government securities attracted large demand. As the distinction between the converted and regular securities narrows down due to many of the fresh regular securities engaging reportacility, the trading in regular securities shot up to around Rs 2,000 crore in July as igainst about Rs 392 crore in June. The converted securities also witnessed an increase in trading to Rs 934 crore (Appendix Table) against Rs 246 crore in June.

The secondary market experienced greater activity as the PDs started quoting two way prices of popular gilts, 13.5 per cent 1997–13.5 per cent 1998, and 13.70 per cent 1999.

The gilt edged market, however still lacks technical depth since the price quotations by PDs were not only different from one another but also the difference between the bid and offer prices was quite large. As a result, the market fails to arrive at any fair price and thereby provides ample opportunity for arbitraging Forexample, on July 3 the bid and offer price for 13.5 per cent 1997 stock was quoted by DFHI as Rs 100 70 and Rs 100 85 the difference being very large at 15 basis points. The price quotation by STC1 was Rs 100 83 and Rs 100 88 respectively. Between the two, the bid price by STCI and offer price by DFHI were better than their other respective prices But the actual trading as reported in SGL took place between Rs 100 17 and Rs 100 60 which capost provided large opportunities of exploiting the prices quoted by DHHI and STCI the arbitrage profit could have been to the extent of almost 60 basis points. Similarly, on July 17, for the same stock, the bid and offer price quotations by DFHI was at Rs 101 80 and Rs 102 00, by SBI Gilts at Rs 102 08 and Rs 102 15 and by GSTCL at Rs 102 05 and Rs 102 12 respectively. The actual traded prices at SGL ranged between Rs 102 05 and Rs 102 13 The arbitrage opportunity was to the extent of 15 basis points. On July 23, the arbitrage benefits between DFH1 STCI and SGL for the same stock was as large as 120 basis points. The similar scenario was repeated in other securities

CPs and CDs

Secondary market activity in CDs picked up considerably during July The total volume of trading was to the tune of Rs 57.7 crore during

the month (Table 6) This was on account of a large stock of CDs floating in the market and a significant amount of CDs maturing during the month. While some trades took place in CDs of banks over 90 per cent of the trades were in CDs of ICICI and IFCI with seven to nine months maturity. The yields varied in the range of 12-14 per cent.

The CP rates in the secondary market moved downward in tandem with the primary market rates. From around 15 per cent in June the secondary market CP rates declined to 13.5 per cent in mid July. However, the trading in the secondary market was extremely limited only one trade on July 16 worth Rs.5 croice.

Bond

The secondary market in bonds also saw hectic activity with the yields rates receding on the higher side from 14.45 per cent to 14 22 per cent for tax free bonds and from 18 33 per cent to 17 31 per cent for taxable bonds. The trading volume turned out to be almost the same for tax free bonds (Rs 51 42 crore) and taxable bonds (Rs 50 40 crore) during July. Among the papers in which the market saw significant interest were the taxable bonds of NPC maturing in 1996 and tax free bonds of PI C maturing in 1998 Bonds of HUDCO and MINL were also traded. The yield on MTNL bond tell sharply as the seller had exercised put option. The yield on short term bonds showed a declining trend in keeping with the market

Yield Curve

Reflecting easy liquidity and increased market trading the yield curve shifted downward across the maturities. As the yields on the short and medium term papers plummeted with each auction the gap between the prumary and the secondary markets grew wider With large reduction in the 91 day FB yield in various auctions and increase in coupon rates of longer maturity by the RBI the yield curve turned steeper at shorter-end and flattened in medium to long term structure. The yield curve moved very sharply upwards from 91 day paper to 13 50 per cent 1997 and after crossing the hump of 2001 maturity went into-trough for maturity of 2004 to again rise for maturity of 2008 this showing a zig zag movement through the maturity perspective (Graph E) The difference between the yields on 91 day paper and 364 day paper also widened to 3 percentage points which will be unsustainable in the long run. A downward movement in the long term vicids is thus called for but the fact that the central bank did not change the yield in the last auction of 364 day TBs does not auguwell for achieving this correction to the yield curve

[Paramita Debnath and V P Prasanth undertook the background review and statistical compilations for this paper.]

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UTTAR PRADESH

Revival of Old Political Alignments

Amaresh Misra

Just when the dalits appeared close to reaching out to power, the BSP has, through its alliance with the Congress, revived the very alignment which the dalits had sought to shed. On the other hand, the SP and the Janata Dal, after the failure of the attempt to put together an anti-BJP front including the Congress, are reverting to the old oppositional grouping of the backward castes with the thakurs and jats

WITH the flagging off of Janata Dal's Kisan Mazdooi rallies from Muzatfarnagar by prime minister Deve Gowda and the burgeoning conflict over the Ramesh Chandra report indicting defence minister Mulayam Singh Yadav for the infamous Guest House incident' of 1995, followed by rallies and conventions by the Samajwadi Party and the BSP in I ucknow the countdown to the crucial assembly elections of UP has begun The elections have already acquired a truly national relevance as they will hold a mirror to the post general election scenario with its changed political equations and new social alignments. The BJP has linked its outcome with the very tate of the United Front government whereas the latter has done the same as regards the BJP For the Congress it marks a unique comeback opportunity while for the BSP it offers the decisive opportunity to capture power

The most significant happening in the run up to the elections has of course been the much publicised Congress-BSP alliance If anything reflects in concrete terms the changed nature of post-election equations, it is the coming together of these forces which marks a completion of a certain type of political cycle. The BSP had started 10 years ago as a peripheral party basing itself on a vote bank which despite its strength (dalits constitute about 24 per cent of the electorate in UP compared to 14 per cent in Bihar) had never made its presence felt as an independent political force Dalits were then regarded as the mainstay of the Congress - an essential part of the combination of brahmins, Muslims and other minor groups By the late 80s and the early 90s the BSP was able to wean away the dalits from the Congress and make a major dent in its traditional support base. However, it still did not emerge as the axis of the new social forces Their reins were held by the assertive political articulators of 'mandal', banking on the might of the dominant amongst the backwards In 1993, despite the fact that it was the dalit assertion which made possible

the unprecedented SP-BSP victory, the leadership, in the new equation of yadav Muslims and dalits was very much in the hands of the backwards

The post-1993 situation saw the splitting of the mandal phenomena, the split amongst the backwards and the emerging conflict between the dalits and the backwards. It was highlighted by a number of dramatic episodes leading to the rupture between the SP and the BSP. The 1996 elections then saw a different phenomenon the polling by the BSP of 20 per cent vote and the reduction or stagnation of SP's share. In 1996, the dalits emerged not only as an independent social force but became, crucially, the axis around which a tuture anti 'savarna' pole ought to revolve This was truly the post mandal phenomenon which entailed both the coloption of a large section of the backwards in the status quo and the increasing question mark over the validity of erstwhile 'caste' politics

The BSP Congress illiance thus sums up a phase of mandal politics. On the other hand, it marks the beginning of a new phase of Congress style ruling class politics this time with a more prominent, perhaps a leading, role for dalit power brokers. It is significant that caste-based centrist oppositional liberal politics ultimately led the way for a resurrection of ruling classcentrist politics it is also significant and ironical that at the moment when the dalits appear close to reaching power their principal political representative is reviving the same social equation from which they had departed at first. The BSP is banking on the game-plan of attracting the brahmins -it has advised the Congress to field as many brahmins as possible - and then to involve the Muslims in the alliance

This new alignment, whether or not it succeeds in its fullest measure, marks a unity of antagonistic caste forces which in turn tantamounts to creating a new class equation in UP Already, the BSP has started appearing in new colours – a remarkable feature of its recent posturings has been a virtual absence

of focus on the issues of the dalits and exclusive concentration on Mulayam Singh much more than the BJP as the target of article.

But reflections of the new reality are not limited to the Congress or the BSP. In fact Mulayam was himself keen on in alli ince with the Congress and even now that inted Front despite its decision, go it alone, after the prospects of a broad anti BJP alli ince involving the Congress BSP Janata Dal the Samajwadi Party CPI and CPI(M) failed predictably due to the inimosity between BSP and Mulayam does not appear serious enough for building a real. Third I ront without the Congress. Going it along is more of a compulsion and Mulayam has been prudent enough to direct his ire at the BSP away from the Congress Morcovci Muliyim is fast losing his lustre and his reputation has got further sulfied following the findings of the Ramesh Chandi report blanning him personally for the criminal act of intimidating Mayavati when the BSP decided to break rinks with the SP last year. He has yet to define any credible issue for the elections and it seems indeed that the former chief minister is fighting for his political survival on his home turf. The Janata Dal as well as the CPI(M) are keeping their options open and a further alignment of all anti-BJP' forces under the leadership of the Congress and the BSP before or even after the elections with or without Mulayam cannot be ruled out. The appointment of Romesh Bhandari, overriding the objections of the CPI was done explicitly to please the Congress and the governor is leaving no stone unturned to act like a partisan politician in the interests of party

As regards the social base yadays are with Mulayam and Muslims too have not moved away from him. But their unbivalence is a cause of great discomfiture and if they decide to throw in their lot with the BSP. Mulay im s position will become more precarious. He is opting at present along with the final i Dal for a revival of the old opposit analplank something which included thak its and jats as well apart from the backwards This has become imperative following the failure to strike an alliance with the Congress though its posturings are as yet cosmetic excluding a focus on anti-Congressism which was the mainstay of the old oppositional politics. Even then it is a recognition of the post mandal phase and ireturn to the centrist politics of yore just as there is in attempt to a return to the Congress politics of yore by the BSP

This has brought in its own secularisation—the United Front is raising farmers—issues whereas BSP is trying its best to sell itself to the upper castes. It is not to nothing that

the BJP is finding it hard to surge ahead with its campaign material - it has the option to either go back to the mandir plank or to evolve a modern, right wing political coali tion The anti BJP tendencies which are under way are liable to make a severe dent in its 'savarna -mandir equation based on the unity of the upper castes and the jats. If there is even a slight shift of the thakurs and the jats towards the revival of the pre-mandal, AJGAR politics Ajit Singh has recently issued statements favouring closeness with the United Front - it would mean a setback to its contention for power Conversely, what may favour it is the very process of post mandalism and post-mandirism - a right wing polarisation cutting across upper and backward caste lines, even while remaining tinged with an upper caste-mandir-communal flavour, against the type of social forces represented by the UF and the Congress BSP alliance The BJP will also be helped by the division of votes of its opponents although the picture on this score will be clear only by early September

In this fight between various shades of centrism and the right the left has two options - either to get subsumed once again by the centrist-liberal opposition led by Mulayam Singh or to become an independent third pole after centrism and right wingism. The

reality is that even if the BJP is unable to come to power, there is a threat of centrist authoritarianism emerging, carrying the stamp of the Congress with or without the active support of the party Centrist liberalism as represented by the Janata Dal and the Samaiwadi Party is weak and is itself liable to split, in the long run, along two distinct lines one moving towards the centristauthoritarian camp and even assuming its leadership and the other towards an alter native liberal left form of politics. The left, if it manages to keep the independent pole intact, is liable to attract this section in the next phase of re-alignment

The left's one great problem, however, is the BSP and the challenge to wean away the dalits from the centrist-authoritarian camp The aspirations aroused by the BSP cannot be fulfilled in the present framework of even liberal centrism leave alone its conservative variety. So the scope for raising and leading struggles on the economic issues of the dalits like land reforms, minimum wages and the issue of social respect will always remain But this is clearly not enough. The issue which has emerged in UP is a more fundamental one - that of 'power, plain and simple The BSP has got linked with dalit aspirations for power which in politics often overrides economic concerns. The fact is

that all left formations are no longer contenders for power - the CPI and the CPI(M) for they have wilfully handed over the reins of mainstream politics to the centristliberal camp and the CPI(ML) for it is a recent player in parliamentary politics. The CPI(ML) has been among the first to recognise the phenomenon of dalits sympathising with the left in economic struggles but voting for the BSP in elections

Somewhere along the way, the left has either become tailist or grass rootist, caught in the vicious web of isolated struggles. Both these tendencies, represented by its liberal and radical streams, have led to a whittling down of the 'political perspective', of linking parliamentary and grass roots struggles with the question of independent 'power' It is this factor which has emerged as a gnawing chasm between the theory and practice of the left, between intentions and poor electoral or overall political performance. Here, the, CPI(M) and the CPI offer little hope, but the CPI(ML) has come out with theoretical posers aimed at linking the question of power, intervention from above and other parlia mentary initiatives with struggles on land and other issues. The flow of cadres from the CPI and the CPI(M) is continuing and the CPI(ML) has decided to contest about 50 seats in the forthcoming elections

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MADRAS

Politics of Cogentrix

Muzaffar Assadi

The main actors in the agitation against the Cogentrix project are the local indigenous capitalists and commercial interests because the project poses a threat to the local industries, hotels, canning units, fisheries and dairies. Environmentalists have provided the required legitimacy to the agitation.

WITH the expulsion of Maneka Gandhi on July 4, 1996 from the Janata Dal/United Front the Cogentrix issue has once again become the focus of controversy. Maneka's first objections to the project surfaced with the disclosure that Deve Gowda, the prime minister, had allegedly received kickbacks from Cogentrix. The manner in which he had cleared the Cogentrix project also came in for severe criticisms both from Maneka Gandhi and opposition parties in parliament. Meanwhile the PM denied that he had cleared the project, but the submission of the Karnataka chief minister that he had signed a power purchase agreement(PPA) shows that either the PM or the CM has bungled the issue. Environmentalists, however, have received a set back with the exit of Maneka Gandhi, although her exit was a foregone conclusion when the United Front formed a government with the external help of Congress. The UF knew clearly too that Maneka would be something of an obstacle to liberalisation policies enunciated by the earlier Congress government. Her exit was essential both for the survival of the UF government and for the MNCs/western capitalism entering India. Many who supported her expulsion had forgotten the fact that now the indigenous/regional and commercial capitalism also lost an ally in government. Nonetheless, controversy centring around Cogentrix is not a new one. Last year the Karnataka CM had threatened that he would call off the project if the union government did not gives clearance at the earliest. Once again controversy arose when an upright bureaucrat was eased out for voicing an opinion against Cogentrix project. In addition, the invitation extended to Cogentrix to take over NTPC managed thermal project in Mangalore without formally inviting global tender, especially when the latter called off the project after the collapse of the Soviet Union, also came in for severe criticism.

Cogentrix is a US-based 'unlimited liability company', as it defines itself, which entered India when Cogentrix signed an MoU in 1992 with Karnataka for the production and supply of thermal power by reviving the defunct Mangalore Power

Corporation (managed by NTPC) in Nandikur, 40 km north of Mangalore, in Dakshina Kannada district. The thermal project is expected to generate 1,000 MW at an estimated cost of Rs 3,948.35 crore tearlier estimate was Rs 4,387.48 crore). The PPA states:

(i) The first phase shall consist of two nominal 250 MW (gross)/230 MW (net) generating units with an aggregate electrical capacity of approximately 500 MW (gross)/460 MW 9 (net) with coal fired boilers and (n) the second phase shall consist of two nominal M 250 MW (gross)/230 (net) generating units with an aggregate electrical capacity of approximately 500 MW (gross)/460 (net) with coal fired boilers.

Mangalore, for that matter Dakshina Kannada district, although emerging as a new centre of, and for, metropolitan/western capitalism, is historically known for tranquility except for occassional anti-colonial struggles carried on by the peasants. The first 'struggle' in recorded history was in 1800 when colonialists imposed new forms of exchange/modes of production on the existing one and peasants resisted by migrating en masse to other places. Similarly, in 1830 once again anti-colonial struggle broke out which almost overthrew the colonial forces. However, until the nationalist struggle the district was marked by dualist and uneven development - a layer of modernity or capitalism emerging with the emerging feudalism at the periphery. The establishment of missionery schools, colleges, railway tracks created a category of population submitting themselves to colonialists without reservations. This kind of passivity remained for a long time, even during post-colonial period. The periphery was simmering with discontent which surfaced during post-colonial period, initially in the form of land grab movements, and, later on, in the form of pitched battles for 'land to the tiller'. However, the Land Reforms Amendment Act of 1970s took away the zeal of agitational politics as it made large number of tenants owners of the lands they tilled. It is these lands, once tilled for feudal landlords and later on owned, which came under severe threat when National Thermal Power Corporation

(NTPC) planned to construct a thermal project in and around Nandikur, near Mangalon This is the reason for the initial struggles of 1980s in the thermal project area which were led by former tenants-turned-landowners Neither environmentalists nor indigenous regional or commercial capitalists extended their support. During their struggles, although some specific issues such as flying ash ponds, water scarcity, etc. were raised, they did not dominate the agenda. Interestingly the leadership in the agitation also came from dalits espousing Marxism-Leninism. Their failure to carry the agitations to their logical end was largely due to strategic mistakes they committed in picking up the wrong contradictions. The primary contradiction was not after all western capitalism/ multinationals, rather the NTPC, a national corporation. Their struggle was perceived, and thereby treated, by local/indigenous capitalism as an isolated and local affair. Further, during this time commercial capitalism did not perceive a threat from MNCs.

Environmentalists would not have entered the fray against the Cogentrix Thermal project except for the spate of industries coming up in the coastal belt of Dakshina Kannada. Nearly 37 industries are coming up with a total capital of Rs 35,000 crore, spreading in a radius of 60 km. Their involvement was also provoked by the fact that multinationals or western capitalism would pose a challenge to indigenous/local capitalism including commercial capitalism. "It is not the thermal project as such that they are concerned about, but subsidiary units that they are bringing along with their capitalism such as banking, steel industry, mass media, five star hotels, fast foods, and hospitals which are posing a real threat to this commercial capitalism of Dakshina Kannada", says Athaulla, a local resident of Shirva. This particular argument is not untenable as some of the environmentalists are employees and sympathisers of such commercial/local capitalism as banking, hospitals, media, hotels, canning, fisheries, steel, and dairy. Therefore, the ongoing agitation against Cogentrix in particular and other industries in general should be viewed in terms of the emerging contradiction between local/ indigenous commercial capitalism on the one hand and western/multinationals on the other. Environmentalists, however, provided the required legitimacy for the latter's claims.

However, out of 37 industries that are coming up in Dakshina Kannada only four industries, including Cogentrix have become the main targets of environmentalists: Usha Ispat, Nagarjuna Steel Industry and Mangalore Refineries Usha Ispat, a multicrore steel industry is coming up in Brahmavar, 20 km north of Udupi.

Nagarjuna is another industry coming up near Cogentrix project. Mangalore Refineries (MRPL), another mega project headed by the Birla group is almost complete in Panambur, 25 km north of Mangalore. Apparently in these agitations issues have centred around the following: ecological imbalances, displacement of local people, distruction of fisheries, acid rain, discharge of effluent, rehabilitation of displaced, cultural crisis and water scarcity. On the issue of discharge of effluents, Dakshina Kannada for the first time observed a bundh, rasta rokos, courting arrest and the destruction of pipelines. One party worker, belonging to a rightist party also succumbed to police firing. This agitation snowballed into a communal conflict between fishermen belonging to mogaveeras and the dominant castes. In between the famous mutts of Udupi also intervened in the agitation, not with any genuine concern for the public but with the larger design of protecting temple lands in the vicinity of Palimar and other areas where the Nagarjuna Company is planning to establish its industries.

While giving the contract to Cogentrix the underlying emphasis was that the thermal project would help Karnataka to overcome the power crisis without acknowledging the fact that the state has not been able to fully utilise existing installed capacity. The Karnataka State Electricity Board has not been able to cope with the loss of energy (mostly by theft) in transmission. (In fact the loss of energy in transmission has increased from 2931 MU in 1991-92 to 3209 MU in 1993-94). This could have solved the problem to some extent especially in addition to going in for mini hydel projects and making use of alternative energies. Interestingly, even as the Board defends unscheduled power cuts in recent days on the grounds of incurring losses, statistics show something else - the Board earned a record profit of Rs 3,387 lakh in 1993-94 as compared to a net profit of Rs 3,221 lakh in 1992-93. Meanwhile the state government has sanctioned 14 private sector power projects with an investment of Rs 30,000 crore to generate 55,000 MW

Nonetheless, Cogentrix is favoured inmore than one way. Firstly, 100 per cent taxable profit of the company has been exempted from income tax for five years beginning from the year of commercial operation; the stamptax on purchase of immovable property has been waived for the company, similar is the case for registration fees for movable property Further, property tax including tax on land and buildings, sanitary tax, lighting tax and water supply tax as levied by the local authorities are "being treated as waived". Even entry tax and other local taxes are being treated as "exempted" including excise duty on construction

contract. Finally research and development cess has been waived "on the assumption that there will be no payments made for the import of technology". All these mean heavy concessions at the cost of taxpayers. Awarding tax holidays despite the taxable profit would mean that large amounts of profit may be siphoned off from India to western world, principally the US. Further, in the US, Cogentrix has taken into account 4 per cent annual inflation but Indian inflation is counted at 10 per cent per annum. This would mean inflated cost of output, mainly electricity, and a stagnated cost of inputs. This would, when it is translated into monetary form, absolutely squeeze the Indian economy in general, different categories in particula:

Meanwhile an argument has also been advanced that the cost per unit of Cogentrix electricity power will come down from Rs 2.59 per unit to Rs 2.40 per unit and that, in the longer term price will settle down to Rs 1 after 20 years as the capital cost will be loaded in the beginning. This particular argument is untenable in the context of the fact that the contract is renewable every year. Since the contract is linked to prevailing dollar rates (or equivalent to Indian rupees). it is obvious that, given the sliding rupee value in the international market, power purchase will become costlier and that Indians will have to pay heavy price for inviting MNCs in the years to come. Further, the collection of fixed charges by the company "in connection with the development. financing, design, construction, operation, maintenance of the facility" will also be slapped initially on KEB, and later the same will be passed on to the consumers. This will have multiple consequences: increasing cost of all essential commodities, increasing the cost and prices of industrial goods in the context of the declining purchasing power of the people. Most affected in this context would be the middle class in the urban areas and the peasants/farmers in the rural areas.

One of the serious aspects of Cogentrix project is the fact that the company will not be taxed in the event of it 'harming the environment' This is clear in the power purchase agreement between KEB and Cogentrix: "It is assumed that there is not and will not be any tax which is charged, levied or imposed whether directly or indirectly in connection with harm to the environment". The latter is understood in terms of "actual or potential adverse effects on the environment or living organisms (including man) and includes changes in climatic conditions or other natural physical systems or functions in the world or any part thereof, harm to the health of living organisms (including man, animal and plant life) or other interference with the ecological systems. "This particular clause makes a

emockery of our environment including man and nature. Attempting to include such clauses in the agreement is not new for MNCs. Du pont in Goa earlier tried, only to beat a hasty retreat due to pressure from below. Union Carbide is another classic case which went scot-free despite causing damage to human beings and the ecology.

There are other clauses which are heavily tilted towards Cogentrix: clause of "indemnify and hold harmless the company arising by reason of bodily injury, death or damages to property"; entitling foreign shareholders a return of 16 per cent every year; the arbitration in the UK, purchasing lands or site on terms satisfying to the company, not withholding the consent for fuel purchase (even if it means more acidic content), withholding the right of Indian legal authority or board to suspend or terminate the suspension or shut down any part of facility other than in accordance with the agreement and finally purchasing power round the year despite the capacity for indigenous production.

Cogentrix is already silently affecting the local economy in more than one way. Of late land prices in the vicinity of the project area have shot up. Between 1992 and 1996 the prices increased tenfold. For example, in a neighbouring village like Shirva, one cent of land earlier cost Rs 10,000 and the same has increased to Rs 1,00,000 (rates of Rs 3,00,000 per cent are not unheard of). At the same time a group of speculators has emerged, who are doing roaring business in real estate. These speculators are local people, but interestingly, these lands are being purchased by NRIs whose roots are in the same area. These NRIs are made to shell out large amounts of hard earned money without being provided with the knowledge of the ecological consequences that the Cogentrix will have on their social existence.

In addition, fear is being expressed by the local people that the recently introduced Land Reforms Amendment Act will decisively go against the interest of local people, and thereby help the big industries in general and Cogentrix in particular. The recently introduced act has certain new features. It has added a new dimension to the concept of agriculture - acquaculture is clubbed with agriculture; leasing out land for 20 years has been allowed; ceilings on lands have been extended, certain lands have been exempted from the purview of alienation and people with two lakh rupces have been allowed to buy the lands. However, the most dangerous aspect of the act is related to section 109. A new sub-section has been inserted which has given the government a free hand to "exempt to any extent land for any specific purpose". Since the 'specific purpose' is ambiguous,2 anyone who has the capacity to influence the government or the party in power including the multinationals or NRIs can get over the prescribed land ceiling. This would have far reaching consequences: displacement of categories, alienation of land, exodus to urban areas cultural crises and cultural suppression. Presently Cogentrix has earmarked 1,000 acres of land, south of the national highway for accommodating the plants and the ash disposal. However, there is no guarantee that the company will not want to expand in the years to come.

Though there is no dominant crop worth the name in the immediate vicinity of Cogentrix, there is a small group of flouriculturists between Kinnigoli and Katpadi. These flouriculturists grow jasmine flower or what is popularly called 'Shankarapura da mallige', which links the local market with metropolitan or even sometimes the international market. These jasmine flowers are grown in small patches of land and have sustained hundreds of families a large chunk of whose income is derived from this activity. This flower cultivation is now under threat.

Interestingly, the Konkan Railway track is passing through the periphery of the Cogentrix project. Unlike in Goa where the Konkan Railway faced a lot of resistance from the local population for reasons that it would disturb the ecology, culture, demographic patterns, etc, similar claims were not made in Mangalore. Besides, in Goathe Konkan Railway represented a binary concept representing nationalism or nationalist spirit on the one hand, anti-nationalism or anti-nationalist spirit on the other. Although in Goa these concepts were ultimately used and were appropriated for the political purpose, there was one general agreement among the population that the identity of community should be retained or protected at any cost. This trend is absent in Dakshina Kannada. The Konkan Railway received much acclaim both from commercial/local capitalism and the environmentalists. Both saw the Konkan Railway as a cheap communication system, linking the local market/economy with the metropolitan market/economy. Here lies the duplicity of environmentalists. Most of the resistance against Cogentrix all these days has been confined to the villages near National Highway 17. Resistance has hardly filtered down to the interiors. Villages like Mudarangadi, Pernal, Belman, Manchakal, Shirva, Bantakal, Kuthyar, Subashnagar and Kurkal have remained free from environmentalist led movements except for observing bundh only once. These villages are very rich - most of the richness being derived from west Asia and partly from Bombay. Richness can be gauged from the number of banks operating in these villages. A village like Shirva, for example, has seven nationalised banks and seven non-banking financial institutions. At the same time there is a marked absence of rural contradictions between the categories (this is partly due to land reforms of 1970s and partly due to incomes from west Asia). Therefore a village like Pilar which will be losing its protected 'khanas' or forest land of 1,000 hectares in the event of acid rains, is observing a discreet silence. Environmentalists are doing little to create a new consciousness against the Cogentrix in this particular area.

This silence has much to do with the contradictions than real concerns. The primacy of the contradiction although projected as one between masses on the one

hand and Cogentrix on the other, is really different. It is between commercial/local/regional capitalism and western capitalism. This particular position, while opposing neo-colonialism, may well trap environmentalists in the larger framework of the new Hindutva and Maneka Gandhi will be no exception.

Notes

- 1 Power purchase agreement between Karnataka Electricity Board and Mangalore Power Company, dated September 30, 1990
- 2 Muzaffar Assadi, 'Karnataka's New Agricultural Policy: Making Way for Corporate Landlordism', Economic and Political Weekly, December 30, 1995, pp 3340-42.

Attack on Syncretic Culture

Case of Haji Malang

Asad Bin Saif

Shiv Sena's campaign to rename Haji Malang, the shrine of a sufi saint, as Sri Malang, is a diabolical attempt to disrupt the syncretic traditions through communal propaganda.

A CAMPAIGN, known as 'Malang Mukti Andolan', has been launched since 1982 by Anand Dighe, Shiv Sena chief of Thane district. Since then he has been mobilising his followers, the Shiv Sainiks, to demonstrate every year during the 'urs' which falls on Magh Purnima (according to the Hindu calendar, and this year it was in the Ramdan month). According to Dighe, Haji Malang is the 'samadhı' of Macchindranath, heir of saint Adinath, and hence the shrine must be handed over to the Hindus. With the increasing clout of Shiv Sena, this campaign has been gaining momentum. Earlier - years before Sena-BJP government came to power - the state government enforced heavy bandobast on the day of the urs to protect the shrine from being taken over by the Shiv Sena. This year (1996), with the coalition government of Sena-BJP in power, it was easier for the Shiv Sena as chief minister Manohar Joshi, along with Uddhav Thackeray, Shabbir Sheikh and Ganesh Naik visited the shrine and offered 'Ganapati Aarti'. In fact, the chief minister was planning to rename the shrine then but backtracked due to a court case.

The Hindutva offensive has been a multipronged one. It claims over 2,000 mosques on the ground that earlier these were temples which have been converted into mosques during the Muslim rule. Haji Malang is situated on the hilltop of Malangarh, nearly 11 km from Kalyan station. The site is a small fort at a height of around 700 feet from ground level. It takes nearly three hours to climb up to the fort but takes longer during urs. During our visit we noted some freshly demarcated plots with new boards and 'Shri Malang' written on them. Shakuntala Patkar. a devotee, says, "We people only know it as Haji Malang.. It is wrong to go for such renaming, which is certain to hurt the sentiments of His devotees who belong to all communities". All the houses on either side of the road have pictures of the Haji Malang shrine, and it was difficult to distinguish whether it was a Muslim or a Hindu house. Later, we met at the foothill John Devashi, a Christian from Cochin, with a military background. He told us, "I stay here because I was afflicted with a serious disease and was cured only due to the blessings of the Baba". On being asked what was his opinion on the renaming, he said, "I am greatly perturbed by the antics of Shiv Sena to bring the holy shrine in the circle of controversy".

While climbing up, we spotted 'Medical Darvesh Trust' on which symbols of Allah and Om were engraved. The trust is run by a Hindu doctor in the memory of his Murshid Sufi Fakr, Gullumullah Laghan from Hyderabad (Sind, west Pakistan). This indicates that Sufism has transcended all barriers among human beings of different countries Further on the journey, there are two 'mazars' which are said to be shrines of Haji Malang's disciples. We also met the hereditary trustee or 'mojabai' (who serves

the mazar), Kashinath Gopal Ketkar, a brahmin. From the way he was talking and receiving the people, it was obvious that he has adopted the Muslim way of life out of devotion. He, too, was greatly perturbed by the on-going controversy over the renaming of the shrine. He asserted, "They don't have any sort of proof, either documentary or whatsoever". He stated, "the presence of Muslims is declining during urs because of the controversy but people come on other days throughout the year". Regarding the renaming he remarked, "I don't like it and I am rather pained to see such things being fomented. It is beyond doubt that the shrine belongs to Muslim sufis, but his devotees cut across all the communities. People of 40 villages around the hill will continue to say Haji Malang because they have deep rooted devotion for the shrine, but those with mischievous intention will say whatever suits them." The hereditary trustee mentioned, "Our aim is to provide good services to his devotees without any discrimination. We are going to open a secular institute which could give appropriate education. Each and every household of brahmins in Pune worships the statue of Junglee Maharaj who was a Muslim Fakir".

An Irani florist Asghar Ali, says, "I am really anguished the way the chauvinistic forces have been picking up issues and holding at ransom the peace and tranquillity of the country. We are still struggling to come out of the lacerated psyche inflicted upon us due to the demolition of the mosque by these communalist forces." Another devotee, Dattaray Sawant, who had come all the way from Lalbaugh, Mumbai, said, "it is really unfortunate that issues like this are being given precedence over so many problems which deserve to be given adequate attention. I don't like this. It's wrong to support this."

The aforementioned views expressed by the people are corroborated by the Thane district gazetteer (1982 revised edition) which says, "The tomb is one of Hair Abdul Rehman an Arab missionary, who is said to have died 800 years ago. The oldest name connected with Malanggadh is that of Nala Raja, who is said to have lived on the hill, 800 years ago. During his reign, Haji Abdul Rahman arrived on the hill along with his followers. To test his sanctity, Nala Raja sent his beautiful daughter to the saint. Haji passed the test. Convinced of his virtue, the king gave his daughter to him in marriage. Her tomb lies next to his at the shrine '

The gazetteer further states that "It is believed that the five tombs at the other end of dargah are called five pirs and are said to be of the tive disciples of Haji Malang. In 1780, the British made their advent on the hill with colonel Hartley from Bombay

and captain Jameson from Kalyan, and defeated the Marathas who had their garrison at the fort. However, they left the place after two years and Marathas gained the control again. As a thanksgiving gesture, the Peshwas sent to the shrine cloth of gold, trimmed with pearls and supported in silver pots. However, neither the cloth nor the pots are found on the tomb now. This gift was brought in a state of procession under the charge of one 'Kashinath Pant Ketkar', a brahmin from Kalyan. The present hereditary trustee is a descendant of the same family".

The gazetteer continues, "in 1817, Kalyan Mussalmans headed by one Hydad, the hereditary guardian of the tomb, did not acquiesce with brahmin management of the shrine and laid a claim to the management with the district collector Thane. That was decided by casting the lots and Ketkar emerged victorious. Ketkar was declared the guardian. Recently, the Supreme Court has also ordered that the management should remain hereditary."

There is also a widely available book written in Hindi by K Babarao Ketkar, entitled Baba Haji Malang. Nowhere does the book mention 'Shri Malang' The book narrates that when the Baba needed water for ablutions necessary preceding prayer, he did not find water anywhere. Then he struck the surface and showers of water emerged. That place is now called 'chashma' (an Arabic word) and water from it is available to the thirsty. The arrival of Haji Malang is narrated as follows, "The hilltop had been the abode of demon and they were creating havoc with the lives of men. One Abdul Rehman from Arab was sent by Allah to liberate the people from the tyranny of the demon. He came and freed the people from the cruelty of the demon."

An annual urs takes place at the shrine. On the night of urs a procession, 'Baba Kı Palakhi', is taken out. The palanquin is made of 40 kg of silver with inner lining of sandalwood. The palanquin is decorated and carried through midnight and kept for 'darshan' for a couple of hours. Traditionally, the Ketkar family performs the rituals. But there are different people chipping in at different functions, e g, decoration by the Khan family, sandalwood decoration by the Attar family from Kalyan. The palanquin is carried by the Koli family and Milad readings from the Holy Ouran are by the Patel family. A place of honour is given to cunuchs in this procession. According to Ketkar, the offering; given at the shrine are a mixture of Hindu and Muslim traditions. Devotees offer chaddars, coconuts, flowers, and sheets of flowers.

The essence of sufism is to seek spiritual solace through altruistic love and serve humanity at large without any discrimination. It inculcates propriety in relations towards

fellow beings. Sufism has proved an immense cementing factor for the diverse society. Most of the sufis fought against the tyranny of all-powerful monarchs and lords. Their mystic morality struck at the root of parochialism, casteism and religious exclusiveness. Their core teaching is 'unity of being' (wahdut-ul-wajud) which is unacceptable to the fundamentalist.

Sufism made Akbar a great secular monarch of the medieval period. The two sufi brothers, Faiji and Abul Fazal, helped Akbar in his secular approach and Sulh-e-Kul (harmony for all) became Akbar's ethic of rule. A quartet inscribed in a house at the foothill of Haji Malang, tells the essence of sufism:

Kisi dardmand ke kam aa
Kisi doobte ko ucchal de
Ye nigahan maast ki mastiyan
Kisi badnaseeb pe dat de.
(Come to the rescue of the despondent
Save the life of a drowning man
Your rejuvenating glance
Oh! cast it on the hapless ones)

The last few decades have seen an upper caste Hindutva agenda on the rise, donning the garb of nationalism and subsuming popular sub-cultures under the steamroller of brahminical practices. Hinduism as propagated by Hindutva forces is brahminical orthodoxy, accepting the authority of Vedas and brahmins A big chunk of people, especially the poor, veer towards non-Vedic gods like Vithoba, and follow bhakti cults and Sikhism. Similarly, sufism has come to occupy a social space amongst large numbers of people. The present strategy of Hindutva movement is to propagate 'brahminical hinduism' as the religion of this land. For a Hindu rashtra to come into being, all identities have to be destroyed to create a homogeneous culture. The present attack of Shiv Sena on Haji Malang is one in the chain of such attempts to forcibly destroy syncretic culture and replace it with brahminical culture. But sufism goes against the brahminical ethos. Once a sufi was given scissors. He said instantly, "Why are you giving me scissors. I need a needle because my mission is to sew not to cut."

It is Shiv Sena's intention to extend its influence outside Mumbai and enhance its scope of activity. But given people's faith, the strategy of renaming Haji Malang will not benefit Shiv Sena. The question arises, from whom does the Shiv Sena intend to liberate the shrine: from Ketkar, Joshi or Patel? All these trustees are non-Muslims butthey proclaim Haji Malang to be a Muslim shrine.

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Atlanta: The Corporate Grab Bag

Frederic F Clairmont

What Atlanta highlighted was the war of corporate capital, the war within the corporate Gulag, at its highest levels. The billions of dollars invested in TV time and the billboards point to one conclusion – that the games themselves are the object of massive corporate colonisation.

THE crash of the 28-year-old TWA plane stemming no doubt from the reckless folly of Reaganite deregulation, trailed by the Centennial Park butchery, threw a momentary pall over the glitziest corporate entertainment and advertising bonanza on earth. Stock marketwise, sports is one of the hottest, biggest and fastest growing commodities on the international market, already massively dominated by a mere handful of 10-15 transnational corporations with the Americans leading the pack.

Inthis game, Murdoch and his News Corp, NBC. IBM. Coca Cola/PepsiCo, Reebok, Nike and Adidas rank among the most conspicuous, certainly the most vocal, players. Corporate sponsorship, sports advertising, and sports equipment is an \$ 86 bn dollar market, climbing steadily at 8 per cent yearly. Like drug trafficking and traffickers, it is a unique commodity in that it is liberated momentarily from the caprices of the business cycle

What Atlanta demonstrated, this time on far more savagely prodigious scale, was that Sports Inc., whose basic raw materials is youth, and its massive parasitical corporate appendages is unconcealed war. Wars over a marketable commodity with one of the highest rates of returns. Wars deploying every conceivable gimmick of multi-billion dollar propaganda and advertising technology.

In the lingo of a PepsiCo marketing warrior sports is the global king of commodities, it is already internationalised and transnationalised,, and becoming more so daily. At all levels, Atlanta provided an ignoble case study of the voracity of US national chauvinism so amply manifest by the print, radio and TV media. But it also unmasks, far more so than the mendacious balance sheets of the Fortune 500 could ever do, the gluttonous greed of finance capital in its unceasing frenzy for profit maximisation, via the acquisition of fatter and fatter market shares. No other sector reveals more lucidly the misworkings and decadence of capitalism than Sports Inc with the possible exception of finance and banking.

The gold, silver and bronze medallists are actual or potential commodities to be put on the auction block; they epitomise the breakneck tempo of corporate accumulation:

inventories to be bought, sold, traded, downsized. When the market value stumbles their corporate sponsors indicate, like the victims of Mad Cow's disease, that their time has come to be culled.

All the conditions for the Big Show had been met. In 1936, at the Berlin Olympics, Himmler ordered the gypsies shovelled out of Berlin, subsequently turned to ashes in the crematoria of Nazidom: the grand prelude to the celebration of ethnic cleansing. In Atlanta, the crematoria were absent but the 40,000 homeless, overwhelmingly black, were handed a one-way bus ticket, a couple of dollars, and told to blow, otherwise they would face the music

There was no need for repetition. The homeless knew that the gold medals, in Georgia and indeed the US, goes to the booming penitentiary building sector. Atlanta's purity was also guaranteed by 60,000 security guards joined to thousands of military personnel, but that was before the bombers spoiled the fun.

Atlanta has always been a company town dominated by Coca Cola. This time it shared the centre stage with other TNC heavyweights, mostly American. To the 3.5 bn world TV viewers their presence was inescapable. It was one of the biggest and splashiest TV coups the world had ever seen. Corporate advertising and sponsorship were the names of the game in Atlanta. The biggest of El Dorados.

The Big Three American networks: ABC (gobbled up by Disney), CBS and NBC (owned by General Electric) and their affiliates grabbed 90 per cent of TV advertising revenues. Alarmingly concentrated, media television, the most potent instruments for grabbing audiences, is the link between sport and corporate sponsorship. This is the antithesis of democratised sport; it marks a decisive phase in the uncontrolled rule of Big Capital; the end of the internationalist and democratic vision of the Olympics founders. The rights to sponsor and advertise by the corporate giants highlighted the extent to which most of the athletes had become functionaries of capital, extensions of transnational corporate muscle. According to The Economist, (July 20, 1996) TV rights for the 1996 Olympics raised more than one billion dollars from broadcasters around the world. The American TV rights to the Olympiads, up to and including 2008, were bought by NBC network for the staggering sum of \$ 4 billion. For the 1996 games NBC paid \$ 456 m, and the payoff was the most luxuriant in its advertising odyssey.

Coca Cola's overarching presence at the games were the grandest achievement of its ideological engineers. Atlanta witnessed the war of brands and the spectator was never allowed to torget it. Every second of its corporate existence is geared with laser-like intensity to meet one unquestioned goal: the universal exaltation of Coke and the promotion of bigger and bigger world market shares. In short world domination, Its marketing muscle was exhibited day and night. It was psychologically engineered to remind the spectator, buffeted by an unremitting barrage of daily propaganda, that when he quits the stadium the unique thought that he must take away with him would not be the cries of the wounded in Centennial Park or his favourite athlete, but the big red round logo of C-C. Olympic champs would come and go but in reality there would be only champ, the permanent champ and his name is Coke.

Advertising expenditures, as a general rule, remain one of the most closest guarded secrets of corporate power. Like the balance sheet itself they are the objects of sustained manipulation. The official advertising figures dished out in Atlanta are staggering by any standards but they are misleading to put it mildly. According to Sergio Zyman, C-C's marketing boss, in an average year Coca Cola allocates one-fifth of its \$ 1.6 bn annual consumer market budget to 'support' sport, including the metamorphoses of athletes into the paid functionaries of capital.

Of course 1996 is a special year and it has already spent \$ 125 m on TV commercials during NBCs coverage of the games; it has also spent \$ 40 m to become an Olympic sponsor; it has built a 12 hectare 'Olympic City' for visitors in downtown Atlanta, massively subsidised by the state of Georgia, most of it is tax deductible. The Georgia state legislature is the best friend Coca Cola could ever have. Its tentacles spread to every sporting event the Tour de France, cricket in India and Pakistan, etc.

As a C-C spokesman jubilantly proclaims on one of its Atlanta billboards: "Sports allows us to say to consumers. We like what you like". What the C-C ideologists did not say but could have said was: just study the costs breakdown of a Coke and you'll understand the key of our success. Around two-thirds of the final retail price of a coke is appropriated by C-Cs masters in Atlanta and its shareholders. Not bad for a beverage that's nothing more than brown sugar water with a phoney 'secret' formula thrown in

Reebok, Nike and Adidas cashed in on Atlanta's bonanza with a different set of strategies but whose ultimate goal was the same. With the disintegration of the Soviet Union and the plunge of Yeltsin's Russia into third world misery and debt the stage was set, as with every facet of Russian life, for the colonisation and takeover of the vast Soviet sports machine. Reebok which had ousted Adidas by 1994 for conquest of the Russian sports market became the coloniser par excellence.

This is how one member of the Russian sports federation puts it lugubriously: "Like all of Russia we've been bought out. Sure its the rule of the market. But it is part of Yeltsin's policies. Wa've been pushed into the sewers. We've got no money for sports. The infrastructure is rotting; the stadiums are falling apart; the coaches are quitting or have already quit. We are neither France nor Cuba." The colonisation process consists in pumping dollars into the enfecbled Russian Sports Federation, Reebok roped in the 400odd Russians in Atlanta who are on their payroll. That's not the end of the story. Reebok has already acquired a sizeable chunk of the Russian sport equipment retail market which, according to one marketing estimate, it hopes to boost to around 65 per cent by the next Olympics. All is feasible in Yeltsin's Russia.

Nike, one of the world's largest TNC apparel and sport manufacturers, is also one of the biggest stars in the TNC sports universe. To castigate Nike, as the International Olympic Committee (IOC) has done, for its billboard and other advertising propaganda stunts, reveals a woeful lack of understanding of what corporate capitalism is all about. Ethics has nothing to do with corporate advertising and its propaganda machine. Big bucks, mendacity and vulgarity is the name of this game.

The Nike billboard exhibited a US female basketball player jubilantly proclaiming: "You don't win silver – you lose gold." And there is tennis man Andre Agassi exclaiming, "If you're not here to win, you're a tourist" (Financial Times, July 26-27, 1996). Every stratagem from the ever-present billboards to the most expensive TV ad is designed to turn a quick profit and push the product.

Cashing in on the international sports boom, Nike's aggregate carnings (1996) soared 38 per cent revenues approaching \$ 7 bn. It invested a reported hundreds of millions of dollars for sponsorship of Brazilian soccer. Like Adidas and Coke, Nike has become a household word. But Nike has other facets that includes a \$ 26 m yearly contract with basketballer Michael Jordan, turned into one of the biggest sport icons. No amount of public relations coverups can dissimulate, however, the sheer exploitative nature of its manufacturing operations in the third world. It boosts its

profits by compulsory overtime and it operates in plants where all traces of labour militancy have been liquidated.

In Indonesia, Nike and its subcontractors (Korean, Thai and Taiwanese) pay a daily sub-minimum subsistence wage of \$ 2.23 to its largely adolescent female labour force as against the national minimum daily wage of \$ 2.59. Nike and its subcontractors obtained an exemption from the minimum wage increase that would have forced them to pay \$ 8.92 a month extra to each worker. And this at a time when Nike's profits are hitting record levels.

Commenting on these outrageous numbers Business Week, itself the mouthpiece of finance capital, notes: "Indonesia's military police deal harshly with those who rebel, and independent unions are outlawed" (Business Week, July 29, 1996). For whom is this critique destined? Is this not precisely the ideal of contemporary capitalism, a world of deregulation, and triumph of economic liberalism in its most pristine manifestation? Attanta provided the answers regarding the motive force of economic liberalism and globalisation.

The contrast between the profligate sums bestowed on a corporate servant as Jordan and the subsistence wages of an Indonesian girl worker is part of the normal workings of the transnational corporation. This is no aberration Both are domestics of Big Capital with a difference What Atlanta highlighted was the war of corporate capital or what I have categorised as the war within the

corporate Gulag, at its highest levels. The billions of dollars invested in TV time and the billboards point to one conclusion, namely, that the games themselves are the object of massive corporate colonisation.

What does the corporate's Gulag theory and practice in Atlanta reveal? What is its trajectory? Even before Atlanta the answer was known.² Atlanta has confirmed the fact that corporate marketing techniques and its paraphernalia will contribute to accentuate the frenzied thrust of mega capital concentration not only among the world's two leading beverage duos but among the triple sport behemoths as well.

Within the empire of Sports Inc there is no room for either amateurism nor the small and medium size companies. Inextricably related to this destructive tempo of corporate concentration is that the Gulag's marketing power will continue to push the world of Sports Inc into the purgatory of drugs. It is doing so masmuch as the upper physiological limits required to smash world breaking records is rapidly being reached. That is also another aspect of the corporate grab bag in Atlanta.

Notes

- Frederic F Clairmont and John Cavanagh, Merchant's of Drink Transnational Control of World Beverages, Penang, 1989
- 2 For an elaboration of the theory of the dynamics of the transnational corporation, see the author's The Rise and Fall of Economic Liberalism The Making of the Economic Gulag, Penang. 1996

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Indonesia: Beginning of End of 'New Order'?

Jan Breman

The privatised state has been a tool in the hands of a small elite who want to perpetuate their power to extend their illegally-gained wealth even further. The iron hand with which the regime maintains itself is the reason why Megawati and her PDI can count on far more support from diverse quarters than can be explained by nostalgia for Sukarno and the past.

NO, the driver of the motorised tricycle would rather not drop me by the entrance to the PDI party office. He prefers to hold his distance because you can never tell what might happen. However, many hundreds of Jakartans, particularly the young, are less scared and come daily to the headquarters of Partai Demokrasi Indonesia (PDI) which, in less than a month, has emerged as a political refuge where the military regime can be criticised openly and with unprecedented ferocity. The building is situated on a busy main road that is named after the leader of an early 19th century revolt against colonial domination. Referring to the erstwhile popular resistance movement led by Diponegoro, this morning's speaker says that the nation needs new heroes who will show them the way to freedom. His audience understands him all too well and, whenever his speech pauses, loudly chants the name of Megawati. Under the tarpaulin which spans the front yard a dais has been crected from which successive speakers address the assembled supporters, the hard core of whom remain for the whole day. Others stay for no more than a few hours, but on their departure they are immediately replaced by new sympathisers. Communication is two-way - the public applaud the speakers and call out their comments. Near the entrance hawkers sell pins, red headbands and other party emblems. On the other side of the street are small groups of more cautious observers of this political scene, too far away to be able to hear the speeches. Hoardings, flags and banners also deprive them of any view of what is happening behind the entrance. Nevertheless, these passers-by, linger for a time, not only fascinated by the free-word platform that has sprung up so suddenly, but also alert for any sings of activity from the military vehicles that stand at the ready a little farther away. The question is not whether, but when, the strong arm of the state will put an end to 'this nonsense'. However, the likelihood of such action has not been able to prevent the

open show of political defiance in the Jalan Diponegoro from attracting a large public. During the protest marches that periodically approach and leave the PDI building the crowd swells to somethousands. Party guards wearing red armbands and berets surround the marchers to ensure a well-ordered demonstration. Their task is not only to prevent radicalisation from within but, more importantly, to cope with any provocation directed from outside.

PDI AND PARTY CONGRESS

Together with the United Development Party, the Islamic PPD, the PDI forms the legal opposition in parliament. Collectively they have less than a quarter of the total seats, of which the larger part (282) are in the hands of the government party, Golkar. Another 75 seats are allocated directly to the military, without any elections. 'Opposition' is in fact a misplaced term since PPD and PDI have no autonomy in regulating their internal affairs. For example, they are prohibited from electing a party chairman who does not have the approval of the Indonesian military powers. The emergence of Sukarno's daughter as political leader of PDI was against the will of those powers. Megawati Sukarnoputri takes skilful advantage of her father's continuing popularity. His name and the charisma attached to it are her principal political capital. Megawati is not the first Asiatic woman to feel the urge to tread in her father's footsteps. Their number has gradually become worthy of respect: Benazir Bhutto in Pakistan, Indira Gandhi in India, Chandrika Kumaratunga in Sri Lanka, Sheikh Hasina Wajed in Bangladesh, and Aung San Suu Kyi in Myanmar. Like the last-named, Megawati speaks directly to her followers and, also in the threatening proximity of the military machos, calls for restoration of people's power. Until very recently, Sukarno's daughter was dismissed as someone whose political ambitions were greater than her talents. But the so-called lost housewife has

grown into her role, just like Cora Aquino in the Philippines. She has made herself the mouthpiece for the increasing dissatisfaction among the people over the enormous enrichment of those at the top, over the government's disinclination to alleviate the poverty of those at the bottom of society. about the arrogant power of the ruling clique. and about lack of freedom in all its aspects. The muzzled press can permit itself little risk, but an experienced reader knows how to read between the lines. Reports of a verbal exchange which took place at the end of the recent ASEAN meeting between Alatas, the Indonesian minister of foreign affairs, and a British journalist about recognition of the popular will and democracy as a leading principle of this regional organisation, apparently discussed conditions in Myanmar but in fact referred to the meeting's host country.

Is Megawati's PDI really a match for the well-oiled Golkar machine with which the government keeps society under control? There are few who sincerely believe that to be the case. But the problem of the floating mass, the recipe with which the regime keeps the population depoliticised, is that even the powerholders are ignorant of what lives in the minds of their subjects. In an attempt to fill that lack, secret opinion polls are held every now and then. The latest of these, held last spring, showed to the horror of the military, that the PDI scored no less than 40 per cent of the total votes, on par with Golkar. Reliable sources, of which there are many in sultanistic Jakarta, report that Suharto then ordered that the woman has got to go, and quickly! Implementation of that command could safely be entrusted to the army. A 'spontaneous' party congress, for which delegates of local branches all over the country were ordered to assemble in Medan with money and threats, deposed Megawati and chose as her successor Surjadi, who was handsomely rewarded for accepting this Judas' role. The minister of interior himself opened and closed the meeting, but the protests had started in Jakarta and elsewhere in the nation even before he had finished.

PROTEST

The deposition of the legal PDI chairperson proved a first-class blunder. It is characteristic of the regime's isolation that its political strategists had made no allowance for any protest. While her fate was being decided upon in Medan, Megawati addressed 5,000 of her supporters in an open air meeting in central Jakarta on June 20. She closed her speech by calling for civil disobedience. "I can mobilise millions of urban workers", she

threatened, "one word from me is sufficient to shut down offices and factories". At the end of her address her supporters formed into a procession which took the road to the PDI headquarters. Almost immediately, however, they were attacked by police and by soldiers. More than 100 people were wounded in the ensuing violence, two-thirds protesters, one-third police and soldiers. According to the official version, public order had been disturbed because protesters had thrown stones at the police. The party leadership, however, said that the riots had been induced by provocateurs. This last version agrees with other recent examples of the way in which the New Order in Indonesia is maintained. The regime has illegal gangs of thugs at its disposal who are brought in whenever it is too risky to use legal force, for example, when Timorese asylum-seekers were expelled from the grounds of the Netherlands embassy a short while ago. These gangs have close ties to Golkar. The proud name of Pemuda Pancasila conceals criminal elements whose mode of operations recalls the infamous tontons macoutes of Papa Doc's Haiti. According to local gossip, Suharto's son-in-law directed the action against the protesters from the safety of an armoured car and gave the order for force to be used.

Whatever the background of the violence used against Megawati's supporters, it has not yet brought an end to anti-government protests. New demonstrations followed a few days later, and staunch supporters kept vigil at the party headquarters also during the night hours to prevent an attack by mercenaries acting for the unsolicited and unwanted chairman, Sutjadi. Another procession was held in mid-July at which a 500-metre long banner was carried through Jakarta's streets. This was inscribed with supporters' names and with slogans expressing their unconditional dedication to the fight for democracy. Military surrounded the procession but had apparently been ordered not to intervene. The mood was less intense, even happy. Nevertheless, the conflict has since been further exacerbated. By acknowledging Surjadi as her official successor, the government has excluded Megawati from taking part in the next elections to be held early in 1998. That troublesome lady refuses to accept defeat, however, and now leads a contra-movement that is far greater than she could have achieved by her own efforts.

GROWING SOCIAL UNREST

In a region that is notorious for an unending series of corruption scandals, Indonesia takes the crown in bribes, backhanders and 'mediation commission'. The greed is greatest at the top of the government where its naked manifestation is likely to endanger

political stability. Suharto's late wife, Ibu Tien ('Sister 10 per cent', in popular parlance), taught her children how to do business. Suharto has always maintained an attitude of 'I know nothing', a pose which has no credibility in view of the outrageous cupidity shown by his sons and daughters. Bambang, who had a headstart as the eldest child, has achieved most in business, now owning a wide variety of market-dominating industrial conglomerates. Determined not to be outdone, his younger brother Tommy has launched the 'national car' project. The idea is that the Timor will be made in Indonesia. but that is still a long way away. The actual manufacturing plant is in Korea to where a batch of Indonesian workers were sent to put the car together. Their arrival in Korea has never been confirmed, but the pretence that the car is made by Indonesian hands is sufficient for tax exemptions - to the outrage of the Japanese, American and European car industries. Japan, which has never shown particular concern about violations of human rights, even threatens to submit a complaint about Indonesia to the World Trade Organisation. Suharto's grandson conceived a nice way to earn some extra cash by persuading the governor of Bali to introduce an extra tax on beer, drunk in large quantities by tourists coming to this insular paradise. The oldest daughter, Tutut, has also assured herself of a generous income by operating toll-roads among other things, but she is also politically ambitious. She is charperson of Golkar's party administration and has good connections with the army. The gossip is that Suharto would like to see her as his successor.

The state is privatised, a tool in the hands of a small elite who want power to extend their illegally-gained wealth even further. This is shown in the nepotism at the top. Popular anger about such practices has been further inflamed by the national collection intended to allow Habibie, the minister of technology, his own particular game. Indonesia's own aircraft industry. Since his cabinet colleagues refuse to provide further funds for this cash-devouring project, every citizen now has 'voluntarily' to contribute 5.000 rupiahs (less than US\$ 2). A small amount which no-one will refuse to pay, was the president's rousing call to the people. This typifies the lack of any understanding among the elite that 5,000 rupiahs represents a day's wage for a factory worker, and is more than couble the sum with which the greater mass of the people have to manage. The growing dissatisfaction is concentrated particularly among the social middle classes and is fed by economic insecurity notwithstanding more education, better and secure jobs are not available for the youth - and political frustration caused by repressive government. There is press censorship, and newspapers are likely to be prohibited if they publish unwelcome news. New communication techniques, however, including fax, e-mail and internet, enable dissidents to circulate information that is considered subversive. The rise of a market ideology has not caused the state to stand back, nor has it become more tolerant of deviating opinions and oppositional organisations. The iron hand with which the regime maintains itself is the reason why Megawati and her PDI can count on far more support from diverse quarters than can be explained by a misplaced nostalgia for Sukarno and the past.

Abdurrahman Wahid, leader of Nahdatul Uluma, has made it known that Megawati's fight is also his own. In reply to a comment that no more than 40 per cent of the contents of newspapers is 'genuine' and 'true' news, Gus Dur, as this leader of the enlightened section of the Islamic population is known, warned that that percentage is going to drop even further in the near future. In his view, the lack of freedom will increase rather than lessen.

RESISTANCE AND OPPRESSION

Since its creation in 1965, the Orde Baru has ruthlessly dealt with many open protests. The army has been deployed against the people not only in East Timor, North and South Sumatra and West Irian. Government force has also been used against street demonstrators in Jakarta, freedom-demanding students in Bandung, peasants in rural Java who protested against expropriation of their land, poor migrants who were driven from urban slums, and striking workers.

Intimidation and the use of gangs of thugs, whether official or not, is usually sufficient to restore the disrupted 'ordea' The present wave of unrest, however, is uncharacteristically broad-based. Protests are not confined to Jakarta but also occur clsewhere in the country. Perhaps even more alarming for the regime is that the unrest is shown by a wider range of social classes than ever before. The industrial belt that surrounds the capital has recently had to cope with strikes by workers demanding better treatment and higher wages. At the start of the Olympic Games in Atlanta a dismissed female factory worker travelled to the US in order to testify to her miserable employment conditions. She made the Nike shoes with which world records are being broken. Production has been contracted out by the parent firm to smaller factories with Korean owners. The woman was sacked when, as a strike leader, she asked that the wage should be raised to the legal minimum, at that moment little more than US\$ 1.25 per day. An American protest group arranged Cicih's journey and a meeting for her with the famous basketball-player Michael Jordan. This met with great displeasure on the part of the official trade union, the only one recognised, which was of the opinion that workers do not have the right to discuss their problems with outsiders. And it met with anger from high-level policy-makers in particular, who declared that foreign enterprises invest in Indonesia in order to make high profits, and that the working masses can choose between a low wage or none at all. Especially impressive was the protest march held in Surabaya on July 8 and 9 by 20,000 striking workers. This was organised by students and staff of local universities, the milieu from which many activists are recruited, calling themselves leaders of the Partai Rakyat Demokrasi (People's Democratic Party). The three leading figures have since been arrested and charged with subversive activities against the state

In an attempt to turn the tide, the powerholders have launched contrademonstrations and statements have been published in which mass organisations connected to Golkar demand action against the current wave of 'political destabilisation'. Official spokesmen insist that an orchestrated campaign is going on reminiscent of the agitation that preceded the 'events' in 1965. After the recent series of strikes, pamphlets are said to have been distributed in which the army together with capitalist forces are accused of the murder of two million fellow countrymen in the aftermath of the coup which marked the end of the Old Order. These are ominous signs that are intended to prepare public opinion for the restoration of order and authority.

BEGINNING OF THE END?

Is the regime tottering? As so often happens, this may be another case of wishful thinking. To say that it is unsteady, however, does not seem to be an exaggeration, due particularly to Suharto's ill-health. His recent and unexpected journey to Germany, accompanied by four of his children and a considerable retinue, must have been caused by more than the need for an ordinary medical check-up. Is the leader of the state weary of the heavy burden that he has carried for more than 30 years, and does he have the necessary strength for a seventh term as president? His sudden departure caused a free-fall on the stock exchange, particularly in shares in industries owned by his children, and to a devaluation of the rupiah. A photograph of Suharto taken in the palace gardens and sitting like an aged hippie on a Harley Davidson machine - comparison with the aged Mao swimming in the river Yangtse is difficult to resist - is meant to suggest considerable vitality. Palace gossip, however, says that the old man is tired and misses his wife. She kept her children under her thumb but Suharto is unable to keep their mutual rivalry within bounds and behind the scenes. It is the same problem of succession that plagued the ancient Javanese rulers. To step aside voluntarily while it is still possible, to relinquish power, would put the interests of the family empire at stake. There are many pretenders in Suharto's entourage but no acknowledged Crown Prince. The distrusting and calculating Suharto has provided himself with a different vice-president for each new term of office. Even more than the mass of the people, the leadership gives the impression of being adrift.

In a recent speech to an audience consisting of Pemuda Pancasila members, Suharto made it clear that no change is envisaged in the political structure. Those who hoped for gradual democratisation as the inevitable consequence of economic growth have all reason to feel cheated. The suggestion that a transition might occur from military dictatorship to a civilian society, prepared and guided by the top, has proven illusory.

Is the movement brought about by Megawati an indication of growing pressure from below? Certainly it is, but it is more than doubtful whether the regime will be prepared to make sufficient concessions. The head of Sospol, the army's political branch, said recently that the free-speech forum at the entrance to PDI headquarters was directed against the government and therefore must be labelled as subversion.

The question which occupies the minds of all commentators is: why didn't the army intervene earlier? The official restraint shown until the end of July seems to have been due firstly to underestimation of the intensity and scale of protest, then from differing views among the generals about how best to react and, finally, from reluctance to use force in chasing Megawati from PDI headquarters while ASEAN policy-makers had gathered in Jakarta. The day after that meeting was over, however, the military backed up gangs of thugs hired by Surjadi and stormed the PDI office, thus ending 'the unlawful occupation'. This operation, carried out with brutal violence, caused riots to break out in various parts of the city, resulting in hundreds of wounded and arrests. Dozens of deaths are said to have occurred, but bodies were removed in secret and names have not been published.

A corner of the curtain has been lifted but is about to fall again. If the millions of supporters claimed by Megawati should hesitate to answer her call to take to the streets, it will be due primarily to fear of a repeat of the 1965 massacre. The army insinuates that there is a communist plot intended to bring about a popular uprising. Such propaganda is believed neither at home nor abroad and even has the effect of making people doubt

the official version of events that led to the military coup of 30 years ago.

The coming few days will show whether, after the detention of trade unionist Pakpahan and the leadership of the PRD, which went into hiding but was hunted down, the authorities will now dare to tackle Megawati herself. And if so, how her supporters will react. The national celebrations on August 17, independence day, are awaited with anxiety. A major difference with the start of the New Order is that the military now have lost any international support. The US and the European Union have protested against the state repression of the democratic counter-movement. Neighbouring countries such as Singapore, Thailand and the Philippines closely watch the situation. The Straits Times and Bangkok Post together with other newspapers show concern about lawlessness in the streets of Jakarta, but also about the political manipulations by Indonesia's small but powerful elite. Such criticism from friendly quarters is a signal that the regime is about to lose any international credibility it still may have.

A pessimistic scenario suggests that Suharto will not be allowed to return for another term as president next year, only to be replaced by another general. The great powers, not least Japan, would probably prefer to see a more democratic system emerging but not if that transition is going to be accompanied by a social upheaval that would endanger their huge investments in the Indonesian economy.

More optimistic is the prognosis which gives greater significance to growing pressure on the regime from social forces within and from the bottom up in society. According to this line of thought, while there is life there is hope, the fight for freedom and equality has entered into a new phase.

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Rescuing Liberalism or Nietzsche?

Neera Chandhoke

Nietzsche, Politics and Modernity: A Critique of Liberal Reason by David Owen; Sage, London, 1995; pp 180, £35 (hardcover), £12 (paperback).

EVER since the eminent philosopher John Rawls published his much acclaimed A Theory of Justice in 1971, the world of academics has never been quite the same. The kind of scholarly outpourings we have witnessed in reaction/justification/defence of John Rawls is truly astonishing. It is not that his works are not worth citing, engaging with, commenting upon. Rawls, as it has been generally recognised, is one of the greatest contemporary legal philosophers who has rescued normative political philosophy from the arid desert to which it had been banished with the advent of behaviouralism, and restored it to its rightful place of pride. It is just that most of these commentaries/defenses/critiques present us with much more of the same. They have frankly proceeded to go round in circles. And then in 1993,2 Rawls went ahead and published his Political Liberalism which created another round of waves, partly because the extent to which he has gone to meet the comments of his communitarian critics is truly amazing-from comprehensive to political liberalism no less, and partly because he offered those of us who live in multicultural societies a way out of our political predicaments (though he himself insists that his theory is applicable only to western liberal democratic societies). And the circle of publishing in what has come to be known as the Rawls industry began again, with one work defending Rawls and another criticising him.

So it is with a considerable sense of deja vu that I took up David Owen's work, Nietzsche, Politics, Modernity, whose starting point - though argued only in the last chapter - is Rawls. Another of the same I told myself. And I must confess that the section which critiques Rawls (chapter 6) is much of the same. Most of this has been said by Michael Sandel in 1982.3 Consider the following: "...from Nietzsche's perspective, Rawls" philosophical liberalism is fatally flawed insofar as its reduction of society to a form of civil association between antecedentally individuated persons entails not only that it lacks any account of both culture and politics (and their relationship), but also that this devaluation of community expresses itself in a failure to recognise that the maintenance of our capacities for autonomous reflection and agency is dependent on communal practices, and, as such a liberal polity instantiates an individualism which may undermine the very capacities upon which its cogency depends" [Owen 1995: 138].

And Sandel phrases his critique of Rawls, "deontological liberalism", in almost the same words. Rawls' account is unpromising, he argues, because it presents a picture of an abstract disembodied self, whose legislation of the principles of justice is unconnected to empirical motivation of any kind. The notion of the 'antecedent individuation of the subject'4 neglects to see its social constitution. If the moral subject is divested of all contingent attributes, including its social endowments, the conception of the subject is 'too thin' for us to build a theory of justice. We cannot recognise ourselves in this formulation as agents whose identities are linked to specific histories. We are not, in Sandel's view, beings who are essentially independent of our ends, ideals and affective connections to others. Individual identity is intersubjectively constituted through membership of particular communities. The idea of the socially encumbered self whose identity is shaped by affective ties, and constituted by socially articulated aims, completes Sandel's picture of the socially encumbered individual.

But as I returned to reading Owen's work chronologically, I realised that my first impression had been unjust. One can arrive at the same conclusions by different routes, and the route taken by Owen is fascinating because it is linked to a critique of modernity. and of liberalism as the political avatar of modernity. This is a book worth reading if only because of its exemplary lucidity. Owen is remarkable inasmuch as in his critique of modernity he avoids the tortuous language of the post-modernists, their slavery to vocabularies, their utterly dense prose that is distinctly off putting, or which at least makes one reach for the nearest dictionary, and their inability to escape the confines of, what have now been elevated to the nonstatus of cliches. This work, to my mind, is what a book on political philosophy should be about. Its arguments are persuasively structured, and it is logical from the first to the last. I may not agree, as the last section points out, but I cannot but be impressed by these arguments. Let us examine them.

One of the undoubtedly unexpected fallouts of the velvet revolutions of 1989 has been the proliferation of academic literature stemming out of disquiet with liberalism. What was presented as the triumphant march of liberalism by many commentators, has by no means been either smooth or hassle free. As long as the intellectual cold war between the liberals and the Marxists dominated the agenda of social science, the internal squabbles between the loosely connected anti-Marxist scholars, were overwhelmed by their confrontations with the Marxists. The end of the cold war has seen the eruption of a remarkable number of critiques of the

liberal position from within the non-Marxi camp. From one side, the communitarial have launched the most devastating critiqu of the basic tenets of liberalism ever witnesse in the history of the ideology. From the othern that come the critiques of modernity and of liberalism as its political avatar critiques which appeal to the discontents of modernity such as Nietzsche.

The book under review belongs to the latter genre. David Owen in the prefact remarks, "...with the decline – no doubt, the short-lived – of the public authority of Marxist perspectives, Nietzsche provide another voice for those persons concerne by the platitudes of liberal triumphalism which sustains the project of a critical er gagement with liberalism in the public political culture of our constitutional-democrating regimes" (p. ix).

In his inquiry into the relevance of Nie zschean thought today, Owen keeps awa from tiresome historical excavations, or from equally tiring exegesis, as is the wont of many works on political philosophy. Wh. he does do is to bring Nietzsche to life : a critic of both philosophical liberalism ar political liberalism Rawls is the focus of much of this work;5 the other focus is scholar called Richard Rorty, who from h comfortable perch in the bourgeois liber society of the US, can tell us poor 'thu worlders' that liberal values cannot be tranplanted, for they are not based on foundation concepts potentially shared by everyon everywhere. They are nothing but the stuof specific histories, particularly the histo of the US.

Owen is perfectly correct in stating th liberal theorists can take themselves at their philosophy seriously only if the confront the critique made by Nietzsche. H effort, he says, is not to compel submissic to Nictzsche, but to open a debate between the theorists' philosophy and liberal though This is reminiscent of a method of argume well known in Indian philosophy. Th method states that before we accept argument as persuasive, we need to turn around and examine the opposite case, to s if that provides a better justification. Sin larly, (if we are fated to live with liberalis) at least for the foreseeable future), we ne to turn the liberal case around and see wh the other side looks like.

Owen begins his exposition by focusion Nietzsche's critique of Kantian elstemology which forms the basis of mu of liberal thought. Kant had argued the pistemology must either seek to establia knowing self which can transcend to vagaries of phenomenal life, or it must despof attaining knowledge at all. Nietzschetaliated by arguing that the activity knowing which follows from comprehensiof an objective world which is not affect by this act of knowing, is fatally flawed. It him, the conception of the self as transcendental reifies the self. The self is, effect, dehistoricised. The self is separat

both from the world which is to be known, and from the empirical self which is socially produced. "Consequently, whereas Kant claims that the unity of the world which is known is a function of the unity of the self which knows, Nietzsche argues that the 'unity of the known and the unity of the knower are derived from the activity of knowing' (p 28). Nietzsche agree with Kant that we only know things under description, but he does not agree that the essence of things are independent of description.

This does not mean that we cannot have knowledge of the world, only that we have to go about this in a different manner. We must recognise firstly that there is "no view from nowhere" as Thomas Nagel puts it.6 Our perspectives are already situated, all views are from somewhere. Secondly, it follows that the act of gaining knowledge can be neither disinterested nor objective -"our cognitive interests are not independent of our affective interests: logos is entwined with eros" (p 33). Perspectivism establishes the contextual character of knowledge. Owen at this juncture confronts the very legitimate charge of relativism which this perspective generates (prospective readers are advised to see pages 33 to 39 of his work on this). I am personally not convinced, for if we think of knowledge simply as entrenched judgments which can appeal to no transcendental norms for justification or validity, we are opening many doors to great disquiet. For this leads to unpredictability in both political and personal judgments. Relativism is morally and politically unsettling. But this requires a separate argument which I cannot enter into at this juncture.

The second way to knowledge is, for Nietzsche, geneaology, a concept made fashionable by Foucault. Genealogy gestures towards historical investigation. Historical reflection provides us with a picture of roads taken and roads not taken, so that we can grasp the contingent processes through which we, as modern individuals, are produced. Perspectivism naturally follows from tracing our family trees, since our structure of thought must accept that we and our thought processes are historically and culturally produced and located.

It is obvious that the reconstruction of the historical conditions of possibility, can only apply to particular situations and people. This recognition constructs a field of activity as a possible way of knowing and seeing the world. Our archives fashion our present and our future ways of being, allowing us to know why we act and think in a particular way, and why our history rules out different ways of thinking and acting. We can understand why we do not act in a particular way, we can open up through this activity fields of self-knowledge. However, whether we can adopt new ways of being is questionable. This is obviously a perspective with which advocates of historical breaks can have no patience - we can understand why we do not act in a particular way, and we can appeal to historical understanding to know why we cannot act in a particular way, but we cannot act in another way. We are in effect condemned to live in our archives, there is no possibility of escape. How Nietzscheans explain revolutions, or the manner in which women, dalits, or environmentalists have spoken back to history remains a puzzle.

Human history is explained by Nietzsche as propelled by the will to power, made equally famous by Foucault. The will to power provides us with an ontological account of how human beings function in an intelligible tashion. The thesis of the will to power offers us an explanation of human action, "the idea of the will to power can function as a principle of intelligibility insofar as it suggests that what mediates between possibility and actuality is the capacity of the distinct possibilities for human being immanent within our cultural practices to increase our feeling for power" (p 44). Our beliefs about the world are entrenched as a product of the degree to which these increase our feeling of power. For instance, Kantian notions of a priori judgments are deeply entrenched because they increase our sense of power. This sense of power consists in the fact that we are able through these means to order our experience in terms of time and space.

Owen uses these basic structures of Nietzsche's philosophy to undertake a critical revision of the history of liberalism and its privileging of reason. He examines the argument of On the Geneulogy of Morals, in which Nietzsche in three essays scrutinises how the idea of the autonomous self-reflective human being is produced. The development of the idea of man as someone who has the capacity to make and live up to his promises involves a series of presuppositions argues the philosopher: "Man must first of all have become calculable, regular, necessary, even in his own image of himself; if he is to stand security for his own future, which is what one who promises does" (p 57). Individual behaviour becomes predictable and calculable because we are taught not to do certain things, through memories of punishment. Human capacity for autonomous reflection and agency is not intrinsic to man, it is the product of humanity's labour on itself. Nietzsche's critique of philosophical reason leads to the alternative ethical thesis of anti-foundationalism.

Liberalism which rests on foundationalism, that is the commitment to certain unquestionable norms such as the concept of the self as antecedently individuated, the concept of self-reflective humanity, the primacy of reason, the separatedness of individuals, is attacked by Nietzsche as incompletely addressing both the historical roots of individualism, and the notion of culture. Nietzsche would argue that our capacity for sovereign agency is the product of the long pre-history of man, and our conception of the self as antecedentally individuated is not a metaphysical truth, but a cultural artefact produced under specific conditions to produce a desired versions of human beings. This has its own reverberations for political theory.

For liberals such as Rawls and Rorty, political freedom is conceptualised as the opportunity to pursue and revise one's conception of the good. Liberal politics is accordingly arranged to secure the exercise of this capacity, for instance, in the form of the neutral state, or rights in Rawlsian theory. Nietzsche, in the author's view, would argue that political freedom means much more than just liberty, it involves the overcoming of oneself. It is the exercise of our capacity to master ourselves. His position is that freedom is not simply the opportunity to exercise freedom, but to rationally exercise the capacity of self-mastery. "Thus, while both positions characterise human beings as having the capacity to pursue, reflect and revise their conceptions of the good, Nietzsche's position stresses that freedom is the rational exercise of this capacity and not simply the opportunity to exercise it" (p 165 italics in original).

In opposition to both Rawlsian and Rortian versions of liberal freedom, for Owen, it is only Nietzschean agonistic politics which can provide both political freedom, and more valuable types of human beings. The exercise concept of freedom as self overcoming, weaknesses such as indolence, greed and self-deception, is prior to the opportunity concept of freedom as absence of internal and external constraints. This selfovercoming is social inasmuch as it strives towards, and is measured by, public standards of what truthfulness and integrity involve. It, therefore, involves unconstrained dialogue between agents. One must be willing to engage in open and fair-minded discussions of one's conception of the good. Therefore, this agonistic engagement requires a public characterised by free and unconstrained dialogue.

Of course, the notion of the production of valuable human beings is one of the most controversial of Nietzsche's contributions. Owen interprets this in the following way: "all persons have an equal right of recognition which implies that all persons are valuable and, as such, deserving of respect, even if it does not imply that all persons are of the same value and deserving of equal respect" (p 167). Both individually and collectively, we value certain types of human beings. Accordingly, Nietzsche's criticism of liberalism jests on the fact that it entails the absence of a publicly constituted order of rank, and because it depoliticises the pursuit of conceptions of the good. In other words, Nietzsche deplores the neutrality of the liberal state, and deplores the absence of public recognition that certain noble types are simply more valuable, and so they deserve more respect. In conditions of pluralism the features which are publicly valued are integrity which arises through truthfulness and justice. These features are the formal enteria of good citizenship and the pursuit of nobility. If we were to possess a perfectionist state, and possess an order which ranks individuals on substantive standards of excellence constituted by the community, then we direct the activity of persons towards achieving those standards of excellence. It

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Written Examination (WE) on **20.10.96.** Two papers each of 3 hours duration and 100 marks - (i) Objective and (ii) Descriptive (both on Economics) Standard of papers that of Master's Degree examination in Economics of any Central University in India.

Question papers for examination will be set in Hindi and English and answers may be written either in Hindi or English. Candidates may answer the interview either in Hindi or English at their option. Final selection will be based on WE and interview.

D.MINIMUM PASSING STANDARDS

The minimum marks for passing the examination are

- (i) 55% in each paper and 60% in the aggregate for General category, and
- (ii) 50% in each paper and 55% in the aggregate for SC /ST / OBC categories $\,$

E.EXAMINATION CENTRES

(Code Number	s in bra	ckets) - Select only one	Centre
Ahmedabad	(11)	Jammu	(20)
Bangalore	(12)	Kanpur	(21)
Bhopal	(13)	Madras	(24)
Bhubaneswar	(14)	Mumbai	(25)
Calcutta	(15)	Nagpur	(26)
Chandigarh	(16)	New Delhi	(27)
Guwahatı	(17)	Patna	(29)
Hyderabad	(18)	Thiruvananthapuram	(31)
Jaipur	(19)	•	

F. APPLICATION FEE

Rs.50/- (No fee for SC/ST) payable by Demand Draft favouring RBI, Mumbai However, candidates from unbanked areas may send fee by crossed Indian Postal Order in favour of RBI payable at GPO, Mumbai. Fee not to be refunded under any circumstances.

GSERVICE CONDITIONS / CAREER PROSPECTS

Pay Scale: Rs.4825-10350 Initial monthly emoluments about Rs. 7687/-. Other benefits as per detailed advertisement

H.HOW TO APPLY

Apps in prescribed format typed or neatly handwritten in English or Hindi on white foolscap paper should be addressed to the DY. GENERAL MANAGER, RBI SERVICES BOARD, HONGKONG BANK BUILDING, 6TH FLOOR, M.G.ROAD, HUTATMA CHOWK, POST BAG NO. 10009, MUMBAI-400001. Cover containing the App. should be superscribed "Application for the post of Research Officers in Grade 'B' Centre of Written Examination chosen Code No "Above cover should be sent by ORDINARY POST ONLY. Apps. In closed cover may also be dropped in the box specially kept for the purpose at the Board's Office.

The Board takes no responsibility for any delay in receipt or loss in postal transit of any app, or communication.

I. CLOSING DATE: 07.09.1996

(14.09.96 for applicants residing abroad, North-Eastern region, far flung areas, etc. as per detailed advertisement)

J. GENERAL INSTRUCTIONS

- (i) Before applying the candidates should ensure that they satisfy the eligibility norms in all respects as on the specified date. The Board will be free to reject any candidate at any stage of recruitment process if found ineligible for the post.
- (ii) ALs will be despatched well in advance of the date of examination if no AL / other communication is recieved from the Board, candidate should contact the In-Charge of the RBI Office at Examination Centre, chosen by him/her in the app with a passport size signed photograph, one day before WE
- (iii) Change of address should be communicated urgently
- (iv) Apps. which are incomplete or without fee or without attested copies of the certificates in support of caste (in the form prescribed by the Government for SC/ST/OBC candidates), age, eligibility, qualification and experience will not be considered
- (v) If app. is routed through the employer, 'Advance Copy' with fee should be sent to Board's Office directly (vi) Quote Roll No. in all communications

Note For staff candidates, separate eligibility criteria, have been laid down by the Bank

CANVASSING IN ANY FORM WILL BE A DISQUALIFICATION.

K. FOR FULL DETAILS REGARDING ELIGIBILITY, RELAXATION IN UPPER AGE LIMITS, SCHEME OF SELECTION, SYLLABI, SERVICE CONDITIONS/CAREER PROSPECTS, GENERAL INSTRUCTIONS, ETC. CANDIDATES MAY REFER TO DETAILED ADVERTISEMENT PUBLISHED IN EMPLOYMENT NEWS/ROZGAR SAMACHAR DATED 17TH AUGUST 1996.

(Continued on Page 2142)

is the degree to which one attains those goals which governs the value, respect and authority with which one is publicly endowed. This also governs the feeling of power that one experiences. But when a public political order of ranking is lacking, the activity of self-overcoming lacks either a direction, or the conditions of its public significance, that is the public ranking of virtues.

It is this very aspect of Nietzsche's thought which had made it complicitous with Nazism's quest for the perfect heroic figure. It is true that Owen avoids the use of this term and substitutes integrity, truth and justice as desirable virtues, but the logic of the argument is that anyone who possesses these qualities is popularly seen in terms of heroism. The very logic of Owen's argument leads to this - perhaps unforeseen - consequence. And we know the Nazi quest, for such a figure was to have disastrous consequences for humanity. But even if we disregard this historical (ab)use of Nietzsche, the idea which is involved in the concept of public ranking of people is unfortunate. To construct a noble figure which is publicly accepted as the model for individuals - no matter how impeccable his credentials may be - and then to ask people to aspire to this figure is frankly distasteful.

For the idea that some individuals deserve more respect than others, opens the way to rampant inequality. To value some figures because they conform to societal interpretations of virtue, is to value individuals for what they do, rather than for what they are, which is the stuff of foundationalist theories of human rights. To set up models of integrity and good behaviour, so that human activity towards becoming more perfect can be given a direction, automatically rules out those individuals who do not conform to some public image of what is virtuous. Sorry, David Owen, you cannot get out of this conundrum by arguing that since the desirable virtues are those of justice and truthfulness, they cannot be questioned. For by cancelling out the idea of transcendental notions of truth and justice a la Nietzsche, you have been left with no handle with which you can privilege these virtues. And all your skillful handling of this vexatious aspects of Nietzsche's philosophy cannot rescue it from the very legitimate charges which have been levied against it. Nietzsche cannot be an alternative to the problematic questions of liberalism, since his conceptualisations lead us in different directions altogether.

Notes

- 1 John Rawls, A Theory of Justice, Oxford University Press, Oxford, 1971
- 2 John Rawls. Political Liberalism. Columbia University Press, New York, 1993.
- 3 Michael Sandel, Liberalism and the Limits of Justice, Cambridge University Press, Cambridge, 1982
- 4 Ibid, p 53
- 5 I must admire the way that Owen, in carrying out a critique of Rawlsian philosophy through the lens provided by Nietzschean perspec-

tives, is respectful of the contributions made by the philosopher. And he persuades me at least that flattery lies not in imitating Rawls but in

engaging with his very engaging works.

Thomas Nagel, The View From Nowhere, Oxford University Press, Oxford, 1986.

Tradition and Modernity in Islam

Asghar Ali Engineer

Colonisation of Islam by Jamal Malik; Manohar, Delhi, 1996; pp 359.

THE colonisation had deep impact on the cultural and religious institutions of the colonised countries. In certain cases these institutions changed beyond recognition and in some cases they were substantially transformed. In some cases they absorbed western influences without apparently changing. There are few studies of the impact of western colonisation on the traditional institutions of the colonised countries. Jamal Malik of Pakistan undertakes such a study of Pakistan's traditional institutions. It is a fact that the intellectuals of the colonised countries thought themselves to be backward and considered it a matter of pride to absorb western influences. Some of them were thoroughly westernised, cut off from traditional roots.

Since Malik's study is in the Pakistani context, he limits himself to the Islamic institutions of the pre-partition period in India, and those of Pakistan after partition. Thus, in case of Islamic institutions he observes, "It is plausible that Muslim intellectuals picked up this concept of backwardness, accepted it as a fact, and finally attempted to stop the supposed decay of Islam by adopting western values and forms. This perception today serves to lend support to the 'third world' modernisation strategies. The precondition for this was to create a division of the world into modern and non-modern."

This division into modern and non-modern has become fundamental today. Those who refuse to abandon integrity of traditional institutions are thought to be backward and non-modern. There are others, on the other hand, who stand by change and try to convince others that modernity, properly understood, does not pose a threat to Islamic identity. Well, traditional intellectuals do feel it to be a great threat and shun it completely.

Pakistan's case is quite interesting though complex. The author points out, "Constitutionally, Pakistan is an Islamic state. Its legislative foundation supposedly is based on the Hanafi interpretation of Islam but till today the colonial legal system, such as the Pakistani Penal Law, is widely applicable. Besides these two legal systems, officially recognised since the Islamisation drive of 1977, customary law ('urf) is popular in most areas of Pokistan, subject to regional variations. Beyond three legal systems, there is the legal system of Shia which accounts for 10-15 per cent of the population and the 'legal perception' of the so-called fundamentalists who basically reject any orientation towards the major legal schools. They consider *Koran* and *Sunnah* as the only binding sources for the interpretation of law". This clearly shows how complicated the whole situation is. It is, therefore, quite interesting to study various institutions under a proper framework.

It is also interesting to note that before the impact of colonisation was felt, religion throughout medieval ages was more a matter of faith than an ideology of the state and society. Religion, specially Islam, assumed the role of a political ideology - and deemphasising its role as a faith - under the impact of colonialism. The author, therefore, rightly points out, "the process of ideologisation of Islam can therefore be understood as the intellectual response to the cultural domination of the western world in the 18th and 19th centuries". However, the author also maintains that it was only during the time between the two world wars that Islamic intellectuals started to re-evaluate Islam as a political ideology analogous to that of the western world and to extend it. Islam was now meant to cover all those areas which in the course of colonisation had been integrated into Muslim society as European structures. In this sense, according to the author, "Islamisation at first is a justification of the integration of western values and norms and thus of the colonial structures and not the dissemination of Islam in hitherto virgin un-Islamic regions". Socio-historically the process of ideologisation is outlined by the author as follows: traditional agrarian sector (TAS); colonial agrarian sector (CAS). Parallel to this emerged traditional urban sector (TUS) and colonial urban sector (CUS). The colonial sectors were connected via infrastructure and represented the colonial society. The author includes, in colonial structures higher grades in the army, police, administration and infrastructure, pirs, sayyids, shrines, waqf, universities, hostels, foreigners, capital, state sustained social system, political parties, freelance, self-employed, members of parliament, intelligentsia.

The author also draws our attention to two categories of Islamisation: traditional and integrationist. Integrationist Islamisation is integration of Islam and western norms and structures. In this light he examines the Islamisation of various institutions in Pakistan. He examines the Pakistani institution like the Council of Islamic Ideology (CII), madrasas controlled by traditional 'ulama (Deobandi, Barelwi, Ahl-e-Hadith and others).

The author points out at length how complicated is the task of Islamisation in Islam in view of different schools of thought. For example, he quotes Tanzil al-Rahman who expressed his fear at the time of the third Pakistan-French colloquium in 1982 that Islamisation is not implementable due to different Islamic interpretations prevalent in Pakistan. The author also points out that even during the Zia's period the 'ulama were merely tolerated by the state. This becomes evident in different speeches which Zia and other members of the cabinet made at 'ulama and masha'kh conventions and other official forums. It is said that even the president, not to speak of the bureaucracy becoming uneasy about the 'ulama, was not prepared any more to appoint any divines and theologians to the Council of Islamic Ideology He thought they were not concerned with contemporary issues but were only interested in being respected by their students. Zia ul-Haq is also said to have expressed his uttar disappointment regarding the 'ulama during the activities of the National Committee on Dini Madaris.

The author discusses various institutions in Pakistan like Islamic endowments, the Zakat system, the Islamic system of education, etc., and devotes a chapter to each subject. On the chapter on the Islamic system of education, the author says that during the Ayub regime only those persons were considered to be literate who had enjoyed a formal education (i.e., western, secular education), while even a student who had reached the highest degree of a madrasa was considered an illiterate. This concept which Malik feels is widespread among representatives of the colonial sector to this day, is reminiscent of the eurocentric outlook of Macaulay

After scholarly discussion of various issues in his book, Malik concludes, "Islamisation is an approach to curb autonomous and autochthonous institutions that have not only hitherto existed and functioned more or less peacefully but have also given identities to the masses". He also maintains that the study of the sociological basis of supporters of Islamisation points out to the fact that only a small religious elite and those integrated into a (post)-colonial system are busy defending their state through this policy. These elite are bound to draw their perceptions of state and society not only in contrast to western ideologies but also in conformity with them. They are committed to a Weltanschauung which can cope with the west, not by abolishing the given structures but by enlarging the sphere of the state from which they receive their identities and in which they reproduce themselves.

The book is a thorough and scholarly study of Islamisation and its impact on the Islamic institutions in Pakistan. The author has substantiated his thesis with wealth of data which he seems to have collected with great patience and labour. The book undoubtedly will be of great interest for scholars and for those who want to understand the process and consequences of Islamisation.

(Continued from Page 2140)

FORMAT OF APPLICATION

LAST DATE FOR RECEIPT: 07.09.1996 Note: In case of non-receipt of AL contact in-Charge of Reserve Bank of India of respective centre one day before WE. RESERVE BANK OF INDIA SERVICES BOARD, MUMBAI Advt No 2/96-97 Affix a signed Research Officers Post applied for recent passport in Grade 'B' size photograph 5 cms. x 7 cms. 2. Examination Centre Code No Particulars of Demand Draft/Postal Order(s) enclosed (for Rs.50/-) Name and Branch of No and date of DD / Amount (As) Drawee Bank / Postal Order(s) Denomination of Postal Order(s) Name in full Shri / Smt / Kum (BLOCK LETTERS) Date of Birth YEAR DAY MONTH Age (as on 01 08 1996) Years _ Months _ Days Details of age relaxation claim, if any (with documentary evidence) Pin Code _ Postal address Phone No --- ----Fick (∠) category to which you belong (SC/ST/OBC candidate to enclose copy of Caste Certificate from Competent Authority) Other Backward General Scheduled Scheduled (G) Class (OBC) Caste (SC) Tribe (ST) (B) Staff . Yes / No Ex-Serviceman Yes / No Migrant/Repatriate Yes / No (Delete inapplicable) Permanent address Phone No Pin Code 10 Educational Qualifications (Graduation and above) Examination Year of University / Main Division with passed passing Institute subjects % marks Graduation 11 Details of Experience, etc. Name and address Designation Period Nature of of Employer From To Experience 12. I hereby declare that all the statements made in this application are true, complete and correct to the best of my knowledge and belief. I understand that, if at any time, it is found that any information given in this application is false/ incorrect or I do not satisfy the eligibility criteria according to the Board, my candidature/ appointment is liable to be cancelled/terminated I have also read and understood the rules of the examination as given in the General Instructions.

Place ____ Date ____

Ends.

2142

Signature of applicant

Name

Remembered Villages

Representation of Hindu-Bengali Memories in the Aftermath of the Partition

Dipesh Chakrabarty

This paper discusses a set of essays first serialised in the Bengali newspaper Jugantar from 1950 on and later collected together in 1975 in a book called Chhere Asha Gram ('The Abandoned Village'). Written in the aftermath of the partition, these essays capture the sense of tragedy that the division of the country represented to the authors.

There are two aspects to this memory: the sentiment of nostalgia and the sense of trauma, and their contradictory relationship to the question of the past. A traumatised memory has a narrative structure which works on a principle opposite to that of any historical narrative. At the same time, however, this memory, in order to be the memory of a trauma, has to place the Event within a past that gives force to the claim of the victim.

The native village is pictured as both scared and beautiful, and it is this that makes communal violence an act of both violation and defilement, an act of sacrilege against everything that stood for sanctity and beauty in the Hindu-Bengali understanding of what home was. Muslims are mentioned in these essays; indeed their depiction is critical to the depiction of an idyll, but their 'traditions' are not part of the sacred or of the beautiful.

MEMORY is a complex phenomenon that eaches out to far beyond what normally constitutes a historian's archives, for memory s much more than what the mind can emember or what objects can help us locument about the past. It is also about what we do not always consciously know hat we remember until something actually, is the saying goes, jogs our memory. And here remains the question, so much discussed hese days in the literature on the Indian partition, of what people do not even wish o remember, the forgetting that comes to our aid in dealing with pain and anpleasantness in life.1 Memory, then, is far more complicated than what historians can recover and it poses ethical challenges to the investigator-historian who approaches the past with one injunction; tell me all.²

The set of essays I propose to discuss here turns fundamentally on this question of difference between history and memory. They were first serialised in the Bengali newspaper Jugantar from 1950 on and later collected together in 1975 in a book called Chhere Asha Gram ('The Abandoned Village') under the editorship of Dakshinaranjan Basu, a journalist in Calcutta.3 The names of the authors of the individual essays are not mentioned in the book nor do we have any idea of their age or gender though one would suspect, from the style of writing, that with the exception of one, the essays were written by men. The authors recount their memories of their 'native villages' - 67 in all - of East Bengal belonging to some 18 districts. Written in the aftermath of the partition, these essays capture the sense of tragedy that the division of the country represented to these authors. This attitude was more Hindu than Muslim, for too many if not most of the Muslims of East Pakistan, 1947 was not only about partition, it was also about freedom, from both the British and the Hindu ruling classes.⁴

My aim is to understand the structure of sentiments expressed in these essays. One should remember the context. There is no getting around the fact that the partition was traumatic for those who had to leave their homestead. Stories and incidents of sexual harrassment and degradation of women, of forced eviction, of physical violence and humiliation marked their experience. The Hindu Bengali refugees who wrote these essays had to make a new life in the difficult circumstances of the overcrowded city of Calcutta. Much of the story of their attempts to settle down in the different suburbs of Calcutta is about squatting on government or privately owned land and about reactive violence by the police and landlords.5 The sudden influx of thousands of people into a city where the services were already stretched to their limits, could not have been a welcome event. It is possible, therefore, that these essays were written with a view to creating a positive emotional response in the city towards the refugees. The essays were committed to convey a shared structure of Bengali sentiment through the grid of which the irrevocable fact of Hindu-Muslim separation in Bengali history and the trauma surrounding the event could be read. The question of creating in print something of the sentimental and the nostalgic about the lost home in the villages of East Bengal was the task that these essays had set themselves. Not surprisingly, therefore, they drew on the modes in which 'the Bengali village', and

in particular the villages of East Bengal had already been seen in Bengali literary and nationalist writings.

There are then two aspects to this memory that concerns us here: the sentiment of nostalgia and the sense of trauma, and their contradictory relationship to the question of the past. A traumatised memory has a narrative structure which works on a principle opposite to that of any historical narrative. At the same time, however, this memory, in order to be the memory of a trauma, has to place the Event - the cause of the trauma, in this case, the partition violence - within a past that gives force to the claim of the victim. This has to be a shared past between the narrator of the traumatic experience and the addressee of the narration. Yet it cannot be a historicist version of the past, one that aims to diffuse the shock of the traumatic by explaining away the element of the unexpected. Let me explain.

Consider what makes a historical narrative of the partition possible. A historical narrative would lead up to the event, explaining why it happened and why it happened at the time it did. Indeed, for a historical analysis of the event of the partition, the event itself would have to be fundamentally open to explanation. What cannot be explained normally belongs to the marginalia of history accidents, coincidences, concurrences that remain important to the narrative but which can never replace the structure of causes that the historian looks for. Conceived within a sense of trauma and tragedy, however, these essays maintain a completely different relationship to the event called the partition. They do not lead up to it in their narratives, the event of the partition remains

tundamentally an inexplicable event. Nothing, it is claimed, could have prepared the narrators for the ethnic hatred they were subjected to in what they considered their own homelands. The authors express a sense of stunned disbelief at the fact that it could happen at all, that they could be cut adrift in this sudden and cruel manner from the familiar worlds of their childhood. Nothing here of the explanations of Hindu-Muslim conflicts that we are used to receiving from historians - no traces of the by-now familiar tales of landlord-peasant or peasantmoneylender conflicts through which historians of 'communalism' in the subcontinent have normally answered the question, why did the Muslim population of East Bengal turn against their Hindu neighbours? Here the claim is that this indeed is what cannot be explained. The writers of these essays are all caught unawares by this calamity. One refrain running through this book is how inexplicable it all was neighbours turned against neighbours after years of living together in bonds of intimacy and affection, friends took up arms against friends. How did this come to pass? This is the question that haunts the book. As the following quotes from Chhere Asha Gram will show, the event was not only seen as inexplicable, it was also seen as something signifying the death of the social:6

Dhirenbabu used to teach us history... He had been the Headmaster of our Jaikali high school for the last few years. Even a short time ago, I had heard that he was still in the village. I saluted his courage on hearing this.. But, to my surprise, he turned up in my office one day and told me about his plight. He and his companions were attacked by the friends of the very student who had advised him to leave while he still commanded respect. Eventually, he managed to extricate himself and his family in exchange of two hundred rupees, thanks to some mediation by his favourite student, and crossed the Padma to come to Calcutta. But the simple-hearted teacher from a village school remained in a state of shock - what was this that had happened? how did it happen? All these questions crowded his mind. The age of Ekalabya is now in the womb of a bottomless past, we all know that it will not return. But still it was unthinkable that in the land of the newly independent Pakistan, it is the guru who would have to pay the student... Yet this happened and who can tell if this will not be the permanent rule in the kingdom of shariat? (p 7)

Hindus, Muslims, Sikhs, Christians have always treated women with respect, what is this that happened today? (village Shonarang, Dhaka district, p 57)

How could that land become somebody else's for ever! Just one line drawn on the map, and my own home becomes a foreign country! (Binyapher, Mymensingh, p 66) True, my home is in a country to which I

nave no relation. The house is there, the village is there, the property exists but I am homeless today. The suffering of somebody who has had to leave his home can only be appreciated by a person with a large heart... Man, the son of the immortal one, knows no happiness today - pleasure, security, peace, love and affection have also left the land with us. On all four sides exist the filthy picture of mean intrigues. Where have the images of the olden days - of happy and easy-going people and villages disappeared?... Who has stolen our good qualitics? When will we be delivered from this crisis of civilisation? What happened was beyond the comprehension of ordinary human beings. By the time they could [even] form an idea [of the situation], the destruction was complete (Sankrail, Mymensingh, pp 88-91).

Why was the innocence of the mind banished after so many days of living together? Why did the structure of the human mind change overnight? (Sakhua, Mymensingh, p 101). Who would have thought that the country would be engulfed in such a fire? Brothers fight and then make up to each other but the common person had no inkling that the single spark of the day would start such a conflagration (Kanchabali, Barisal, p 122). Who is the conspiratorial witch whose [black] magic brought death to the cordial social relations that were to be seen even only the other day? Why does man avoid man today like beasts? Can't we forget meanness, selfishness, and fraudulent behaviour and retrieve [the sense of] kinship?... Was our kinship based on quicksand, why would it disappear into such bottomless depths? (Rambhadrapur, Faridpur, pp 155, 156)

I am today a vastuhara in this city of Calcutta. I live in a reliet camp. Some in this camp have contracted cholera. A vastuhara child died of pox this morning when I received a handful of flattened rice. I do not dare to approach the 'relief babu' who only gets into a rage if I try to say something. I do not ask, why this has happened...At the time of our leaving, I asked for [a loan of] the boat that belongs to the grand-son of Nurshvabi without realising that he also had turned against us. We tiptoed our way under the cover of darkness from Patia to Chakradandi. (Bhatikain, Chittagong, p 194).

And our Muslim neighbours? For eons we have lived next to them sharing each other's happiness and suffering, but did they feel the slightest bit of sadness in letting us go? Did it take only the one blow of the scimitar of politics to sever for ever the kinsh'p that had been there from the beginning of the eras? (Ramachandrapur, Sylhet, pp 235-36).

On the day of the Kali puja we used to take care of the sacrificial goat, carefully feeding them leaves of the jackfruit tree and carrying them... and stroking them all day. But we never felt any pain at the moment when we pushed toward death this creature that we

had looked after with so much care all day. We were not old enough to explain then these contradictory qualities of the mind but today it surprises me a lot to think about it. [But] isn't that what has happened all over Bengal? (Bheramara, Kustia, p 293).

This very ascription of an inherent inexplicability to the event of the partition is what gives these essays their pathos. They are more like the helpless recall of a victim overtaken by events and less like the reminiscences of one in narrative control of them. And this, I suggest, is the first important distinction we have to note between history and memory (for the Bengali bhadralok) of the partition in Bengal. History seeks to explain the event, the memory of pain refuses the historical explanation and sees the event causing the pain as a monstrously irrational aberration.

These are undoubtedly essays written in the spirit of mourning, part of the collective and public grieving through which the Hindus who were displaced from East Bengal came to terms with their new conditions in Calcutta. Yet we have to remember that this grieving was being publicised in print, perhaps in the cause of the politics of refugee rehabilitation in West Bengal in the 1950s that Prafulla Chakrabarti has written about in his book The Marginal Men. This mourning therefore had the political task of garnering sympathy by speaking, at least in theory, to the entire readership of the Bengali press.

I

There are two Bengali words for 'refugee', sharanarthi, meaning, literally, someone who seeks refuge and protection, sharan, of a higher power (including God); and udvastu. somebody who is homeless but homeless in a particular sense, the word 'home' carrying a special connotation. The word vastu used here to mean 'home' is a Sanskrit word of Vedic vintage. Monier-Williams defines it as meaning, among other things, "the site of foundation of a house"." In Bengali the word is often combined with the word bhita (or bhite), a word connected to the Sanskrit word bhitti meaning 'foundation'. The idea of 'foundation' is in turn tied to the idea of 'male ancestry' so that the combined word vastuvita reinforces the association between patriliny and the way in which one's dwelling or home is connected to the coception of foundation. One's permanent home is where one's 'foundation' is (the subject of this imagination being, undoubtedly, male). The Bengali language has preserved this sense of distinction between a temporary place of residence and one's foundational home, as it were, by using two different words for a house, basha and bari. Basha, no matter how long one spends in the place, is always a temporary place of residence, one's sense of belonging there is transient. Bari, on the other hand, is where one's ancestors have lived for generations. Middle-class Bengali Hindus of Calcutta, when it came to ritual occasions to do with life-cycle changes (such as marriage), often refer to the ancestral village in explaining where their bari was while their basha might bear a Calcutta address.9 Bari would also be exchangeable with the word desh, signifying one's native land. An udvastu then - the prefix 'ut' signifying 'off or 'outside' - was someone who had been placed outside of where his foundations were. And since this was not a desirable state, it could have only come about through some application of force and/or through some grave misfortune. For the ability to maintain connections with one's vastubhita across generations is a sign of being fortunate, a fortune that itself owes something to the auspicious blessing of one's ancestors. This idea of 'home' was extended during the course of the nationalist movement into the idea of the 'motherland' where Bengal became the name of part of the world made sacred by the habitation of the ancestors of the Bengali people. To become an udvastu was thus to be under some kind of an extreme curse. And if this curse had befallen somebody through no fault of their own, they deserved sympathy and compassion from others. This could indeed be the language of one's self-pity as well. But when a refugee spoke in this language of self-pity, he spoke, obstensibly, for the nation. "I recall", wrote one contributor to Chhere Asha Gram, "that about 12 years ago when a household in our village lost their only son, Deben, my grandmother remarked in sadness, 'What a pity, there is nobody left to light the lamp at Sarada's bhite [this being an auspicius ritual of middle-class Hindu wellbeing]'. Today, every Hindu family in East Bengal, even if they are blessed with sons, is bereft of people who might have lit the lamp at their bhite.10

To achieve this effect of speaking for the Bengali nation, the essays in Chhere Asha Gram have recourse to a particular kind of language, one that combines the sacred with the secular idea of beauty to produce, ultimately, a discourse about value. These are narratives that have to demonstrate that something of value to Bengali culture as a whole had been destroyed by the violence of the partition. The 'native village' is pictured as both sacred and beautiful, and it is this that makes communal violence an act of both violation and defilement, an act of sacrilege against everything that stood for sanctity and beauty in the Hindu-Bengali understanding of what home was. There are four narrative elements that help achieve these ends. What gives the 'native village' its sacredness is patriliny, its ancestral connection. Worshipping of the land of the village was the equivalent of worshipping one's ancestors. The language of secular

aesthetics is provided, on the other hand, by three different ingredients, all identifiably modern in character. They were: the idea (and hence the relics) of antiquity, connections the individual village may have had with recent nationalist history, and modern secular literary descriptions of the beauty of the landscape of rural Bengal. Altogether, this was a combination where sacredness was difficult to separate from questions of aesthetics. But one thing is clear: nothing in this combination had anything much to do with the Muslim pasts of Bengal. Muslims are mentioned in these essays; indeed, their depiction is critical to the depiction of an idyll but their 'traditions' are not part of the sacred or of the beautiful. The following excerpts will demonstrate this.

Discourse of Value I: Ancestry, Patriliny and the Sacred

I will refrain from framing the quotations that follow. They are self-explanatory. They all refer the reader to the narrative association between the sacred and patriliny. The reader will need no reminding that the figure of the mother, often evoked in describing one's sense of attachment to the land, is not a matriarchal conception.

In this urban life humming with the sound of work, a message of greeting from a friend reached me one evening. He had just returned from [having spent some time in] the lap of the village in which we were both born. The question he asked as soon as we met was: 'I have brought this ultimate treasure for you back from desh, can you guess what it might be?' ... Eventually, he surprised all by handing over to me a clod of clay. This was from the soil of my bhite, the 'Basu-house', sacred from the blessing of my father and grandfather This soil is my mother. The sacred memory of my forefathers is mixed with this soil. To me this was not just of high value - it was invaluable. I touched this clod to my forehead. This is no ordinary dust. This clay is moist today with the blood that has been wrung out of Bengal's heart. (Bajrojogini village, Dhaka district, p1).

For seven generations we have been reared on the affection and grace of this land, perhaps our yet-to arrive progenies would have one day made this land their own. But that hope can only feel like a dream today. (Khaliajuri, Mymensingh, p 73).

An obscure.. village though it is, Gomdandi is a veritable part of historic Chattagram (Chittagong). In so far as can be gathered from history, it is observed that my ancestors Madhabchandra Majumdar, exasperated by the oppression of the bargi [Maratha raiders], left Bardhaman for Chattagram nearly two hundred 200 years ago and founded a settlement there in the village of Suchia north of the river Sankha. Sometime later ...Magandas Choudhuri came to his farm in

Gomdandi village and built a homestead there ... The village that is more-valuable-than-gold, where my forefathers had grown up for seven generations, where is that village lost today? Where is Gomdandi today and where am 1? (Gomdandi, Chittagong, pp 195, 197). 11

But no friends stopped us and no Musalman neighbour told us not to go, the day we, driven by the need to save our honour and life and with no fixed destination, left for ever the sacred land of our place of birth where our forefathers for seven generations had had their bhite (Ramachandrapur, Sylhet, p 235)

We did not want to think that we might have to leave the village. Yet we had to leave and come away Everybody did their last act of obersance on the day of our departure - at the foot of the Tulasi tree [a sacred plant bringing well-being to the Hindu homestead]. in the deity-room, even at the door of the cowshed. My old aunt would not leave the threshhold of the deity-room, her tears and the sadness of the moment wetted my heart too. The village, associated with the many memories of my forefathers, was like a place of pilgrimage to me. On that last evening, I prepared myself for the departure with a respectful salute in the direction of the village, my mother. (Amritabazar, Jessore, p 241)

I wonder, will it not ever be possible to go back to the lap of the mother we have left behind? Mother – my mother-land · is she truly of somebody else's now? The mind does not want to understand (Dakatia, Khulna, p 257)

DISCOURSE OF VALUE II. ANTIQUITY, HISTORY AND NATIONALISM

It is understandable that the remembered village would derive some of its value from the associations it could claim with the nation's antiquity and anti-colonial struggle. The point to note is how unselfconsciously this association becomes Hindu. Nothing that the Muslims could take pride in feature in these accounts. Some excerpts follow:

The name of Bajrojogini is unforgettable in the history of Bengal—this is the place of birth of [the] ancient scholar Dipankar Srigyan Atish. The historical village of Rampal next door—the seat of the Sena kings—is without any beauty today. I had listened to speeches by the Congress leader Surya Sen at the time of [the] non-cooperation[movement] (Bajrajogini, Dhaka, pp. 3, 5).

Sabhar, my village, is one of the main centres of commerce in the district of Dhaka. In her breast she carries centuries of indestructible history, fading skeletons of ancient civilisations...It was here that the lamp of [learning] of Dipankar Srigyan was lit first, it was here that his education started in the house of the guru. Sabhar then was a city

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of supremacy, the capital of Kaja Harishchandra, adorned with all kinds of wealth (Sabhar, Dhaka, p 10).

Dhamrai, a place of pilgrimage. In the very ancient days the Sanskrit name was Dharmarajika. The modern name of Dhamrai was derived from the Pali name Dhammarai Truly, the people of Dhamrai were mad about religion. But what is this result of so much cultivation of dharma? – The people of Dhamrai are themselves without a dham (place)! (Dhamrai, Dhaka, p 19)

The well known educationist Dr Prasannakumar Ray and the once-famous doctor of Calcutta Dr Dwarkanath Ray were both born in this village. It was in this village that Pandit Krishnachandra Sarbabhauma, a logician of yore belonging to the whole of Bikrampur and the neighbouring regions, lived in a thatched hut, teaching Sanskrit to the students of his tol [traditional school for learning Sanskrit]. (Shubhaddhya, Dhaka, p 42)

The history of my village is the history of peace. Its historical heritage makes it great. It contains the ruins of the Buddhist period...The successful women and men of this village come to mind. Some of the people from here have become famous professors, some ICS [officers], while some have gone to Europe as representatives of independent India (Shonarang, Dhaka, pp 54, 59).

Banaripara occupies a special place in [the annals of] all the political agitations, from the Swadeshi movement of 1905 to the nonco-operation and the civil disobedience movements. The contribution of this village in the freedom struggle of the country is truly great. The 16-year old youth, Bhabani Bhattacharya, who gave his life to the hangman for trying to kill the then governor [Mr] Anderson at a place called Lebong in Daijeeling in 1934, was an unselfish son of this village (Banaripara, Barisal, p 108). My village has remained blessed and sacred ever since it received the touch of the sacred feet of Netaji Subashchandra [Bose] (Gabha, Barisal, p 113).

It is said that it was during the reign of the emperor Shahjahan ...that the Bosu family settled here. Under the protection of Kandarpanarayan, the *Bhuians* of Chandradwip, a great and civilised society grew up in the neighbouring villages of Gabha, Narottampur, Banaripara, Ujirpur, Khalishakota and so on (Kanchabalia, Barisal, pp 118-19).

Many, instead of going to Navadweep, would come to the world-conquering pandit of this village, Jagannath Tarkapanchanan. I have heard that some of the stone images and stone inscriptions of Nalchira have found a place in the Dhaka museum (Nalchira, Barisal, pp 141-42).

Navadweep, Bikrampur, Bhatpara – the place of our Kotalipara is inferior to none among these jewels of the crown of brahmanical knowledge in Bengal. (Kotalipara, Faridpur, p. 148)

I his young brahman named Rajaram Ray features as a footnote to the history of Bengal. By the sheer force of his arms, Rajaram ... tounded the settlement of this Khalia village. Gradually, his thatched hut was converted into a seven-winged palace. Only a fourth of that huge palace exists today (Khalia Faridpur, p. 164).

I have mentioned the copper-inscriptions of Kumar Bhaskar. discovered only two miles away from our village. The Kushari river described in those inscriptions still flows past our village from this may be gauged the antiquity of the villages in this area (Ramchandrapur, Sylhet, p 236).

Senhati is one of the famous villages of East Bengal.. There is a saying that Ballal Sena made a gift of this village to his son-in-law Hari Sena...It was Hari Sena who named it Senhati. The Digvijaya-prakasha says that Lakshman Sena established a town called Senhati near Jessore.. Be that as it may, we do not need history now any more, Senhati today exists in its glory. I am a son of that village. That is what makes me proud (Senhati, Khulna p. 248).

The village is self-sufficient. Its name is Ghatabari. The fittle river Atharoda flows past it A few miles away is Bhangabari, the birth-place of the poet Rajanikanta Sen. Raja Basanta Ray is the person whose name is unforgettable in the history of this village. The ruins of his palace are still there in the village next door (Ghatabari, Pabna, p 277)

What I have heard about the history of the village is this Sati, the goddess, killed herself on hearing Daksha [her father] speak ill of her husband [Shiva]. One of the fifty-one pieces [of her body] fell on this obscure village Bhabanipur in north Bengal (Bhabanipur, Bagura, p 303).

Let me tell you the history of the name Borla. Budhraja built a big fort and a royal palace over two square miles. With the passage of time, a temple was built at the fort, the temple of the goddess Budheswari. Gradually, the name was transformed in ordinary speech to Bodeswari, and from that came Boda (Boda, Jalpaiguri, p. 315).

DISCOURSE OF VALUE III: IDYLLIK VILLAGE, BENGALI PASTORALISM AND LITERARY KITSCH

Apart from antiquity and the glories brought about by the village's participation in the life of the nation there is also a present of the village but it is an eternal present. The village lives in an idyllic present into which intrudes the beast of communalism. The writers of the essays in *Chhere Asha Gram* are not the first to create this idyllic picture of the Bengali village. The picture had been developing since the 1880s, the time when nationalist writers such as Bankimchandra Chatterjee and later Rabindranath Tagore and a whole host of others drew upon new

perceptions of the countryside to create, for and on behalf on the urban middle classes, a powerfully nostalgic and pastoral image of the generic Bengali village. Thus the basha/bari distinction was rewritten into a much larger opposition between the city and countryside. I do not have the space to develop the point here but a few words may help set this document into its own context.¹²

The geographical name 'East Bengal' may have been of modern colonial and administrative origins but the languages and the ways of the people of the eastern side -people usually called 'bangals' by their detractors on the west - were for long an object of amused contempt in the western side of Bengal. We know, for example, that the great Bengali Vaishnava leader Chaitanya of the 15th-16th century reportedly once entertained his mother after his travels in the east by deliberately mimicking the manners of speech of the 'bangal'.13 This tradition surfaces in Calcutta in the mid-19th century when the city expands as European rule consolidates itself and people from the eastern side begin to move to the city in large numbers.11 It is significant that Bhabanicharan Bandyopadhay's text Kulikatakamalalaya (1823) while using the figure of the 'stranger to the ways of the city' does not make the 'stranger' speak in the bangal accent.15 The bangal, it would appear, does not feature as the butt of jokes until well into the 1850s. By the 1860s, however, the bangal emerges as a standard laughing stock of the Calcutta stage, one of the most famous characters being that of Rammanikya in Dinabandhu Mira's temperance-inspired play, Sadhabar Ekadashi (1866). Rammanikya is immortal for the following lines reporting his pathetic attempts to become one of the city's sophisticated. His self pitying sentences would speak for a long time to the sense of marginality that migrants from East Bengal telt in a Calcutta dominated by the dandy descendants of the residents of the western half of the province:

I have eaten so much rubbish yet I cannot be like they are in Calcutta. What have I not done that is not Calcuttan-like? I have gone whoring, made my woman wear fine dhoti [the nromal sign of a widow], consumed biscuits from European houses, imbibed bandil (brandy) – yet in spite of all this I could not be a kalkatta-like! What use is this sinning body, let me throw myself into the water, let me be eaten by sharks and crocodiles. In

Both before and after independence, this image of the man from East Bengal has supplied much of the urban humour of Calcutta. Sometimes, in fact, gifted artistes from East Bengal have used this to their advantage as in the case of the pioneering

stand-up Bengali comedian Bhanu Banerjee who made a career in the 1940s and the 1950s selling precisely the accent Calcuttans loved to laugh at.17 But some significant changes in the cultural location of East Bengal began to take place from the 1880s as an emergent Bengali literary nationalism started to work out, in the poetry and music of Bankimchandra Chatterjee, Rabindranath Tagore and others, an image of Mother Bengal as a land of bounty. Accompanying all this was the idea of a Bengali 'folk' situated in the countryside and evincing, as against the artificiality of the city of Calcutta, the qualities of the Bengali 'heart' (another category essential to the romantic nationalism of the period).18 The village, as opposed to the city, became the true spiritual home of the (urban) Bengalis. The riverine landscape of East Bengal was as critical to this development as were new ways of seeing that landscape, including the influence on the Bengali imaginative eye of Sanskrit literature, of classical Indian music, and of European writings, paintings and the technology of the camera. Two major literary and intellectual figures should suffice as evidence, Tagore and Nirad Chaudhuri. Tagore's Chhinnapatrabali, a collection of letters written during the 1880s and the 1890s when his duties as landlord made him traverse East Bengal by boat, can be easily read as one of the first literary efforts in modern Bengali prose to describe the landscape deploying the idea of a western and painterly 'perspective'.

Some people's minds are like the wet plate of a photograph [the italicised words are in English in the original]; unless the photo is printed on paper right away, it is wasted. My mind is of that type. Whenever I see a scenery, I think I must write it down carefully in a letter.19

Our boat is anchored on the other side of Shilaidaha in front of a sandbank. It is a huge sandbank, a vast expanse, no end in sight, only the river appears as a line from time to time - there are no villages, no humans, no trees, no grass sturning the head to the east one can only see the endless blue above and down below an infinite paleness, the sky is empty and so is the earth, a poor, dry and harsh emptiness below and a disembodied, vast emptiness above. Nowhere is to be such desolation [in English] seen.20

I had sat outside barely for fifteen minutes yesterday when massive clouds collected in the western sky - very dense, disorderly clouds, lit up here and there by stealthy rays of light falling on them - just as we see in some paintings of storms?

Nirad Chaudhuri's self-conscious discussion of the Bengali landscape and his experience of it in the 1920s, shows the same changes to be still under way a few decades on. Chaudhuri's discussion is extremely aware of the recent origins of the practice

thing was", writes Chaudhuri, "that the Bengalis taken collectively showed no awareness of their natural environment, not even of their great rivers" and adds: "Generally speaking, when modern Bengalis acquired a feeling for the beauties of nature they showed it by a vicarious enjoyment of those described in the source of their new feeling, namely, English literature. Thus English and Scottish landscapes in their imaginative evocation became the staple of the enjoyment."22 Chaudhuri's own experience of coming to grips with the landscape of Bengal shows the modernity of the landscape-question in Bengali history Indeed, one could argue, nationalist perceptions of the Bengal landscape owed much to the labour of cultural workers such as Chaudhuri himself. He writes:

when I grew up I began to put this question to myself, does the Bengali landscape have any beauty .? I could not be sure ... But one day I had an experience which I can regard as conversion in the religious sense. That was in 1927 during that very last stay at Kishorgani I was always in the habit of taking long walks, and on that day I was strolling along the railway embankment northwards from Kishorganj After I had gone about three miles I suddenly noticed a homestead with half-a-dozen huts to my left, which was silhouetted against the sunset. There was a long pool of water by the side of the railway line ... There was the usual pond before it.. The whole scene was like one of Constable's landscapes, and I can confirm the impression after seeing the Constable country...I do not know if other Bengalis have felt like me, but for me it was like enlightenment bestowed in a blessed moment 21

It would be untrue to give the impression that this was all there was to the way the city/country question was given shape in Calcutta's urbanism. The nostalgic, folksy image of the village never died. In the early decades of the 20th century, however, after the emotionalism of the Swadeshi days had subsided, 'realistic' novels such as Saratchandra Chatteriee's Pallisamai helped develop yet another stereotype of Bengali rural society. Bengali villages, so often described as abodes of peace, now became the obstacle to Bengali enlightenment, dens of factionalism, casteist exploitation and malarial diseases, all making them deserving candidates for nationalist developmental work.24 Yet the softer image, located in the lush water-washed landscape of East Bengal, remained and was celebrated, for instance, in Jibanananda Das's sonnets Rupashi Bangla [Bengal the Beautiful] written in the 1930s (though published posthumously in the 1950s and soaring in popularity during the 1971 liberation war of Bangladesh).25 It

of seeing Bengal as beautiful. "The curious • is clear that by the time Bibhutibushan Bandyopadhyay's novel Pather Panchali was published, in 1927, it spoke to a dearly held urban image of the 'generic Bengali village' - a place, true, marked by suffering, poverty and sometimes a meanness of spirit but yet the abode of some very tender sentiments of intimacy, innocence and kinship. This was the picture of the Bengali village as a modern cultural value. The exact geographical location of the village of Nischindipur, the village where the story of Pather Panchali unfolds, was not relevant to the way Bengali readers appreciated the story. As Suniti Chatterjee, the noted linguist, said of the novel: "I have always lived in Calcutta but I have affection for the village. I feel that Nischindipur is familiar to me. Likewise, Apu and Durga's story seems to be our own, even though we have grown up in the city".26

It is not surprising, then, that journeys to East Bengal, to the countryside - should be a major feature of the literature dealing with the beauty of the Bengali landscape. For, quintessentially, that perception was urban. Tagore's eyes often frame the countryside through the window of his boat: "Now, after a long time, being seated near the window of my boat [English in original], I have found some peace of mind. ... I sit in a reclining position by the side of this open window. I feel the touch of a gentle breeze caressing my head. My body is weak and slothful having suffered a prolonged illness, and this nursing by nature, calm and soothing, feels very sweet at this time".27 Travel, by boat, is a major motif in Nirad Chaudhuri's appreciation of the Bengali landscape as well:

Consciously, I never credited Bengal with beautiful landscapes Yet when I passed through one or other of most commonly seen aspects of the Bengali landscape, for instance, a great river (and I have journeyed in boat and steamer on all the big three), the rice fields either in their green or in their gold stretching out to the horizon and billowing under strong winds, the bamboo clumps or the great banian tree, there was not one occasion when I did not lose my sense of being a viewer only and became one with these scenes like Wordsworth's boy. I shall never forget one such occasion. It was April 14, 1913, that I was going from Goalundo Ghat to Narayangani in the river

steamer Candor... I had just read about Turner's paintings in a book... The glow of his paintings, visualised by imagination, seemed to lie on the wide landscape all around me.28 Tagore, of course, was a landlord visiting

the countryside on business, and Nirad Chaudhuri, a salaried clerk in the city of Calcutta, visiting his familiy in East Bengal during holidays. But in either case, as in the case of so many other members of the Bengali bhadralok, it was a matter of accommodating the village and the country into the rhythm of an urban life, where the village and holidays stood in relationships of intimate association.

Chhere Asha Gram repeats these associations between urban life and images of the pastoral that informed the Bengali sense of a beautiful life which, it was said, was never theirs in the city. These themes appear in Chhere Asha Gram not as so many masterpieces of Bengali writing but as hackneyed expressions derived from Tagore and other sources, short cultural cliches, pieces of literary kitsch, aimed at the shared nostalgia of the city's bhadralok. In other words, this memory places the idyllic village squarely in the middle of the 'city-country' question as it had evolved in Calcutta's urban culture. Here, too, the beauty of the village is often tied to travel by boat and to the rhythms of holidays in urban working or student-lives, the holidays coinciding with religious festivals. I reproduce again a long string of quotations to illustrate how pervasive the sentiments are.

I remember the days of autumn. How long peop'e would wait the whole year for this season to come. And what preparation! The people who lived afar were returning home. Everyday new boats would come and lay anchor on the banks of the Dhaleshwari. We boys would crowd the [riverside] For a few days, Gangkhali was full of people. And everybody would renew their acquaintances (Shabhar, Dhaka, p 12).

The steamers on the Narayanganj line would leave Goalundo... and stop at Kanchanpur. The wind on the Padma would carry to our Stationghat the sound of the siren of departing steamers. And the sound would be heard in other villages across the Ilamora fields and the tanks of Aairmara... all the people of this district knew that their relatives who lived in exile in Calcutta were coming by those steamers (Notakhola, Dhaka, p. 47).

We are educated, we have tasted the intoxication of the city. We have lost our caste. That is why we feel international. Without tap-water and machine-made bread nothing tastes good to our palate... The door of returning back to the village has been shut for ever in our lives (Binyapher, Mymensingh, pp 68-69).

We had to take the ferry across the Jamuna after alighting at the Sirajganj ghat, and then take a boat to our village. I can clearly recall, even in darkness, the picture of the sun setting on the river. When the young sun, bright and bearing [the message of hope], appeared in the body of the sky, my head would automatically bow at its feet. I found life in the water of the river and youth in the sun... The taste of the gravy of rice and curried Hilsa fish that I used to have at the Sirajganj Hotel those

days still lingers in my mouth like the taste of nectar...(Sankrail, Mymensingh, pp 89-90).

My [village] Gomdandi, surrounded by the endless beauty of nature, had only green on all four sides. Whenever we could get over the seduction of the artificial environment of the city and find refuge in the green lap of the village, our mother, we would forget all the sadness and suffering of city-life... Travelling on boats with white sails along the Karnaphuli in the month of Bhadra and Aswin, when the river over-flowed both its banks, the exiles' minds would experience thrill at the very sight of the paddy fields... (Gomdandi, Chittagong, p 196). The puja[-holidays] are close. At this time of the year, every year, the mind yearns to go to Shilaida[ha]. As soon as we got off at the Kustia station, our hearts would fill up with an immeasurable sense of joy [Shilaidaha, Kustra, p 286].

I specially remember today the days of the Durga puja. Every year I would impatiently look forward to these days. A few days before the puja I would leave Calcutta for the village. The distance seemed inexhaustible The moment I set foot on the village station after a long journey, I felt like a king. Who am I in Calcutta? I am only one among the innumerable ordinary men. In my village, the station-master at the very sight of me would ask with smile. 'So you have come back to desh?' (Phulbari, Dinajpur, p 306)

It was within this city/country division that the village appeared both as an ideal and an idyll, its idyllic qualities enhanced - in the experience of the writers and in their telling of their stories - by allusions to literature and festivals. Both of these allusions, as we have already seen, actually direct our attention to the city where this literature was produced and where the major Hindu festivals punctuated the annual calendar of modern work. But they also imaginatively endow the village with its 'folk' character, festivals being particularly important to the construction of the folk.29 The literary allusions are sometimes direct and sometimes buried in the very style of writing:

Whenever I could break the harsh and gloomy bonds of the city and placed myself within the affectionate and calming embrace of my mother-country, I would remember the truth of the great message of the Kaviguru [Tagore]... In a moment I would forget the insults, suffering and the weariness of the city. (Gabha, Barisal, pp. 111-12).

Today I am a man of Calcutta. But I cannot forget her in the dust of whose sari-wrapped tender soil I was born... The moment I get a holiday, I feel like running away to that village three hundred miles away. I wish I could walk along the tracks of that dream-tinged green village of Bikrampui

and sing like I used to as a child: 'Blessed is my life, Mother, that I have been born in this land.' [Tagore] (Bajrajogini, Dhaka, p. 4).

H

Where was the place of the Muslim - or indeed of people who were not Bengalis in this idyll? This Bengali home - that the village was supposed to be - was it without a place for the Muslims? The language of kinship is one of the means by which the Other is absorbed into the idyllic and harmonious village. The Muslims participated in the Hindu festivals and thus were narratively absorbed into the image of the eternal Bengali folk. The boatmen and other Muslims treated their Hindu passengers with civility, and are hence placed within the pleasures of the putative bonds of village-life Eventhe market-place is seen as an extension of this harmony (pp 203, 215). The imputed idyllic nature of this home helps to place in sharp relief the inexplicability of communal violence and the sense of trauma that the violence produced.

There was a woman who belonged to the Muslim community of a distant village We called her Madhupishi [auntie Madhu] It was said that she had no family. She would often come to our house. We were apparently all she had -- there is no counting of the number of times she would say this. Never did the thought arise in our minds that Madhupishi was Muslim. She would often bring for us presents from her house or fruits and herbs from the field. We would receive them with eagerness and joy. Not only this A group of Bihari people villagers from Bihar, 'had become people of this village, sharing our soul. Are they still there in my village? In our childhood we noticed that the Muslims' joy at Durga Puja was not any less than ours. As in the Hindu households, new clothes would be bought in their houses too. Muslim women would go from one neighbourhood to another to see the images [of Durga] (Shabhar, Dhaka, pp 8, 13)

The moment the college closed for the summer vacation, my mind would be restless to go to the village. Barisal is full of waterways. When would the steamer arrive at the Gaurnadi station? with what anticipation I would look torward to it. As soon as I reached the ghat, Shonamaddi, the [Muslim] boatman, would smile his ever-familiar smile and say, 'Master, so you have arrived? Come, I have brought my boat Of course, I knew that you would come today.' (Chandshi, Barisal, pp. 131-32)

The Goddess Kali was a live goddess in this region. People used to come from many distant villages to worship [her] for fulfilment of their desires. I have seen Muslim brothers make pledges [to the goddess] with folded hands... I cannot recall seeing an

instance of devotion to Kali that was so independent of caste or religion (Shonarang, Dhaka, p 58).

'Babu, so you have come back to the village?', asks the Muslim peasant out of an ordinary sense of ettiquette... A strong pungent smell assails my nostrils as I approach the house of Syed Munshi. He works both as a kaviraj [an ayurvedic doctor] and as a teacher. He got calls whenever anything happened to small children in our village There was no demand for 'visits' [fees] but often he would receive [gifts] of home-grown fruits and vegetables. Even today I consider them the closest of my relatives For so long we Hindus and Muslims have lived together like brothers - we have always felt a strong connection with everybody. . But today? (Dakatia, Khulna, p 258).

In this idyllic home it is the Muslim of he Muslim League who erupts as a figure of enigma, as a complete rupture from past, imodernist dream of 'junking the past' gone completely mad, a discordant image on a canvas of harmony. The following description of a Muslim man called Yaad Ali is typical.

They used to build the image of the goddess on our chandimandap [the courtyard of a well-to-do Hindu household used for communal worship]. Close to the time of the pujas, three potters would be at work late into the night, working by the light of lanterns. Until the time they were overwhelmed by sleep, a crowd of children .. would sit there making many demands [on the potters]: 'Brother Jogen, could you please paint my old doll? . My horse has a broken leg, Brother Jogen, could you please mend it?' 'You children, don't talk when it is time for work!' – Yaad Ali would scold the children from the other side of the courtyard '..Don't you listen to these rascals Mr Pal,

"...Don't you listen to these rascals Mr Pal, concentrate on painting, after all, this is all god's work", Yaad Ali would advise Jogen. But even before we left the village, we noticed that Yaad had changed. He is a leader of the Ansars now. He would not even say the name of a Hindu god, he now explains. Islam beautifully! (Kherupara, Dhaka, pp. 27-28)

The story of Yaad's transformation into in activist Muslim and the utter ncomprehensibility of that phenomenon to he authors of the essays of Chhere Asha Gram give us a clue to the problem of this liscourse of value within which the Hindu authors sought to place their Muslims prothers. These essays, being instances of public memory, eschew the low language of prejudice and produce instead a language of cultural value. The home that the Hindu refugee has lost is meant to be more than his home alone; it is the home of the Bengali nationality, the village in which in the 1880s nationalist writers had found the heart of Bengal. But in doing this they illustrate a fundamental problem in the history of modern Bengali nationality, the fact that this nationalist construction of 'home' was a Hindu home. It is not that the Muslims did not share any of this language - after all, the national anthem of Bangladesh is a song of Tegore's that powerfully expresses the nostalgia I have discussed. The point is rather that for all of their talk of harmony between the Hindus and the Muslims, there is not a single sentence in the memories described in Chhere Asha Gram on how Islamic ideas of the sacred might have been of value to the Muslims in creating their own idea of homeland or indeed how they might have helped create a sense of home for Bengalis as a whole. The Muslims did not do this thinking, but nor did the Hindus. There are passages here that even saw - at a time when the Muslims of East Bengal would have been savouring their newfound independence (not always nicely) -Eastern Bengal as dead without a vibrant community of Hindus;

The villages, markets, settlements of East Bengal are today speechless and without life, their consciousness wiped out by the horrors of the end of time [kalpanta: the measure of a day in the life of the supreme Hindu god, Brahmal, In that land of 'thirteen festivals in twelve months' [a Hindu-Bengali saying], no conchshell is sounded marking the advent of the darkness of evening, no utulation in the hesitant voice of the housewife is to be heard on Thursday evenings, the time for the worship of [the goddess] Lakshmi. The ektara [a musical instrument] is silent at the gatherings of the Vaisnavas, the string of the gobijantra [an instrument played by bauls) has perhaps acquired rust, while mice and cocroaches have probably built their worlds cutting into the leather of the drums of the devotees of Harisabha [meeting place for Hindu devotional singing (Kherupara, Dhaka, p 22).

In other words, without the sense of a Hindu home, East Bengal is simply reduced to an eeric emptiness!

This is where Chhere Asha Gram leaves us, with the central problem of the history of Hindu-Bengali nationality. Hindu nationalism had created a sense of home that combined sacredness with beauty. This sacred was not intolerant of the Muslim. The Muslim Bengali had a place in it created through the idea of kinship. But the he me thus created was a Hindu one in which the non-Muslim-League Muslim that is, the Muslim who did not demand Pakistan - was a valued guest. Its sense of the sacred was constructed here through an idiom that was recognisably Hindu. What had never been thought about was how the Hindu might live in a home that embodied the Islamic sacred. What would it mean to be a guest in a home that belonged to the Muslims, for the demand for Pakistan had indeed been based on the idea of a land that manifested the Islamic sacred?

The Hindu narratives, both in Chhere Asha Gram and elsewhere, try to find resolutions to this question in real and imagined emotions of kinship. An anecdote recounted in the reminiscences of Mrinal Sen, the noted film-maker, demonstrates in a telling fashion both the complexity and the impossibility of resolution of ethnic conflict within this narrative strategy. Sen grew up in the 1920s and 1930s in a nationalist Congressite family in Faridpur. His family did not shun the company of Muslims. Once, says Sen, his oldest brother, then a student of class 10, showed their father a poem written by a Muslim boy from his class. Moved by the writing, Sen's father encouraged his son to invite this boy home. The young Muslim poet came, befriended the family and, in Sen's words, became one of them:

My eldest brother brought his friend home. The boy turned up with his feet covered with dust, a pure peasant-boy. The nickname of this poet was Sadhu. He would move in and out of our household as though he was a boy of this family. It was after I had grown up a little more that I came to know that he was not our brother. ³⁰

This poet, Sen reveals, was none other than the famous and gifted Muslim-Bengali poet Jasimuddin. But Sen's narrative lets us see how a crisis set in in this bond of putative kinship as the demand for Pakistan gathered pace. Jasimuddin was not unaffected by the sentiments growing in the minds of many Bengali Muslims. Nor, from an opposing point of view, was Sen's father. Sen writes:

There were no communal troubles in Faridpur, But Hindu Muslim conflict was on the rise in other places and had an impact on Faridpur as well. The grown-ups had to be a little careful therefore. I noticed that a certain Hindu-ness asserted itself in my father whenever there was a communal conflict somewhere else. There would be furious arguments and counter-arguments. And Jasimuddin would argue taking the side of Muslims One day Jasimuddin said to my mother, 'Mother, if it is true that I am one of your sons, why do you feed me scating me outside? Why is it that you never let me sit with your sons to cat from the same plate?'31

It is Sen's narrative resolution of the emotional impasse that this moment creates which shares something of the spirit of the essays in *Chhere Asha Gram*. He continues:

My mother found herself in difficulty. What Jasim said was not untrue after all. But mother was helpless. She explained to him

that she had no objection to having him sit inside while feeding him but the servants of the household would not accept this arrangement. Her eyes glistening with tears, she said, 'Sadhu, you may not know this, but it is me who washes up after you.' 12

This is a poignant moment in Hindu-Bengali liberalism. The Bengali-Hindu mother, who acts as a critical nodal point in the affective structure of kinship, speaks here for Hindu liberalism in acknowledging the call for justice in the grievance of the Muslim whom she has recognised as her son. At the same time, she pleads helplessness, blaming - like men have at many critical moments in the history of modernity anywhere - tradition and unreason, now allegedly embodied in the servants of the household. But she does not stop there. Tearfully, she makes a claim on the Muslim's sentiment: the mother has both accepted and transgressed difference for the sake of her feelings for her Muslim son. Why would not the Muslim reciprocate?

This, in a sense, is the question that reverberates through the essays in Chhere Asha Gram. Yet, however full of pathos it may be, there is a deafness to the Other that structures this question from within. Jasimuddin, the Muslim in Sen's story, was declining the role of a good guest in a household that defined itself as Hindu. He was asking for a change of the rules which defined hospitality and which decided the question of who was in the position of offering it. Was he within his rights to do so? It is this question that goes unacknowledged and undiscussed in the essays under discussion. Chhere Asha Gram stands witness to a historic Hindu-Bengali deafness to the call of the Other. This deafness is as constitutive of ethnic distance as may be the more explicit elements of violence. It is a mark, indeed, of one's participation in the politics of ethnicity. To be deaf to the call for justice in the Muslim demand for a home for their own imagination of the sacred, was to express prejudice, however silent that expression may have been. It is in this sense that what spoke in public life of value in the essays in Chhere Asha Gram also spoke, ultimately, of prejudice. In treating the Bengali Muslim's ethnic hatred as something inherently inexplicable and hence profoundly shocking, it is their own variety of prejudice that the essays refuse to acknowledge. I do not say this in a spirit of blaming the indus, in particular those displaced, for their cup of suffering was more than full. I say this to underline the intimate relation that necessarily exists between values and prejudice, for this relationship, when unattended by criticism, plays a role in producing the deafness that - in moments of crisis - stops us from hearing what the other might be saying about ourselves.

Notes

[Grateful thanks to my friend Gautam Bhadra for drawing my attention to Chhere Asha Gram and for lending me his copy of it, and to him, Anthony Low, Lawrence Cohen, Tom Laqueur, Tom Metcalf, Anne Hardgrove and David Lloyd for helpful discussions of the issues raised here. Some of the ideas here were presented to a seminar at the Nehru Memorial Library on the Indian partition convened by Anthony Low and Ravinder Kumar in 1993 My thanks also to the participants at this conference. An earlier version of this essay will appear in a special issue of South Asia (New England, Australia) being guest-edited by Anthony Low.]

- 1 See Urvashi Butalia, 'Community, State and Gender. On Women's Agency During Partition', Economic and Political Weekly, April 24, 1993, Ritu Menon and Kamla Bhasin, 'Recovery, Rupture, Resistance -Indian State and Abduction of Women During Partition', Economic and Political Weekly, April 24, 1993; Veena Das, Critical Events: Moments in the Life of the Nation (Delhi, 1994); Gyan Pandey, 'The Prose of Otherness' in David Arnold and David Hardiman (eds), Subaltern Studies, Vol 8, (Delhi, 1994), Anne Hardgrove, 'South Asian Women's Communal Identities', Economic and Political Weekly, September 30, 1995.
- 2 Friedrich Nietzsche, 'On the Uses and Disadvantages of History for Life' in his Untimely Meditations, translated by R J Hollingdale (Cambridge, 1989), pp 57-124
- 3 Dakshinaranjan Basu (comp and ed), Chhere Asha Gram (Calcutta, 1975).
- 4 Ahmad Kamal, 'The Decline of the Muslim League in East Pakistan, 1947-1954', Ph D thesis, Australian National University, 1989, Chapter 1: Beth Roy, Some Trouble with Cows: Making Sense of Social Conflict (Berkeley, 1994).
- See Prafulla K Chakrabarti, The Marginal Men (Calcutta, 1990)
- 6 The names in brackets at the end of each quotation refer to the village and the district, respectively The page reference is given at the very end.
- 7 Chakrabarti, The Marginal Men.
- 8 Sir Monier Monier-Williams, A Sanskrit-English Dictionary (1899) (Delhi, 1986)
- 9 See the discussion in Ronald B Inden and Ralph W Nicholas, Kinship in Bengali Culture (Chicago, 1977), p 7.
- 10 Chhere Asha Gram, p 30 (Dhamgar village, Dhaka district).
- 11 The italicised lines bear a literary allusion They quote a well known line from a nationalist poem on Bengal written by Satyendranath Datta.
- 12 I have discussed this question in more detail in a forthcoming essay, 'Nostalgia, Epiphany and the Cultural Training of the Senses' (unpublished), See also my

- 'Afterword: Revisiting the Modernity' Tradition Binary' in Stephen Vlastos (ed). Japan and the Invention of Tradition (forthcoming).
- 13 Girijasankar Raychaudhuri, Bungla charit granthe Sri Chaitanya (Calcutta, 1949), p 89.
- 14 See S N Mukherjee, Calcutta: Myth and History, Calcutta, 1978.
- 15 This text is discussed in my 'The Difference-Deferral of A Colonial Modernity: Public Debates on Domesticity in British Bengal' in David Arnold and David Hardiman (eds), Subaltern Studies, Vol 8 (Delhi 1994).
- 16 Dinabandhu Mitra, 'Sadhabar Ekadashi' in Dinabandhu Rachanabalı (Collected Works of Dinabandhu) (ed), Kshetra Gupta (Calcutta, 1967), p 136.
- 17 Bhanu Banerjee made his first comic recording using bangal accent in 1941. Personal communication from his son Pinaki Banerjee.
- 18 See Tagore's essays on 'Loka Sahitya' (folk literature) in Rabindrarachanabli (Calcutta, 1961), Vol 13, pp 663-734.
- 19 Rabindranath Tagore, 'Chhinnapatrabali' in Rabindrarachanabali (Calcutta, 1961), Vol 11, p 90.
- 20 Ibid, p 8.
- 21 libid, p 30.
- 22 Nirad C Chaudhuri, Thy Hand, Great Anarch! India: 1921-1952 (London, 1987), pp 205, 207-208. See also the discussion in Satyendranath Ray, 'Prachin Bangla sahitye prakriti o puran', Visva-Bharati Patrika, July-September 1964, pp 25-56.
- 23 Ibid, pp 209-10.
- 24 Saratchandra Chattopadhyay, Pallisamaj in Saratsahitya Samagra (Calutta, 1987), Vol 1, pp 137-84.
- 25 See the discussion in Clinton B Seely, A Poet Apart: A Literary Biography of the Bengali Poet Jibanananda Das (Newark, 1990) pp 89-90.
- 26 Chatterjee quoted in Taraknath Ghosh, Jibaner Panchalikar Bibhutibhushan (Calcutta, 1984), p 38 It goes to the credit of the film-maker Satyajit Ray that he could convey a sense of the generic Bengali village, essentially and literary and linguistic construction, through the visual medium
- 27 Tagore, 'Chhinnapatrabali', p 82 See also elsewhere in this book.
- 28 Chaudhuri, Thy Hand, pp 208-09
- 29 The literature on this point is vast and little work has been done so far on the various constructions of rurality that have been critical to the development of a bhadralok literary orientation to the world in the urban milieu of Calcutta. The works of Dineshchandra Sen, Dinendranath Ray, Abanindranath Tagore, Yogeshchandra Ray Bidyanidhi -- to name a few would repay examination on this point.
- 30 Mrinal Sen, 'Chhabi karar ager dinguli' in Pralay Sur (ed), Mrinal Sen (Calcutta, 1987), p 11 1 am grateful to Kunal Sen for a loan of this book.
- 31 Ibid, p 11
- 32 Ibid, p 12.

Ladies and Gentlemen,

I heartily welcome you to the Forty-first Annual General Meeting of your Bank in the city of Chandigarh

Indian Economy

The Indian economy performed extremely well during the year The economy grew at a high rate of 7 per cent (latest CSO estimate) during the year, with the industrial sector surging further ahead with a growth of 12 per cent. Foodgrains production was of the order of 192 million tonnes and public food stocks soared to a level of 24.5 million tonnes in March 1996. Gross domestic savings rate set a new record of 24.4 per cent of GDP. Exports registered a satisfactory growth rate of 21.4 per cent in Dollar terms while the current account deficit as a percentage of GDP stood at a sustainable level of 1.5. After two years of double digit inflation, the rate fell to below 5 per cent.

Banking Environment

The growth of deposits of all scheduled commercial banks, though somewhat sluggish initially, picked up slightly in the latter part of the year. The non-food credit of all scheduled commercial banks rose substantially and the incremental non-food credit deposit ratio reached a historically high level of 94 6 per cent The moderation in deposit growth, coupled with the unusual credit expansion, created liquidity problem for the banks. The exchange value of the Rupee experienced some degree of volatility at times The activities in the capital market were also on a low key Nonetheless, through the studied intervention of the monetary authorities the system was brought back to normal. To boost the equity market the SEBI initiated several measures, which included the Depositories Ordinance (1995), permission to offer custodial services and many other investor protection measures The money market also witnessed the entry of Primary Dealers in gilts, and tracks were broadened to usher in the Money Market Mutual Funds in a bigger way. These developments present new challenges as well as opportunities to the banking industry

Working Results 1995-96

Your Bank performed well during the year. The net profit of Rs 831 60 crore represents an increase of 16 2 per cent over the last year's figure of Rs 715 50 crore. This profit has been achieved after providing for a sizeable investment depreciation due to the altered yield pattern. The overall satisfactory performance of your Bank is manifest in the improvement of key financial ratios which are internationally used to evaluate the performance of commercial banks. The Return on Average Assets has gone up from 0 563 per cent in 1994-95 to 0 598 per cent in 1995-96, and the Return on Equity has improved from 15 13 per cent to 15 22 per cent Profit per Employee has increased substantially to Rs 35 703 from Rs 30,829 in the previous year Besides, your Bank's Non-performing Assets are on decline. This is more as a result of higher recoveries than write-offs, which is a heartening feature The Book value of your Bank's share stood at Rs 115 25 as on March 31 1996 Your Bank's performance has, thus, confirmed its position as the market leader in the Indian banking

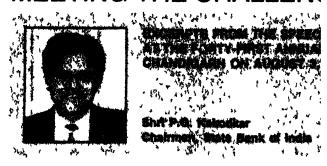
Managing Liquidity

The second half of 1995-96 witnessed severe liquidity crunch Your Bank was no doubt, affected by this However, the Bank put in its best endeavour to meet all the genuine demands for credit to the maximum extent possible, even by mobilizing high-cost funds from the money market comprising CDs, Call money and also FCNR(B) deposits. This was done to ensure that the overall national objectives of achieving higher industrial and economic growth do not suffer. The Bank also went slow in implementing the across-the-board reduction in credit limits of its large borrowers for the same reason.

Deregulation - Some Critical Implications

In a deregulated environment, where a bank's accountability and responsibility towards millions of its shareholders, depositors

MEETING THE CHALLENG



and other creditors increase manifold, it is essential that the bar remains safe and sound. The unique and provenly most powerfitool to make banks safe is capital. Your Bank is comfortab placed with a capital adequacy ratio of 11.6 per cent, which much above the internationally accepted minimum benchmai of 8 per cent, also stipulated by the Reserve Bank of India. The challenge for the Bank, however, is not only to ensure capital adequacy but generate acceptable returns to the shareholder: who, understandably, have high expectations. A refocus conhanced profitability will be the cornerstone of business plar of your Bank and, accordingly the goal of your Bank has bee modified as "profit with growth" instead of "growth with profit" a hitherto.

With a view to translating this goal into action the top leadershi of State Bank of India Management, Officers' Federation and Sta Federation met in a Workshop on March 29 and 30 1396, a Hyderabad and deliberated jointly. In the face of challenge thrown domestically and internationally, all the parties unanimousl committed themselves to safeguard zealously the premier positio of the Bank.

Managing Risks

Your Bank's approach to manage risks has always been - an will continue to be - professional Banks, normally, encounte two types of risks in their business operations, viz market risk and credit risks. In order to manage effectively interest rate ris and risk arising out of asset liability mismatches, the process of asset liability management has been formally initiated b creating an Asset Liability Management Committee (ALCO) a the Corporate Office The role of ALCO has been primaril directed towards formulating a balance sheet policy for your Bank based on a detailed assessment of risk-return trade offs. As fc the credit risks, our existing expertise has been further strengthene by instituting a specialised Department at the Corporate Offic of your Bank. This Department is exclusively managing the siz and risk profile of the Bank's credit portfolio in order to lim concentrations in terms of risk, quality, geography, industry produc maturity and large exposure aggregates. With appropriate ris assessment and management mechanism in place, your Ban is well positioned to accelerate a turnaround in asset quality an earnings momentum

Need for Greater Autonomy

Functional autonomy and operational flexibility are the sine qu non for successful business operations in a deregulate environment Strategic business decisions must be taken withou undue interference from the State or the political system. This philosophy has been the cornerstone of the recommendation of the Narasimham Committee to rejuvenate the banking sector No doubt, risk-banking is fraught with probabilities of failures. Risk management policies and techniques can be more refine and operated in a more effective and transparent manner if the

S OF THE 21ST CENTURY

Livered by the Chairman Shri P.Q. Kakodkar Herai, weeting of the Shareholders Held at

confusion emanating from dual control is eliminated. While there can be no objection to errors arising from procedural oversights or gross negligence being punished, those from judgements and decisions need to be examined with absolute professional approach.

New Business Horizons

The emerging environment offers ample opportunities for your Bank to venture into new and profitable areas. Your Bank has always been the first and foremost to enter new areas of business. Big ticket leasing and project finance are financial services which will be in great demand on account of the thrust on infrastructure development in the country. Your Bank, has created specialised Strategic Business Units (SBUs) directly under the Corporate Office to cater to these services These SBUs, acting as banks within the Bank, with distinct profit goals, will be major profit centres in the coming years. The debt market and, in particular, the gilts market, is expanding very fast in the country and the secondary market segment is being consciously groomed. To capitalize on these opportunities, a specialized subsidiary, SBI Gilts Limited, has been set up and has become operational on July 1, 1996. SBI Gilts, acting as a primary dealer in gilts, is expected to emerge as a dominant player in the gilts market in the years to come. A new subsidiary to deal exclusively in sales and distribution of shares and debt instruments is also being planned and will become operational soon on receipt of necessary clearances. Proposed to be named as SBI Securities Limited. the new subsidiary will be active in broking, market making, trading and portfolio advices and will complement the activities of the SBI Capital Markets Ltd., the existing merchant banking arm of your Bank. The Government of India is planning to encourage tourist traffic in the country in a big way in the years ahead. To capture business opportunities arising out of this activity, your Bank is also contemplating to enter travel-related financial business. These new activities which your Bank has undertaken or proposes to undertake have been carefully planned keeping in view the requirements of your Bank's discerning clientele and will form a powerful springboard for future and contribute substantially to the Bank's bottomline.

Technology - Key to Future

Banking can no longer remain divorced from the rapid developments that are taking place in the world of information technology. Your Bank, realizing the paramount importance of technology, has plans to invest heavily in this area. It has, already on hand, plans to computerize fully 1,000 branches by March 1997. Our investment in technology will, of course, go beyond mechanizing operations of branches and will extend to offering technology-clriven products and services to larger segment of customers.

Customer Focus

A distinguishing feature of the current banking environment is the growing expectations of the bank customers. This change

has been brought about by the forces of competition and technology. Today's customer is far more discerning and quality conscious than he was, say, a decade ago. As a progressive bank committed to customer satisfaction, your Bank welcomes this change. Howsoever hard a bank may try to meet customer expectations, there will always be occasions for customer grievances and, hence, an independent authority to look into such grievances is welcome. I am happy to note that the Reserve Bank of India has instituted a scheme known as the Banking Ombudsman Scheme, It is aimed at protecting the interests of customers and redressing their grievances. It will be the endeavour of your Bank, however, to ensure that its customers are not required to approach this forum and all their genuine grievances are settled amicably within the Bank, as much as possible.

Priority Sector

As you are aware, your Bank has been playing a pioneering role in lending, particularly to the priority sector, constituting agriculture, small scale industries and small business, since the late fifties. Even in the changed environment, your Bank is equally committed to meet its social responsibilities by adequately meeting credit requirement of these sectors. The progress under the priority sector has been constrained mainly by the lack of sufficient absorption capacity in the rural areas for the finance provided to the activities under the relative schemes. To bring about any major quantitative change in the priority sector credit, what is required is an enlargement of the conventional definition of the priority sector credit which has become time-worn. For instance, export credit by banks could be counted towards priority sector credit. The need to establish an alternative benchmark to measure the performance of banks in lending to the priority sector has been voiced in the past also. The present system of linking priority sector lending to the net bank credit as at the end of the financial year is not a very sound proposition for two reasons - first, the quantum of priority sector advances to be made during the year remains indeterminate and secondly, there is generally a spurt of large advances towards the end of the financial year. There is thus a need to have a pre-determined level of priority sector advances to be achieved each year which is feasible if such advances are linked with the level of net bank credit as at the end of the previous year.

From a long-term perspective, a relook at the entire rural credit system and structure is warranted. In this connection, the Government may have to reconsider a proposal earlier mooted by the Narasimham Committee. While proposing "rural banks" to be constituted as one of the tiers in the four-tier banking structure, the Committee observed that the operations of the Rural Banks (including RRBs) would be confined to the rural areas and their business would be to engage predominantly in financing agricultural and allied activities.

Proposed Euro Issue

Before concluding, let me make a brief mention here about your Bank's plans to tap the global capital market in order to strengthen its capital base. The Government of India has recently liberalized guidelines in respect of Euro-issues and it is now possible for your Bank to access the global markets on very favourable terms. The Euro-issue will augment the Bank's resources and will enable it to operate in the competitive environment on safe, sound and profitable lines.



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Democratic Transition and Challenge of Transformation

Ananta Kumar Giri

The globalisation of democracy as a form of more legitimate representative government has not been accompanied by genuine efforts to tackle the problems of democracy, or efforts to widen the universe of democracy in accordance with the historical changes taking place in social systems and in the light of a desired agenda of transformation. This article presents some of the crucial gaps in the theory and practice of democracy and suggests ways to rethink democracy as a prelude to a genuine transformative engagement.

But the democratic process does not exist, and cannot, exist as a disembodied entity detached from historical conditions and historically conditioned human beings. Its possibilities and its limits are highly dependent on existing and emergent social structures and consciousness. Yet, because the democratic vision is so daring in its promise, it forever invites us to look beyond, and to break through, the existing limits of structure and consciousness.

- Robert A Dahl (1989:312)

But the typological differentiation between man and overman no longer makes sense, if it ever did. For the overman constituted as independent, detached type reters simultaneously to a spiritual disposition and to the residence of free spirits in a social space relatively insulated from reactive politics. . If there is anything in the type to be admired. the ideal must be dismantled as a distinct caste of solitary individuals and folded into the political fabric of late-modern society. The 'overman' now falls apart as a set of distinctive dispositions concentrated in a particular caste or type, and its spiritual qualities inigrate to a set of dispositions that may compete for presence in any self. The type now becomes (as it already was to a significant degree) a voice in the self contending with other voices, including those of resentment.

- William Connolly (1991:187)

DURS is an age of democracy. Democracy is a form of government, characterised by elections and the installation of a representative' government, has been becoming a global phenomenon. The fall of he socialist world, and domestic and global changes in Latin America, Africa, and the west Asia have brought democracy to places ind shores where it was undreamt of a few rears ago, giving people a taste of freedom But the globalisation of democracy as a form of more legitimate representative government nas not been accompanied by genuine efforts o tackle the problems of democracy - such is the tension between equality and liberty. he dictatorship of the majority, the actual as well as manufactured disinterest on the part of the so-called cruzens not to participate in he electoral process resulting inasmuch as 50 per cent of them not fulfilling their constitutional obligation to vote¹ - the problems highlighted by no other than the nost thoughtful observer of democracy as i practice, Alexis de Tocqueville - and to widen the universe of democracy in accordance with the historical changes taking place in social systems as well as in the light of a desired agenda of transformation. The present article aims at presenting some of the crucial gaps in the theory and practice of democracy and suggests ways we can rethink democracy as a prelude to a genuine transformative engagement.

The demise of the socialist systems has led to euphoria on the part of the advocates of market and western models of democracy. But a majority of our legislators and interpreters have not subjected the existing arrangement of democracy in advanced industrial countries to a critical scrutiny nor they have looked critically at the process of political and economic liberalisation in the peripheries. In fact, a narrow definition of both economy and politics in the existing discourse of democracy has reduced it to just a formal kind of political arrangement, whose most important function lies in ensuring regular (supposedly) legitimate reproduction of the existing system. But factors which are considered extraneous to the theory and practice of democracy such as economic inequality between citizens (which play a determinant role in the very process of politics), the deprivation of the actors, the immorality of the professionals who constitute an unquestioned elite in the management of social systems, etc. have not been given systematic consideration in the agenda of democratisation But issues such as economic equality, professional morality, and entitlement of citizens are important for democracy at a contemporary stage, which Robert Dahl (1989) calls 'third democratic transformation'. It is perhaps for this reason that Dahl writes: "In an advanced democratic country the economic order would be understood as instrumental not merely to the production and distribution of goods but to a much more larger range of values, including democratic values" (1989:325). Therefore, economic democracy is an important theme which is conspicuous by its absence in our contemporary obsession with entrepreneurial rights and freedom of choice, and requires serious attention from those who are genuine about democracy.

At present, market economy is being portrayed as a natural ally of democracy. But, as markets are being promoted as holding the panacea to all human ills, their advocates forget the challenge of making markets 'people friendly' in their zealous drive to make governments market-friendly [Streeten 1993]. Few realise that "our current version of

market institutions jeopardise freedom on both a large and a small scale"; and even fewer are interested in articulating an "alternative institutional definition of market" [Unger 1987:480, 482].2 Even after the supposed death of Marxism it is true that "we find the legal tools of privilege hold over capital reciprocally linked, through a series of mediating institutions and preconceptions, to the forms of privileged access to state power" [Unger 1987:490]. In advanced capitalist societies, the stability of the established institutional arrangements, including the arrangements that define markets, depends upon a "long-standing social demobilisation" (1987:491) - not very different from the viled Soviet case. For Roberto Unger, such social demobilisation is being encouraged and even deliberately sought "by the constitutional organisation of government" [Unger 1987].

Unger provides us a blueprint of the desired economic reconstruction that should be an integral part of the democratisation process. In order to reorganise the economy, Unger emphasises the need for the creation of "the rotating capital fund and its democratic control" as well as on decentralisation and the recovery of the small-scale as a unit of creative economic production. Unger, like Streeten (1993), believes that the state has a moral responsibility to preserve the smallscale (which is subject to the threatening logic of international capital) and create conditions for its better functioning in the contemporary context. This retrieval of the small-scale, which is not meant simply for museum display, has to be accompanied by institutional encouragement towards decentralisation. upholding the "broader commitments of empowered democracy" rather than merely handing over decisions to local elites [Unger 1987:475]. Its objective is no less than facilitating "the self-organisation of society outside government" (1987:476). "Decentralisation refers, at a minimum, both to the number of agents who are able to trade and produce on their initiative and for their. own accounts and to the extent of their independence" (1987:503). An empowered democracy, taking decentralisation seriously, encourages "both more economic deconcentration and more innovation in the organisational form of production and exchange..." (1987:383). It must encourage "variety in the ways of doing business, and organising work" and multiple strategies of

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production and reproduction – including those which are not guided by market and follow the idioms of its exchange – rather than subject them to the control of the market [Giri 1993c].

In this context, Unger's idea of rotating capital fund also ought to draw the attention of those who look at democratisation as promotion of market in the economic sphere as well as those who look at democracy as a process of seeking for total transformation. Unger argues that the key idea here is the "breakup of control over capital into several tiers of capital takers and capital givers" [Unger 1987:491]. For instance, "the collaboration among small-scale and mediumscale farmers on the basis of governmentsupported arrangements for the pooling of financial, marketing, and technological resources modestly prefigures the multi-tiered system of rotating capital allocation the programme of empowered democracy embraces" [Unger 1987:436].3

Such an agenda of economic reconstruction does posit a great deal of significance in the creative role of the government, which has almost been made a taboo in the current discourse of privatisation. This agenda is integrally linked with efforts to revitalise governments and transform the state.⁴

The agenda of economic reconstruction cannot dispense with public institutions, and takes seriously the task of enhancing the 'functioning and capability' of individuals through welfare programmes, which are meant not to reduce them into clients but transform them into agents of well-being and freedom Isce Sen 1986, 1989, 19911. Therefore, the neo-liberal view that "in any government's war on poverty, it is poverty that always wins" [Streeten 1993:1284] cannot be allowed as an excuse to disband the welfare functions of government since the ultimate justification of such welfare engagement lies "not on grounds of social justice or human needs, but on grounds of human capital formation, of reducing barriers to income-carning opportunities, and of promoting social stability" (1991 1284) In fact, a stress on functioning and capability of individuals, instead of on the discredited modes of justification such as the fulfilment of basic needs can help the government "struggle against the tendency of some of its constituents to adopt a clientelist attitude to state..." [Unger 1987:435].

COLLECTIVE MOBILISATION AS COLLECTIVE CREATION

Imagining Alternative Institutional Arrangements

The agenda of economic reconstruction briefly outlined above requires building up of new institutions. For realising the programme of empowered democracy it is not "enough to change the way in which we describe and explain the formative contexts of social life; it is also necessary to imagine institutional arrangements now available in the world" [Unger 1987:365]. But this requires a shift in the way we think about institutions, namely, institutions as legal entities. For this, among other things, we

need to make a shift from the model of analytical law that provide the foundational vision to modern institutions. For instance, David Apter argues that now there is a need to make a move from 'law as an analytical discourse' to law as an emancipatory and enabling one.5 Institutions of a democratic society ought to be founded upon a broader conception of law and rights whose model of law "cannot be confined to the realm of criminal justice, as Herbert Spencer and the state minimalists would prefer" [Whitehead 1993a:1257]. In the agenda of an empowered democracy, law "must be expanded and adapted to govern the very different issues raised by the welfare state and the mixed economy - to universalise full citizenship and therefore, Bobbio in From Structure to Function regards shrinkage of the scope of public law as an indicator of social decay' [Whithead 1993a]. Insofar as the realisation of full citizenship is concerned, it is important to realise that "citizenship does not stay within the confines of the political" [O'Donnell 1993: 1357]. The inherently public dimension of private relationships is violated when, for example, a peasant is de facto denied access to the judiciary against the landowner. This 'private' right must be seen as no less constitutive of citizenship than the 'public right' of voting without coercion" [O'Donnell 1993]. "Even a political definition of democracy...should not neglect posing the question of the extent to which citizenship is realised in a given country" (1993:1361).6

Speaking of law, citizenship, and institutionalisation of democracy. Unger argues that it is essential to grant citizens in an empowered democracy immunity rights and destabilisation rights. Unger's discussion of rights is part of his argument that economic and social reconstruction must be integrally linked with efforts to create a new constitution. The same argument is also offered by Claus Offe and Ulrich Preuss who emphasise upon "new constitutional procedures which will help to improve the quality of citizens' involvement in the democratic process" [Offe and Preuss 1991:170]. While "immunity rights protect the individual against oppression by concentrations of public or private power, against exclusion from the important collective decisions that influence his life, and against the extremes of economic and cultural deprivation", "destabilisation rights protect the citizen's interest in breaking open the large-scale organisation or the extended areas of social practice. ."[Unger 1987:524, 530].7

Beyond Institutionalism

Bhikhu Parekh has argued that "strictly speaking liberal democracy is not representative democracy but representative government" [Parekh 1992.167]. In fact, democratisation has been a statist agenda and even the institutionalists in the discourse of liberal democracy have not gone beyond the state and taken seriously the work of culture and communities [Apter 1991]. In the words of Apter: "Democracy tends to separate the

state from society at a decision-making leve even as it becomes closer to it in terms o public support. Insofar as this renders the content of politics relatively empty of meaning; it becomes precisely what critical theorists consider false consciousness" [Apte 1992:166]. In this context, the Latin American experiment of bringing back community to the discourse and practice of democracy deserves our attention. Liberation theology and the base community movement in Latir America have striven to revitalise communities as locales of action, dialogue, and critica intervention. The search for lost community in Latin America has been accentuated by the disintegration that has taken place in society as a result of its globalisation and transnational integration [Lechner 1991].*

Of the Latin American experience, one observer tells us: "The majority of citizens in our countries prefer democracy to any other regime. In practical terms, this preference appears to be motivated by identification of democracy with the restoration of community" [Lechner 1991.548]. But the same observer thinks that since "community emphasises a monistic view of society which represses both particular interests and a comparison of alternatives" and does not permit a creative view of conflict "it is problematical whether a political culture of this kind can build a sound democracy' (1991:546). This objection also reminds us of the Indian debate on this issue and the same scepticism of liberals such as Ambedkar and Nehru towards the Gandhian agenda of making village community an unit in the democratic process. It is true that the "emphasis laid on the expression of the collective curbs any centrifugal movement' in communities but this cannot be the reasor for throwing the baby along with the batl water. The challenge here is to introduce the desired concerns such as 'creative view o conflict', 'recognition of pluralism' [Lechne 1991] and the issue of human rights within communities through the work o transformative movements.4

Building Communities as Transformativ Striving

It is here that Unger's plea for a transforme conception of community holds the key t the genuine dilemma that the above critic ha highlighted. For Unger, "a transformativ conception of community" constitutes "unifying theme of the cultural-revolutionar programme" [Unger 1987:560] For Unge the kernel of the revised ideal of communit is "the notion of a zone of heightened mutua vulnerability, within which people gain chance to resolve more fully the conflic between the enabling conditions of sel assertion .." (1987:562) Reconceptualism communities as zones of mutual vulnerabilit also helps us to reimagine and relive th familiar categories of modern democrac such as the 'public sphere' [Habermas 1980 and 'public spaces' [Melucci 1992] a communities of discourse rather than simple a locale for bringing the possessive individual for half an hour, only to disperse to their espective shells later. For Melucci (1992), consolidating independent public spaces—whose main function is "rendering visible and collective the questions raised by the novements" [Melucci 1992.72] and which i.e., this act of consolidation is a reflection of the "collective signifying processes in veryday life" (1992:71)—can go a long way a retrieving and creating community in complex societies where it does not exist as a natural datum

The reassertion of community in the nstitutional reconstruction of democracy has ilso a potential to creatively respond to the hort-circuiting of the flow of time that takes place in liberal democracy. "Democratic nstitutions generate time: for example, they space out future time in a schedule of successive elections" [Lechner 1991:546]. Thus, elections constitute the markers of time ind after elections, people in power usually orget the promises of a longer-time horizon hat they had given during the elections. While it is true that "democracy makes it possible to forecast the future on surer foundations than the de facto duration of dictatorship", it is also true that "liberal representation can cope with substantive complexity (interdependence) but not with temporal complexity (permanence of decisionmaking)" [Kitschelt 1993:25]. But culture and communities usually have a longer-time horizon than the state and the market and, in fact, they only hold the key to the resolution of the problem of contemporary 'space-time compression' [Harvey 1989]. Thus, it is no wonder that Lechner writes: "The time factor shows clearly that, over and above institutional difficulties, a reform policy comes up against obstacles which may be described as of a cultural nature. Paradoxically , the major challenges to democracy in Latin America come from the cultural context" [Lechner 1991:546].10

The revitalisation of the public space as an object of transformative seeking must go hand in hand with a recovery of public morality. The process of "consolidating democratic institutions and stabilising market relationships is not just a matter of extending the machinery whereby individuals are empowered to make autonomous decisions, it also involves the affirmation of a revised and elaborated code of conduct" [Whitehead 1993a:1248]. Here we can take note of the re-entry of public morality to the stage of modernity in general and democracy in particular [Whitehead 1993a; also see, Etzioni 1988; Giri 1993a; Habermas 1990]. For Whitehead, "one manifestation of this is the prominence of the religious sentiments emerging in the course of many democratic transitions, and the influence (at least in Latin America) of catholic social thought as a counter-weight to the doctrines of unfettered market liberalism" [Whitehead 1993a].11

Institutions of democracy must aim at providing transformative challenges to individuals so that it is not only their egoistic preference which becomes the criterion of accountability but their enlightened preference. Democratic institutions must refine and

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educate the preference of the actors and must create conditions for a new trend of 'enfranchising' where the conflict is not only between different social groups but between different kinds of desires - the "inner conflict between what the individuals themselves experience as their more desirable and their less desirable desires" [Offe and Preuss 1991:166]. The challenge is to build institutions which would create opportunity for refining one's preference since such preference learning is a democratic way of creating enlightenment within citizens - a moral resource, which is absolutely essential for institutions of transformed democracy. Institutions should "upgrade the quality of citizenship by putting a premium on refined and reflective preferences rather than 'spontaneous' and content-contingent ones. 12 ... Such reflectiveness may be facilitated by arrangements that overcome the monological seclusion of the act of voting in the voting booth by complementing this necessary mode of participation with more dialogical forms of making one's voice heard" (1991:170). At the same time, the challenge for those concerned is to strive towards building institutions which are transparent and accountable to people.13

In putting into practice an alternative institutional design, transformative movements have played and continue to play a significant role. Transformative movements. first of all, affirm the "primacy of institutional reforms over the redistribution of wealth and income" [Unger 1987:433], "By engaging people in conflicts and experiments required for the development of new institutions, the movements give them a focus of concern other than immediate redistribution. It thereby establishes a bond with ordinary working men and women stronger than the gratitude or love that people may be expected to show a paternalist welfare state" (1987:433). Exploratory movements contain germs of 'de-differentiation' "beneath a politics reduced to administration, and on the periphery of a highly mobilised economic system" [Bebermas 1984:25] and offer a "more complete experience of self-assertion through attachment than we can find in the everyday world of work and exchange" [Unger 1987:431]. According to Kitschelt, "some residues of direct democratic practice persist in the self-transformation of contemporary social movements, even though in a muted and constrained way" [Kitschelt 1993:23] when direct democracy refers to the process where "actors discover their common objective in a communicative process of political deliberation" (1993:20).

But prolif ration of critical social movements in advanced democracies does not meanthat movements can replace complex economic and political institutions. The emergent configuration in advanced democracies "indicates less a polarisation of different modes of participation and democratic decision-making than the opportunity for a new complementarity" (1993:28). Kitschelt helps us make sense of the contemporary predicament and possibility

vis-a-vis institutions and movements:

In advanced capitalist democracies, citizens' personal resources to engage in direct democratic practices have increased. At the same time, the scope and depth of policy issues that give rise to discrete point decisions vulnerable to challenge by social movements appear to have increased... Advanced democracies face the problem not of replacing complex political and economic institutions with social movements but of finding way to accommodate spontaneity, individuality, entrepreneurship, and responsiveness in a bureaucratic and commodified society [Kitschelt 1993:28].<sup>44</sup>

The challenge of building new institutions of democracy is nowhere more urgent than in the emergent transnational sphere. Democracy today is no longer confined either to the boundaries of the city state - as was the case in the first stage of democratic transformation - and to those of the nationstate as it was the case in the second stage of democratic transformation [Dahl 1989]. Democracy now is part of a transnational process since all societies are now part of a transnational world, characterised by the globalisation of their economies and polities. 'The proliferation of transnational activities and decisions reduces the capacity of the citizens of a country to exercise control over matters vitally important to them by means of their national government. To that extent the government of countries are becoming local governments" (1989:319). The democratic idea must be "adapted to the new change in scale" (1989:320). For Dahl, "the most obvious is to duplicate the second transformation on a larger scale: from democracy in the national state to democracy in the transnational state" [Dahl 1989].

But the existing practice of democracy is still bound to the models of state-centric discourse. Ours is the 'Age of Democracy' and now there is a global euphoria about the emergent democratic spaces in the east and in the south. But "nations are heralding democracy at the very moment at which changes in the international order are compromising the possibility of an independent democratic nation-state" [Held 1991:138]. Nation-states have usually been treated as self-contained units, but democratic theory and practice bound within the logic of the nation-state is incapable of preparing us to face the challenge of living in a transnational world. Democratic politics remaining fetishised, even fossilised, within the electoral politics of the nation-state, offers outmoded statist solutions to the global contingencies - be it global warming or global terrorism. While "the very process of governance seems to be escaping the categories of the nation-state" [Held 1991:147], "the state deploys... diverse set of objects to organise discourse" [Connolly 1991:210].

Connolly (1991) provides us a picture of the theatre of the nation-state playing out familiar responses to the contemporary global contingencies. The state receives a fund a resentment from those whose identity is threatened by the play of difference (such as represented by the terrorists and the welfare underclass) and then construct differences as the dangerous 'other' to protect identities they represent. Thus, electoral politics in advanced capitalist societies become a "closed circuit for dogmatism of identity through translation of difference into threat and threat into energy for the dogmatisation of identity" (1991:210). This process of scapegoating and the late capitalist state's culture of sacrifice is easily noticeable in its construction of terrorism and welfarism. The erasure of the external 'other' in the construction of terrorism coincides with the erasure of the internal 'other' in the construction of welfarism. Terrorism is now a global phenomenon which "challenges or supersedes legitimacy, explodes conventionality" [Apter 1987:42]. But the construction of terrorism in the discourse of the state provides an easy excuse to both the state and citizens. The state protects its sovereignty and veils its inability to modify its action while the domestic constituencies are provided the security of an agent of evil to explain the experience of danger. Construction of welfarism in the late-modern state also creates a 'culture of sacrifice' by constructing the welfare class as dependent and mefficient which "becomes a dispensable subject of political representation and an indispensable subject of political disposability" [Connolly 1991:208]. It is in this context that there is a need to build new institutions that enable actors and governments to resolve global contigencies which defy state boundaries democratically as well as address the so-called internal problems in a moral and universal manner.15

The inter-connectedness among societies and the rise of transnational processes, including global contingencies, which heighten the urgency of a global democracy has gone hand in hand with the evolution of social systems in the advnaced industrial societies. Social systems have become increasingly complex now, with science and technology becoming crucially important in determining their scale and organisation. At the same time, the rise of the complex systems in all domains of our everyday life has made professionals with expert knowledge of these complex processes important in not only managing these systems but also in determining their destiny. But the increasing systemic significance of professionals has not been accompanied by any institutional effort to arouse moral consciousness within them, not to use their expert knowledge and power for exploiting the ordinary people who do not have such power and knowledge. In fact, apart from legislat:on there has not been much effort to subject professionals to a public scrutiny as a result of which professionals have become the new demigods in the present-day world.

But the distortion that professionalism introduces in the work of a democratic polity is no less, and in fact more dangerous, than the factor of economic inquality. However, the existing practice of democracy has not taken adequate steps to come to terms with this threat to democracy. As Dahl cautions us:

"...I am inclined to think that the long-run prospects for democracy are more seriously endangered by inequalities in resources, strategic positions, and bargaining strength that are derived not from wealth or economic position but from special knowledge"[Dahl 1989:333]. Now important policy issues are so complex that not only the government seeks the help of the professionals to come to a satisfactory and convincing judgment but also the ordinary citizens themselves who "no longer understand what would best serve their interest" (1989:337). In the context of the complexification of not only social systems but also the issues which affect the actors of these systems the uncritical advocates of democracy have to recognise the gap in the existing practice, since "complexity threatens to cut the policy elites from effective control by the demos" (1989:335).

Thus, the challenge of institutional reconstruction at the contemporary phase of democratic transition is immense and our creative response would determine whether the contemporary democratic transition is going to be ephemeral or enduring. <sup>16</sup>

#### CHALLENGE OF SELF-TRANSFORMATION

The common sense that moral quality of citizens and their enlightened understanding is crucial to democracy becomes an imperative when we reflect upon the complexification of social systems. The complexification of social systems at the contemporary juncture is part of what Daniel Bell (1973) called two decades ago 'the coming of a post-industrial society'. Post-industrial societies are characterised by the proliferation of what Roger Benjamin (1981) calls 'collective goods', which requires an ability within the citizens to overcome the temptation to be a 'free rider' and to contribute meaningfully towards their creation, maintenance, and appropriate imagination. In fact, an 'enlightened understanding' '7 on the part of the citizens is essential to the idea of the common good. The same challenge for enlightenment and self-transformation seizes us when we are confronted with the need to expand democracy, for example, to a transnational universe, as discussed before.18

Thus it is not enough just to reiterate the familiar themes of citizens and civil society but to ask what is the model of man woman that underlies the aspired for citizenship in a democratic polity. If democracy, as Alain Touraine argues, "is not just a competitive market; it implies the ability of each individual to act as a citizen" [Touraine 1991:261] then the question that is often ignored is what is the model of citizenship that underlies the discourse and practice of democracy? Here it is important to realise that models of citizenship differ from one model of democracy to another. While liberal democrats look at citizens as "self-regarding individuals who experience political involvement as a burden to be delegated to a specialised group of professionals", organisational democracy looks at them as "other-regarding and therefore contributing to mass-parties" [Kitschelt 1993:20]. But it is only in the framework of a direct democracy that a new

model of citizenship is promoted when citizens are viewed as "other-regarding [bu at the same time] involved in politics as at opportunity for self-realisation and self transformation, not as a burden on one', time and energy" [Kitschelt 1993].

In direct democracy "an alternative definition of the spirit of the constitution emphasises an ideal of personality and psychological dynamic" [Unger 1987:575] For Unger, "the citizen of the empowerer democracy is the empowered individual. He is able to accept an expanded range of conflic and revision without feeling that it threaten intolerably his most vital material and spiritua interests" (1987-579). What makes hin participate in struggles is not just the urgto improve "the material circumstances of hi life but nature and structure of groups to which he belongs and even his pre-existinsense of personal identity" [Unger 1987]. A the same time, the citizen is prepared fo renunciation and has "learned the secret o how to be in [conflicts] but without bein entirely of them" (1987:579). But thi perpetual readiness for renunciation is no perceived as a sacrifice by the citizen not only because of "the guarantee of immunity affor ded by a system" but because of a spiritua commitment to transformation. In the word of Unger: "Its higher spiritual significance consists in the assertion of transcendence a a diurnal context smashing" [Unger 1987

But the citizen renounces not to mak himself a hero but to give herself mor meaningfully in this world, conceptualised a a perpetual celebration of the sacrifice c creation. An urge to share rather than t dominate rescues him from the vicariou pleasure and danger of "the aesthetic c empowerment" [Unger 1987:584]. It als frees him from the "corrupting associatio with the cult of leaders and of violence" sinc his "driving force is the desire to do justic to the human heart, to free it from indignit and satisty its hidden and insulted longin for greatness in a fashion it need not be fearful or ashamed of" (1987:585). 20

The ideal citizen is able to resolve th dualism between individual and collective rationality and embody in his transformativ striving the moral resource of reciprocit But this requires a change in the way we thin of actors, institutions and discourse. Th standard route here is one of Jualisn reduction and fixation and if 'reciprocity' the ideal and also the saving language the we would have to go beyond a reduction view of the relationship between individu and institutions, self and the other. Th challenge is no less than to work out transformative view of the self. In terms political theory the task is to realise that theory of discourse, when discourse t definition means only those utterances which have political significance, is not a theory. self-transformation21 and the language of nec is inadequate to describe the moral topograpl of the self. Democracy is not an instrument mechanism to satisfy human needs, who these needs themselves have been let loo from the beginning to be limitless, but

process of cultivating a more meaningful and caring self, where the development of the individual becomes a precondition for the development of society.<sup>72</sup>

Widening the Universe of Discourse: Self, Other and Beyond

In widening the universe of democracy the istarting point is a reflection of self, which strives to put food and freedom, and the local rand the global in the same space of transformative strivings. The challenge here tis to start with an alternative account of the uself, not simply as a locus of desire, utility, · and interest but as a seeker of transformation. But "providing an alternative account of the 1 self, however, has so far proved more difficult than critique. Part of the reason is that \*expansive democratic theories also suffer I from underdeveloped assumptions about the self' [Warren 1992:11; emphasis added]. Thus, we have to have a trans-I formative view of the self in order to widen V the universe of democracy. This is possible 2 only when we take the moral and spiritual f dimension within the self (which is usually d conceptualised as a mere functional role and r a sociological individual) seriously and try c to cultivate it through our individual strivings to including our conduct in the public sphere. r Thus, democratic theory and moral theory have to be relinked. As Warren argues:

... I assume that a description of the self in terms of interests can be redescribed in moral terms, in this way linking democratic and moral theory. This is because self-identity includes ideal representations of the self to self, anchoring a person's conception of their interests in a moral representation of who they would like to be(1992.17).

# Democracy, Selfand the Ideal Representation of the Scheme of Becoming

Thus, the ideal representation of our scheme of becoming is important here. Important also here is a characteristic of the self, which seeks to and has the courage to be, and has the capacity to distinguish values from appetites and interest. Democratic theory is now in need of a transformative self, and this we find in the work of Mahatma Gandhi, Sri Aurobindo, G C Pande, and Charles Taylor among others. G C Pande argues that "it is only a self which is conscious of its ideal universality that can distinguish value from appetites, pleasures, and selfish interests and can become the moral subject. It is the notion of the ideal self which is the source of the moral law on which social unity and cohesion depend" [Pande 1982:113]. For Gandhi, the self is characterised not only by the political and economic dimension but also by the dharmic and satyagrahic dimension. It is this moral dimension within the self, with its desire for truth, that democracy must put it at the centre of the social system, as it must help develop this dimension. Gandhi's political practice of satyagraha, civil disobedience and attachment to non-violence provides help in expanding the universe of democracy and anchoring it in a truth-seeking moral self, which is courageous to fight evil in a nonviolent manner. For Gandhi, "the highest

where we will

moral law is that we should unremittingly work for the good of mankind..." [quoted in Pantham 1989]. Such practice of the self is neither a reiteration of the existing opposition between self and other nor a submission of the self to the appetite and ego of the other. As Pantham interprets the Gandhian agenda of emancipation: "unlike the cultural relativists who assert and cling to the radical essential separateness or otherness of the to-becolonised Other from the ethnocentricimperialist self, Gandhi bases his emancipatory struggle of satyagraha on a post-liberal/postrelativist conception of the human 'self', namely, self that is hermeneutically implicated with other selves" [Pantham 1989:15].24

In this search for a hermeneutic self Charles Taylor (1989) provides us probably one of the rare modern accounts of the work of the self as an agent of critique and construction. For Taylor, a moral and a spiritual intuition characterises the work of self and when we reflect upon 'the self in moral space' "the sense that human beings are capable of some kind of higher life forms part of the background tor our belief..." [Taylor 1989:25]. Self provides us an identity and to work on self is to know what one is.25 The moral space of the self is a space of orientation, having a "crucial set of qualitative distinctions". which tells us that "some action, or mode of life, or mode of feeling is incomparably higher than the others which are more readily available to us" (1989.19).

Ronald Inglehart's (1990) description of the culture shift in advanced societies around the axis of the emergent postmaterial values and Anthony Giddens' (1991) work on self and society in the late modern age provide us some engaging descriptions to relate these ideas of self to the agenda of a desired democratic politics. Giddens stresses that "the self in high modernity is not a minimalist self..." [Giddens 1991:181]. For Giddens, "the reflexive project of the self generates programmes of actualisation and mastery," which is manifested, among other things, in the choice of a particular lifestyle and participation in new social movements (1991:9). The reflexive project of the self, which consists in the sustaining of coherent, yet continually revived biographical narratives" is not an "extension of the control systems of modernity to the self' but a project of moral choice and transformative seeking, which gets manifested in the actors' participation in transformative movements.26

In this context, Giddens speaks of "the emergence of life politics" (1991:209). Giddens argues that lite politics is a politics of choice—'a politics of lifestyle' rather than 'a politics of life chances' (1991:214). It is a politics of self-actualisation where the power that defines the field is not hierarchical but generative. Life-politics brings to the fore "problems and questions of moral and existential type" because it centers on "how we should live our lives in emancipated social circumstances" (1991:224). In this context, Giddens urges us to take note of the significance of 'new forms of religion and spirituality', which "represent in a most

basic sense the return of the repressed, since they directly address issues of the moral meaning of existence which modern institutions so thoroughly tend to dissolve" (1991:207).

The reflexive mobilisation of the self that is at work in life politics is different from the opposition between the Self and the Other as manifested, for instance, in familiar models of emancipatory politics. While emancipatory politics is usually a politics of negation, life politics "is aimed not at reducing the negativity of otherness, as embodied in the colonial, the subaltern, the prisoner, vis-a-vis the mainstream, but to 'liberate' the mainstream from itself" [Apter 1992:162]. The task here is to simultaneously criticise the Self and the Other, thus going 'beyond emancipation' and realise the dialectic between the dimension of dichotomy and the dimension of ground in the agenda of transformation [Laclau 1992].28

Beyond Emancipation and Challenge of Freedom

The agenda of democracy is an agenda of freedom [see Dahl 1989]. At the same time, the discourse of liberal democracy, especially in its current manifestation of libertarianism, is based upon a narrow view of treedom, and haunted by the problem of dualism. It has not addressed the question of the meaning of freedom as an object of transformative seeking. The work of Isiah Berlin and Amartya Sen has made us aware of the distinction between negative freedom and positive freedom [Sen 1989].29 But even in Amartya Sen's continued quest for freedom, the spiritual dimension of freedom has not received enough attention. The dualism between negative and positive freedom is still a problem even in Amartya Sen, and there is a need to transcend this dualism at some level in order to be able to meaningfully imagine the agenda of democratic transformation. By having a view of freedom as a spiritual process of transformation and the agent of freedom as a transformative self, which begins with self-control of one's lower self and cultivation of one's higher self, can we go beyond good and evil, positive and the negative? For instance, Sri Aurobindo (1950) argues that standa ds of conduct and the practice of freedom must be anchored in a spiritual plane where the goal of freedom is not only to have the freedom to choose but also to transform our needs and desires. A spiritual seeking also helps us discover the 'secret godhead within us', a discovery that helps us create a universal ground within us where the social distinction between individual and the collective, negative and positive freedom get a new frame of reference for criticism and transcendence even if it does not get out-rightly dissolved.31

# DEMOCRACY AND SPIRITUAL TRANSFORMATION OF SELF AND SOCIETY

The spiritual challenge of freedom is one of transcending the opposition between self and other, and creating communities of discourse and practice where both can live as seekers of freedom. In fact this act of creation of communities is itself a spiritual

act. The challenge here thus is as much for religion as for democracy. While in religion the challenge is to realise that the contemporary competitive existence "that divides what is to be a man and a woman, a white or a black, is a form of human suffering' [Bellah et al 1991:210], in terms of actual challenges for the theory and practice of democracy it means looking at it primarily as a mode of paying attention [Bellah et al 1991]. Democracy means paying attention to the needs and care of the self, family. neighbourhood, communities, country, mankind and the mother earth. "Attending means to concern ourselves with the larger meaning of things in the longer run, rather than with short-term pay offs" [Bellah et al 1991]. For Bellah et al, channel-flipping, TV watching, compulsive promiscuity, and alcoholism is a form of distraction while spending time with one's spouse and children, and repairing the broken car of a neighbour is a form of attention." Bellah et al make it clear that we must understand this plea for attention in the normative sense. In their words:

as in the religious examples, we mean to use attention normatively, in the sense of 'mindfulness', as the Buddhists put it, or openness to the leadings of God, as the quakers say. On the face of it, it may seem haid to tell the difference between attention and obsession. But as we shall use the term here, attention implies an openness to experience, a willingness to widen the lens of appreciation that is appropriate, and this obsession is incapable of doing. Obsessive 'attention' in this normative sense is not attention at all but distraction, an unwillingness to be genuinely attentive to surrounding reality [1991 256, emphasis added]

But this attention to the self and surrounding reality is hard to see in a democratic society such as contemporary American society. In the words of Bellah et al. "Americans have pushed the logic of exploitation about as far as it can go" (1991:271). This is manifested in addiction to conspicuous consumption where goods take precedence over man and God as objects of attention, the rise of homelessness and in the decadence of the built environment of the cities."

In this context of dislocation, distraction and despair Bellah et al pleaded for a politics of generativity and a pattern of cultivation. For them, "the major problems that come to light require the virtue of generativity to solve - indeed, a politics of generativity. The most obvious problem is the perilous neglect of our own children in America: levels of infant mortality, child poverty, and inadequate schooling just as at or near the bottom in these respects among industrial nations" (1991:274) A pattern of settlement and culti-vation is interested in creating communities. As Bellah and his colleagues say: "A pattern of settlement and cultivation allows not only the nurturing of ethnic and racial cultures within communities of memory but an open interchange of learning between such communities, a kind of global localism" (1991:275).

This concern for attention is different from a preoccupation with either money or power as the ultimate measure of life. It is also

different from a clinical preoccupation with whether one's own country would continue to remain number one in the new global environment. Here a genuine transnational spirit must be the guide for action, reflection, and intervention. Johan Galtung (1980) had argued long ago that transnational politics is a politics of individual human beings Widening the universe of democracy means making a move towards both sides: towards the supranational collectivities as well as towards one's reflexive self which is not bounded to the dogmas of social roles and statist citizenship, and which has the capacity to criticise familiar institutions and turn them into islands of problematic justice [see Giri 1993a; Habermas 1990a]. Bellah's agenda of democracy as paying attention and a pattern of cultivation falls in line with the argument of this paper that self-transformation is the key issue while coming to terms with the challenge of democratic transition and the complexification of social systems. It is a spiritual awareness that can make professionals treat other citizens as human beings and with dignity and respect. It is a spiritual awareness that provides us 'freedom from lear' in the context of the all-pervasive 'fear of freedom' and help us realise what Aung Sun Kyi says "It is not enough merely to call for freedom, democracy and human rights. There has to be a united determination to persevere in the struggle, to make sacrifices in the name of enduring truths, to resist the corrupting influences of desire, ill-will and fear" [Kyi 1991:153]. It is this awareness which is crucial to build solidarity and 'dedifferentiation [Beck 1992; Habermas 1984] in the infinitely differentiated but tightly integrated regime of the system worlds. It is the discovery of the universal self within oneself and the inner godhead that is essential to build a transnational democracy. Thus, self-transformation is the key challenge in the face of the current democratic transition and evolution of social systems. Bellah and his colleagues best articulate this challenge for us-

We can indeed try genuinely to attend to the world around us and to the meanings we discover as we interact with that world, and hope to realise in our experience that we are part of a universal community, making sense of our lives as deeply connected to each other As we enlarge our attention to include the natural universe and the ultimate ground it expresses and from which it comes, we are sometimes swept with a feeling of thankfulness, of grace, to be able to participate in a world that is both terrifying and exquisitely beautiful. At such moments we feel like celebrating the joy and mystery we participate in The impulse towards larger meaning, thankfulness, and celebration has to have an institutional form, like all the other central organising tendencies in our lives, so that we don't dissipate at in purely private sentiment [Bellah et al 1991]

## **Notes**

[This is the revised version of a paper presented at the national seminar on "Schools for Life and the Challenges of Tomorrow" at Trivandium, organised by Mitianiketan and Danish Folk High School Association in September, 1993] 1 Political scientists Frances Fox Piven and Richard A Cloward (1988) make this observation about the voting pattern in American presidential elections.

2 As Unger argues, on a large-scale market institutions leave a "restricted number of people with a disproportionate influence over the flows of investment decisions" while on a small-scale these undermine freedom by "generating and permitting inequalities of wealth that reduce some people to effective dependence upon others "[Unger 1987, 483].

3 Unger develops his idea of rotating capital fund thus.

The ultimate capital giver is a social capital fund controlled by the decisional centre of the empowered democracy; the party in office and the supporting representative assemblies. The ultimate capital takers are teams of workers, technicians, and entrepreneurs, who make temporary and conditional claims upon divisible portions of this social capital fund. The central capital fund does not lend money out directly to the primary capital users. Instead, it allocates resoures to a variety of semi-independent investment funds. Each investment fund specialises in a sector of the economy and in a type of investment. The central democratic institutions exercise their ultimate control over the forms and rates of economic accumulation and income distributton by establishing these funds or by closing them out, by assigning them new infusions of capital or by taking capital away from them, by charging them interest (whose payment represents the major source of governmental finance), and, most importantly, by setting the outer limits of variation in the terms on which the competing investment funds may allocate capital to the ultimate capital takers. The investment funds may take resources away from one another thus forming in effect a competitive capital market, whose operations are also overseen by the central representative bodies of democracy [Unger 1987:4361

4 David Osborne (1988) has described several experiments in the United States to make government competitive and fulfil its social obligation more efficiently [also see Giri 1993c; Osborne and Gaebler 1992). In this context, what O'Donnell writes deserves our attention

There is no question that in most newly democratised countries the state is too big, and that this leads to numerous negative consequences. But, in this context, the antonym of big is not small but lean, i.e., an effective and less weighty set of public organisations that is capable of creating solid roots for democracy, for progressively solving the main issues of social equity, and for generating conditions for rates of economic growth suitable for sustaining the advances in areas of both democracy and social equity [O'Donnell 1993-1358]

5 In the words of Apter "The old institutionalists used law as an analytical discourse, both as history and system. Democracy, the systemic alternative to arbitrary power, consisted of law, participation, and accountability, so fashioned to produce a moving equilibrium in the political sphere parallel to the moving equilibrium in the economic." (Apter 1991: 467).

brium in the economic" [Apter 1991-467].
6 In his words, "The denial of liberal rights to (mostly but not exclusively) the poor or otherwise deprived sections is analytically distinct from, and bears no necessary relation to various degrees of social and economic democratisation. But, empirically, various forms of discrimination of extensive poverty and their correlate, extreme disparity in the distribution of (notonly economic resources, go hand in hand with low-intensity citizenship. This is the essence of the social-conditions.

necessary for the exercise of citizenship" [O'Donell 1993.1361].

7 For Unger, "the theory of immunity rights rests, in part, on the empirical hypothesis that freedom from violence, coercion, subjugation, and poverty... enters into people's ordinary conception of essential security. These goods are rivalled in importance only by the more intangible sense of being accepted by other people as a person, with a place in the world" [Unger 1987.524]
8 In the words of Lechner: "Latin American

8 In the words of Lechner: "Latin American society becomes a 'two-thirds' society, with the remaining third of the population unemployed and living on what is cast off by the rest" [Lechner 1991:542].

- 9 I owe this point of introducing the concern of human rights into the functioning of communities to a discussion I had with B D Sharma, a tireless champion of the cause of the tribals and the downtrodden of India and the author of The Webs of Poverty, in March 1992 in Delhi.
- 10 Here it is worth remembering the seminal work of Anthur E Mergan, one of the most engaging advocates of community in modern times. It is no wonder that Morgan who pleaded for creation of communities in complex industrial societies also pleaded for understanding the significance of a longer-time horizon.
- 11 But Whitehead himself makes clear that "public morality is by no means reducible to religion" [Whitehead 1993a:1248]
- 12 Offe and Preuss tell us what they mean by reflective preferences: "By reflective preferences we mean preferences that are the outcome of a conscious confrontation of one's own point of view with an opposing point of view, or of the multiplicity of viewpoints that the citizen, upon reflection, is likely to discover within his or her own self" [Offe and Preuss 1991:170].
- 13 For instance, Whitehead believes that if institutions are "soundly based, with high professionalism and good standing in the society, ie, 'transparent' and 'accountable', then they may serve to absorb and even reconcile clashes' 'between economic and political liberalisation'." In the words of Whitehead: "Two of the most vital areas for liberal institution-building are the legal system and the apparatus of economic management. Both of these are often severely affected both by economic disorder and by authoritarian abuse. If the process of economic and political liberalisation is to become routinised these institutions will have to be reformed and roorganised to provide the necessary continuity and support" [Whitehead 1993b:1386].
- 14 Unger also makes a similar argument when he writes, "Empowered democracy attempts instead to change the relation between large-scale, inclusive institutions and non-institutionalised collective action, to make the former into a more congenial home for the latter. The closer the movement comes to its moment of power and therefore also to its hour of institutional definitions the less room there is for discrepancy between means and ends" [Unger 1987-173-74]
- 15 Here I draw upon the arguments of Habermas. While discussing the problem of poverty within a country and inequalities between the North and South, Habermas argues, "a dynamic self-correction cannot be set in motion without introducing morals into the debate, without universalising interests from a normative point of view" [Habermas 1990b 20]
- 16 A contemporary critic helps us understand this and go beyond the euphoria and illusion in the wall streets: "In the contemporary world, the joyful celebration of the advent of democracy must be complemented with the

sober recognition of the immense (and, indeed, historically unusual) difficulties its institutionalisation and its rooting in society must face... In addition, there are no immanent historical forces which will guide the new democracies toward an institutionalised and representative form, and to the elimination of their brown areas and the manifold social ills that underlie them. In the long run, the new democracies may split between those that follow this felicitous course and those that regress to all-out authoritarianism. But delegative democracies weak horizontal accountability, schizophrenic states, brown areas and low-intensity citizenship are part of the foreseeable future of new democracies' O'Donnell 1993:1367].

17 Here what Mark Warren argues deserves our attention

Public material goods present unique opportunities for self-transformation when compared with other goods. Although they are inherently conflictual and do not depend on commonality for their value, they can only be gained through common action. Combined with expanded democracy, this characteristic presents individuals with opportunities to change the way they make trade-offs between individual and public material goods, as well as to discover other, non conflictual goods associated with the common deliberation and action that public goods require [Warren 1992:21, emphasis added].

- 18 However, such an agenda of moral criticism and self-transformation has been peripheral to the discourse of modern democracy since it was preoccupied with supplanting the medieval hero-worship and collectivism with people's verdict and individualism without thinking deeper about the nature of the person who is supposed to be at the centre of the drama of democracy, not simply as a viewer but primarily as an actor [see Ado 1984]. But Warren argues that "transformations of the self are important for expansive democrats because they view democracy as justified not so much because it allows maximisation of political wants or preferences as because it maximises opportunities for self-governance and self-development" (1984:11).
- 19 Here I have in mind Rabindranath Tagore's line, Jagate Anandajagye Amar nimantrana meaning "I am invited to the world of the sacrifice of Ananda (pleasure)"
- 20 David Harvey (1989) cautions us against aestheticisation of politics.
- 21 I owe this argument to Mark Warren (1993).

22 As Warren argues:

- Fortunately, the self-transformation thesis requires only a very weak theory of needs, one that focuses on the general functional requirements of the self [what Amartya Sen calls 'functioning' and 'capability'] in relation to classes of goods that would satisfy them. This is because democratic theory is not a theory of welfare (although there are essential welfare requirements) but a theory of choice, public decision making, and self-governance. A stronger account of needs is unnecessary and undesirable, since the point of expansive theories of democracy is to recommend institutional arrangements under which individuals develop control over their own need articulation. [Warren 1992-16; emphasis added].
- 23 The same problem of underdeveloped accounts of the self haunts even anthropology and cultural studies even when they self-consciously want to be self-critical and transform themselves into critiques of culture. For instance, in anthropology the champions of self have not been able to go beyond the liberal-bourgeoisie model of individualism

24 In the words of Pantham:

The satyagrahis regard their initial truthclaims as well as those of their opponents or oppressors to be relativistic. They then go through a rigorous discipline of hermeneutically testing the truths of the rival claims. The discipline of satyagraha includes hermeneutical and dialogic interpretations of the competing truth-claims and a set of actions based on the refusal to do harm even to one's opponents. These actions include self-purification and selfsuffering, the vow of ahimsa, showing love and charity or doing good to the opponents, etc. In this way, for the satyagrahi, truth-seeking is not a mere attempt to secure a mirror copy of some out-there object. The attempt is rather to transgress the relativity of their initial truths as well as that of their opponents and thereby to move on to a post-relativist plane of truth. In this transgressive move from relativism, there is no submersion of the individuality of the satyagrahı. It is also not a passive or quietest stance. It is rather a hermeneutical move [Panthom 1989:14]

Rolph Templin, writing about democracy and non-violence nearly 30 years ago, also acknowledges the signal contribution Gandhi has made to modern man's search for truth and says:

In the West, to experiment with truth is now practically unheard of or, at any rate, not regarded as scientific. It is this lack in western science that has given the phenomenon of Gandhi's life, movement, experiments and death their special significance against the western background. Future historians may regard Gandhi as the most consistent pursuer of his age of the truth which makes men free, and the most valiant experimenter with truth in the greatest of all laboratories, the human community [Templin 1965-192].

- 25 In the words of Taylor "To know who you are is to be oriented in moral space, a space in which questions arise about what is good or bad, what is worth doing and what is not, what has meaning and importance for you and what is trivial and secondary" [Tayloi 1989-28]
- 26 In the words of Giddens "It becomes more and more apparent that lifestyle choices, within the settings of local-global interrelationships, raise moral issues which cannot simply be pushed into one side. Such issues call for forms of political engagement which the new social movements both presage and serve to help" [Giddens 1991-9].
   27 In the words of Giddens. "Ite politics is the
- 27 In the words of Giddens, "life politics is the politics of a reflexively mobilised o der the system of late modernity which, on an individual and collective level, has altered the existential parameters of social activity. It is a politics of self-actualisation in a reflexively ordered environment, where reflexivity links self and body to systems of global scope. In this arena of activity, power is generative rather than hierarchical." [Giddens 1991-91]
- 28 As emancipatory politics has shown us the significance of the particular and negation, now life politics must enable us to have a ground where we are concerned with "the destiny of the universal" [Laclau 1992:132]. Laclau helps us make sense of the challenge of the ground against the backdrop of modernity.

If, on the one hand, modernity started by strictly typing representability to knowledge, the constitutive opaqueness resulting from the dialectic of emancipation involves no only that society is no longer transparent to knowledge, but also – since God is no longer there to substitute knowledge by

revelation - that all representation will be necessarily partial and will take place against the background of an essential unrepresentability. On the other hand, this constitutive opaqueness withdraws the ground which made it possible to go beyond the dialectic of incarnation, given that there is no longer a transparent society in which the universal can show itself in a direct unmeditated way. But again, as God is no longer there, ensuring through his word the knowledge of a universal destiny which escapes human reason, opaqueness cannot lead to a restoration of the dialectic of incarnation either. The death of the ground seems to lead to the death of the universal and to the dissolution of social struggles into mere particularism (ibid: 131-132).

It is probably for this reason that Laclau concludes his engaging account of beyond emancipation with the following plea:

We are today coming to terms with our own finitude and with the political possibility that it opens. This is the point from which the potentially liberatory discourses of our post-modern age have to start. We can perhaps say that we are at the end of emancipation and at the beginning of freedom (ibid:137; emphasis added).

29 For Sen, enhancing the 'functioning and cupability' of individuals is an engagement in positive freedom, while preoccupation with one's individual rights and security alone s an instance of negative freedom [Sen 1989].

- 30 It has to be noted that no less a person than Joseph Schumpeter speaks of the significance of democratic self-control. It is important to read Schumpeter when he writes: "It is easier for a class whose interests are best served by being left alone to practice democratic self-restraint than it is for classes that naturally try to live on the state" [quoted in Whitehead 1993a: 1253].
- 31 Again the following long extract from Sri Aurobindo may clarify what I have in mind when I speak of the spiritual dimension of treedom:

all conduct and action are part of the movement of a power, a force infinite and divine in its origin... This power is leading towards the Light, but still through the ignorance. It leads man first through his needs and desires; it guides him next through enlarged needs and desires modified and enlightened by a mental and moral ideal. It is preparing to lead him to a spiritual realisation that overrides these things and yet fulfils and reconciles them in all that is divinely true in their spirit and purpose. It transforms the needs and desires into a divine will and Ananda. It transforms the mental and moral aspiration into the powers of truth and Perfection that are beyond them. It substitutes for the divided training of the individual nature, for the passion and strife of the separate ego, the calm, profound, harmonious and happy law of the universalised person within us, the central being, the spirit that is a portion of the supreme Spirit ... This is the high realisation in front of all our seeking and striving, and it gives the sure promise of a perfect reconciliation and transformation of all the elements of our Nature. A pure, total and flawless action is possible only when that is effected and we have reached the height of this secret Godhead within us [Sri

Aurobindo 1950:193-94; emphasis added).
32 As Bellah et al argue: "For we have not experienced the potentialities of ourselves and our relationships, and so we have not reaffirmed ourselves in the larger contexts that give our lives meaning. If, after a stressful day, we can turn our attention to something that is mildly demanding but inherently meaningful - reading a book, repairing a car, talking to someone we love, or even cooking the family meal - we are apt to find that we are 'released' [Bellah et al 1991:255].

33 In the words of Beltah and his colleagues: The record of city growth [in the US] over the last half-century graphically demonstrates that without sustaining institutions that make interdependence morally significant, individual attention becomes fragmented in focus and limited in scope. Vast social inequality is rendered invisible by residential separation, and an often shocking indifference to human misery and environmental

degradation goes generally unremarked" [Bellah et al 1991:268].
As Bellah et al argue: "The whole argument about whether the United States is in decline or is as strong as ever is also besides the point and fundamentally distracting. Clearly we are headed toward a future in which a number of highly successful national or regional economies will coexist: rather than worrying about where the United States is in the hierarchy, we should be worrying about creating a humane economy that is adequate to our real purposes, and a healthy international economy that operates for the good of all people" (1991,272).

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BALANCE SHEET AS ON 31ST MARCH, 1996

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1996

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|                                  |          |                              | (Rs. '000)                   |                                                   |          |                                         | (Rs. '000)                          |
|----------------------------------|----------|------------------------------|------------------------------|---------------------------------------------------|----------|-----------------------------------------|-------------------------------------|
|                                  | Schedule | As on<br>31st March,<br>1996 | As on<br>31st March,<br>1995 |                                                   | Schedule | Year ended<br>31st March,<br>1996       | Period ended<br>31st March,<br>1995 |
| CAPITAL AND LIABII               | LITIES   |                              |                              | INCOME                                            |          |                                         |                                     |
| Capital                          | 1        | 1,000,000                    | 100,000                      | Interest carned                                   | 13       | 79,716                                  | _                                   |
| Reserves and Surplus             | 2        | 9,531                        | 257                          | Other income                                      | 14       | 26,253                                  | 3,000                               |
| Deposits                         | 3        | 123,127                      |                              |                                                   |          |                                         |                                     |
| Borrowings                       | 4        | 44,100                       | -                            | Total                                             |          | 105,969                                 | 3,000                               |
| Other liabilities and provisions | 5        | 104,991                      | 26,311                       | EXPENDITURE                                       |          |                                         |                                     |
|                                  |          |                              |                              |                                                   |          |                                         |                                     |
| Total                            | j        | 1,281,749                    | 126,568                      | Interest expended                                 | 15       | 2,144                                   | -                                   |
|                                  |          |                              |                              | Operating expenses                                | 16       | 94,551                                  | 2,524                               |
|                                  |          |                              |                              | Provisions and                                    | •        |                                         |                                     |
|                                  |          |                              |                              | contingencies                                     |          | -                                       | 219                                 |
| ASSETS                           |          |                              |                              |                                                   |          |                                         | -                                   |
|                                  |          |                              |                              | Total                                             |          | 96,695                                  | 2,743                               |
| Cash and balances with           | ,        | 25.205                       |                              | DI OFIT                                           |          |                                         |                                     |
| Reserve Bank of India            | 6        | 27,397                       |                              | PROFIT                                            |          |                                         |                                     |
| Balances with banks and          |          |                              |                              | Not Don't for the years                           |          | 9,274                                   | 257                                 |
| money at call and short notice   | 7        | 496,788                      | 18                           | Net Profit for the year<br>Profit brought forward |          | 257                                     | 2.57                                |
| Investments                      | 8        | 49,488                       | 102,982                      | Front brought forward                             |          | 104                                     |                                     |
| Advances                         | 9        | 551,343                      | 102,702                      | Total                                             |          | 9,531                                   | 257                                 |
| Fixed Assets                     | 10       | 40,523                       | 356                          | 1014                                              |          | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, |                                     |
| Other Assets                     | 11       | 116,210                      | 23,212                       | APPROPRIATIONS                                    |          |                                         |                                     |
| Total                            |          | 1,281,749                    | 126,568                      | Transfer to Statutory Res                         | erve     | 1,855                                   | _                                   |
| 1 (144)                          | 1        | 1,201,747                    | 120,500                      | Transfer to Other Reserv                          |          |                                         | _                                   |
|                                  | ł        |                              |                              | Transfer to Proposed Div                          |          | _                                       | _                                   |
|                                  | İ        | ĺ                            |                              | Balance carried over to                           |          |                                         |                                     |
| Contingent Liabilities           | 12       | 155,369                      | -                            | Balance Sheet                                     |          | 7,676                                   | 257                                 |
| Bills for collection             |          | _                            | _                            | Total                                             |          | 9,531                                   | 257                                 |
|                                  | l        |                              |                              |                                                   |          |                                         |                                     |

PRINCIPAL ACCOUNTING POLICIES & NOTES FORMING PART OF ACCOUNTS AS PER SCHEDULE 17 APPENDED

As per our report of even date

For V. SANKAR AIYAR & CO. Chartered Accountants

For and on behalf of the Board

N. SAMPATH GANESH Partner

S. S. MARATHE Chairman D. K. MUKERJEE Managing Director

G. P. GUPTA
D. B. PHATAK
Directors

Date: June 14, 1996 Place: MUMBAI



Registered Office Chaturvedi Mansion, 2nd Floor, 15, Old Palasia, Agra Bombay Road, Indoic - 452 (X)]

# SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS

|                                                                                                                                                                                                                           |                              | (Rs '000)                   | -                                                                                                                                                                                                           |                              | (Rs 000)                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------|
|                                                                                                                                                                                                                           | As on<br>31st March,<br>1996 | As on<br>31st March<br>1995 |                                                                                                                                                                                                             | As on<br>31st March,<br>1996 | As on<br>31st March<br>1995 |
| SCHEDULE 1 - CAPITAL Authorised Capital 500,000,000 equity shares of Rs 10/ each Issued Subscribed and Paid up Capital 100,000,012 equity shares of Rs 10/ each Share application inoney 10,000 000 shares of Rs 10/ each | 5,000,000<br>1,000,000       | 5 000 000<br>100 000        | SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS    Bills payable    Inter office adjustments (net)    Interest accord   Others (including provisions)   Total   SCHEDULE 6 - CASH AND   BALANCES WITH RESERVE | 568<br>104,423<br>104,991    | 26 311<br>26 311            |
| Total  SCHEDUI E 2 - RESERVES AND SURPLUS I Statutory Reserves Opening balance Additions during the year Deductions during the year                                                                                       | 1,000,000                    | 100 000                     | BANK OF INDIA  I Cash in hand (including foreign currency notes)  II Balances with RBI  i) in Current Accounts  ii) in Other Accounts                                                                       | 1,337<br>26,060              | -                           |
| Total I  II Capital Reserve Opening balance Additions during the year                                                                                                                                                     | 1,855                        |                             | Total (Land II) SCHEDULE 7 – BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE                                                                                                                         | 27,397                       |                             |
| Deductions during the year Total II III Share Premium Opening balance Additions during the year Deductions during the year Total III                                                                                      | -                            | _                           | I In India (i) Balances with banks (a) in Current Accounts (b) in Other Deposit Accounts (ii) Money at call and short notice                                                                                | 16,764<br>50,000             | -                           |
| IV Revenue and other Reserves Opening balance Additions during the year Deductions during the year                                                                                                                        | -                            | -<br>-                      | (a) with banks (b) with other institutions  Total (1)                                                                                                                                                       | 414,700<br>10,000<br>491,464 |                             |
| Total IV V Balance in Profit and Loss Account Fotal (I II III IV and V)                                                                                                                                                   | 7,676                        | 257<br>257                  | II Outside India (i) in Current Accounts (ii) in Other Deposit Accounts (iii) Money at call and short notice                                                                                                | 5,324                        |                             |
| SCHEDULE 3 - DEPOSITS  A I Demand Deposits  i) From banks  ii) From others                                                                                                                                                | 42,463                       | ***                         | Total (II)<br>Grand Total (Land II)                                                                                                                                                                         | 5,324                        | 18                          |
| II Savings Bank Deposits III Terin Deposits i) From banks ii) From others Total (I, II and III) B I Deposits of branches in India                                                                                         | 3,625<br>                    |                             | SCHEDULE 8 - INVESTMENTS I Investments in India in (i) Government Securities (ii) Other Approved Securities (iii) Shares (iv) Debentures and Bonds (v) Subsidiaries and/or joint                            | 49,488                       | -<br>102 982                |
| II Deposits of branches outside India Total  SCHEDULE 4 - BORROWINGS I Borrowings in India (i) Reserve Bank of India (ii) Other banks (iii) Other institutions and                                                        | 123,127                      | -                           | ventures (vi) Other investments Total (I)  II Investments outside India in (i) Government Securities (including local authorities) (ii) Subsidiaries and/or joint ventures abroad                           | 49,488                       | 102 982                     |
| agencies II Borrowings outside India Total (I and II) Secured borrowings included in I and I                                                                                                                              | 44,100<br>I above R          |                             | (iii) Other investments  Total (II)  Grand Total (I and II)                                                                                                                                                 | - 45'488<br>                 | 102 982                     |



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# SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS

|                  |                                                           |                              | (Rs. '000)                   |                                                 |                              | (Rs. '000)                   |
|------------------|-----------------------------------------------------------|------------------------------|------------------------------|-------------------------------------------------|------------------------------|------------------------------|
|                  |                                                           | As on<br>31st March,<br>1996 | As on<br>31st March,<br>1995 |                                                 | As on<br>31st March,<br>1996 | As on<br>31st March,<br>1995 |
| SCI              | HEDULE 9 - ADVANCES                                       |                              |                              | SCHEDULE 11 - OTHER ASSETS                      |                              |                              |
| A.               | (i) Bills purchased and                                   | 1                            |                              | I. Inter office adjustments (net)               | -                            | -                            |
|                  | discounted                                                | 310,812                      | -                            | II. Interest Accrued                            | 3,490                        | -                            |
|                  | (ii) Cash credits, overdrafts and                         | 140 004                      |                              | III. Tax paid in advance/tax                    | 20 415                       | 1 250                        |
|                  | loans payable on demand (iii) Term loans (includes amount | 168,774<br>71,757            | _                            | deducted at source IV. Stationery and Stamps    | 38,417                       | 1,753                        |
|                  | Rs. 1345 thousand due from                                | /1,/3/                       |                              | V. Non-banking assets acquired                  | _                            | _                            |
|                  | the Managing Director;                                    | 1                            |                              | in satisfaction of claims                       | _                            | _                            |
|                  | maximum amount due at                                     |                              |                              | VI. Others (Includes Rs. 10,264                 | 74,303                       | 21,459                       |
|                  | any time during the year                                  |                              |                              | thousand fees for technical                     |                              | •                            |
|                  | Rs.1345 thousand)                                         |                              |                              | and business consultancy and                    |                              |                              |
|                  | Total A                                                   | 551,343                      |                              | Rs. 53,876 thousand software                    |                              |                              |
|                  | IOM A                                                     | 331,343                      |                              | license fees to be written off)                 |                              |                              |
| B.               | (i) Secured by tangible assets                            | 183,000                      | -                            | Total                                           | 116,210                      | 23,212                       |
|                  | (ii) Covered by Bank/                                     |                              |                              |                                                 |                              |                              |
|                  | Government Guarantees                                     | 60,812                       | -                            | SCHEDULE 12 - CONTINGENT                        |                              |                              |
|                  | (iii) Unsecured                                           | 307,531                      |                              | LIABILITIES                                     |                              |                              |
|                  | Total B                                                   | 551,343                      |                              | <ol> <li>Claims against the Bank not</li> </ol> |                              |                              |
| _                |                                                           |                              | **********                   | acknowledged as debts                           | 12,023                       | -                            |
| C                | I Advances in India                                       |                              |                              | II. Liability for partly paid                   |                              |                              |
|                  | (i) Priority Sector                                       | 67,940                       | -                            | investments III. Liability on account of        | -                            | -                            |
|                  | (ii) Public Sector                                        | 250,000                      | -                            | outstanding forward                             |                              |                              |
|                  | (iv) Others                                               | 233,403                      | -                            | exchange contracts                              | 40,182                       |                              |
|                  | ` '                                                       |                              |                              | IV. Guarantees given on behalf                  | 10,102                       |                              |
|                  | Total C I                                                 | 551,343                      | -                            | of constituents                                 |                              |                              |
|                  | II Advances outside India                                 |                              |                              | a) In India                                     | 74,250                       | _                            |
|                  | (i) Due from banks                                        | _                            | _                            | b) Outside India                                | - 1                          | -                            |
|                  | (ii) Due from others                                      | _                            | _                            | V. Acceptances, endorsements                    |                              |                              |
|                  | (a) Bills purchased and                                   |                              |                              | and other obligations                           | 28,914                       | -                            |
|                  | discounted                                                | -                            | -                            | VI. Other items for which the Bank              |                              |                              |
|                  | (b) Syndicated loans                                      | -                            | -                            | is contingently liable                          |                              | -                            |
|                  | (c) Others                                                | -                            | -                            | Grand Total (I, II, III, IV, V and VI)          | 155,369                      | _                            |
|                  | Total C II                                                |                              | -                            |                                                 |                              |                              |
|                  | Grand Total (C I and C II)                                | 551,343                      |                              |                                                 | Year Ended                   | Period Ended                 |
|                  |                                                           |                              |                              |                                                 | 31st March,<br>1996          | 31st March,<br>1995          |
| <b>SCH</b><br>I. | IEDULE 10 - FIXED ASSETS Premises                         |                              |                              |                                                 |                              |                              |
| ••               | At cost as on 31st March of the                           |                              |                              | SCHEDULE 13 – INTEREST                          | ļ                            |                              |
|                  | preceding year                                            | _                            | _                            | EARNED                                          | 1                            |                              |
|                  | Additions during the year                                 | - 1                          | -                            | l. Interest/discount on advances/bills          | 10,066                       |                              |
|                  | Deductions during the year                                | -                            | -                            | II. Income on investments                       | 52,850                       | _                            |
|                  | Depreciation to date                                      |                              |                              | III. Interest on balances with                  | -2,000                       |                              |
|                  | Net                                                       |                              |                              | Reserve Bank of India and                       | l                            |                              |
|                  |                                                           |                              |                              | other Inter-bank funds                          | 16,725                       | -                            |
| 1.               | Other Fixed Assets (including                             | 1                            |                              | IV. Others                                      | 75                           |                              |
|                  | Furniture and Fixtures)                                   | 1                            |                              | Total                                           | 79,716                       |                              |
|                  | At cost as on 31st March                                  |                              | 1                            |                                                 |                              |                              |
|                  | of the preceding year                                     | 371                          |                              | SCHEDULE 14 - OTHER INCOME                      | ľ                            |                              |
|                  | Additions during the year                                 | 33,848                       | 371                          | I. Commission, exchange and                     |                              |                              |
|                  | Deductions during the year Depreciation to date           | 1 422                        | 15                           | brokerage                                       | 1,704                        | 2.000                        |
|                  | · · · · · · · · · · · · · · · · · · ·                     | 1,432                        |                              | II. Profit on sale of investments               | 27,439                       | 3,000                        |
|                  | Net                                                       | 32,787                       | 356                          | Less: Loss on sale/redemption of investments    | 3,090                        |                              |
|                  | Control We to 1 . 5                                       |                              |                              | III. Profit on revaluation of                   | 3,070                        | -                            |
|                  |                                                           | 7,736                        | - 1                          | III. I IVIII VII ICTAIUAUNII VI                 |                              |                              |
| III.             | Capital Work-In-Progress                                  | 7,730                        | - 1                          | investments                                     | - 1                          | _'                           |
| 111.             | Total (I, II and III)                                     | 40,523                       | 356                          | investments Less: Loss on revaluation of        | -                            | <del>-</del> .               |



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## SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                        | (Rs. '000)                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                     | (Rs '000)                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                        | Period Ended<br>31st March,<br>1995 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Year Ended<br>31st March,<br>1996                                                   | Period Ended<br>31st March,<br>1995 |
| SCHEDULE 14 - (Contd.)  IV. Profit on sale of land buildings and other assets  **Less:* Loss on sale of land buildings and other assets  V. Profit on exchange transactions  **Less:* Loss on exchange transactions  Us income earned by way of dividends, etc, from subsidiaries/companies and/or joint ventures abroad/in India  VII Miscellaneous Income  **Total**  SCHEDULE 15 - INTEREST EXPENDED**  I Interest on deposits  II Interest on Reserve Bank of India/Inter-bank borrowings  III Others  **Total** | 195<br>5<br>26,253<br>1,874<br>270<br> | 3,000                               | SCHEDULE 16—OPERATING EXPENSES  1 Payments to and provisions for employees 11 Rent, taxes and lighting 111 Printing and Stationery 1V Advertisement and publicity V Depreciation on Bank's property VI Directors' fees, allowances and expenses VII Auditors' fees and expenses VIII Law Charges 1X. Postage, Telegrams, Telephones, etc X. Repairs and maintenance XI Insurance XII. Other expenditure (Includes preliminary expenses, fees for business and technology consultancy and software license fee aggregating Rs 59,426 thousand written off) Total | 5,644<br>6,580<br>1,127<br>9,453<br>1,418<br>26<br>125<br>55<br>1,352<br>730<br>214 | 2.417<br>2.524                      |

# SCHEDULE 17

# PRINCIPAL ACCOUNTING POLICIES

# l General

The accompanying financial statements are prepared on the historical cost basis and in accordance with the generally accepted accounting principles and conform to the statutory provisions and practices prevailing within the banking industry in India

# 2. Fransactions involving Foreign Exchange

- a) Foreign currency assets and liabilities are translated on the Balance Sheet date at the rates notified by Foreign Exchange Dealer's Association of India (FEDAI). The resulting profits or losses on revaluation are accounted for in the Profit and Loss account.
- b) Contingent liabilities on account of outstanding foreign exchange contracts are reported at the contracted rates. These contracts have been revalued on the Balance Sheet date at the rates notified by FEDAI and the resulting profits or losses are accounted for in the Profit and Loss account as clarified by RBI Circular No BP BC.68/21.04.018/96 dated June 5, 1996, whereas, as per A S 11 (Revised) issued by the Institute of Chartered Accountants of India, the difference between the exchange rate at the date of the transaction and the forward exchange rate is to be recognised as profit/loss over the period of the contract.

# 3. Advances

The guidelines issued by Reserve Bank of India in respect of provisioning have been applied to the loans and advances outstanding on the Balance Sheet date and all advances were required to and have been treated as Standard Assets

## 4 Fixed Assets

- a) Fixed Assets are accounted for on a historical cost basis.
- b) Depreciation has been provided for on the straight line method, pro-rata from the date of addition, at rates prescribed under Schedule XIV to the Companies Act, 1956.

## 5. Deferred Revenue

The following have been treated as Deferred Revenue expenditure and are written off over a 12 month period-

- a) Preiminary expenditure
- b) Fees paid for business and technology consultancy for setting up of the Bank
- c) Software License fee for use of software on a non-exclusive, non-transferable basis

# 6 Gratuity

Provision for gratuity has been made based on actuarial valuation



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#### SCHEDULE 17 - (Contd.)

# NOTES FORMING PART OF ACCOUNTS

- 1. All investments as at the Balance Sheet date have been treated as "Current Investment" and are valued at cost or market value whichever is lower in compliance with the Reserve Bank of India requirements.
- 2. The Bank does not anticipate any Income tax liability for the year ended 31st March, 1996 and therefore no provision has been made for the same.
- 3. Wealth tax is accounted for, on payment basis.
- 4. Guarantee fee is accounted as income on pro-rata basis over the period of guarantee.
- 5. The Capital Adequacy ratio of the Bank as at 31st March, 1996, as computed under the guidelines issued by Reserve Bank of India was 182%.
- 6. In the accounts for the period ended 31st March, 1995, one-tenth of the Pre-incorporation expenses, Pre-operative expenses and fees for business and technology consultancy for setting up of the Bank, was written off. During the year, the Bank has decided to write off this expenditure over a period of 12 months from the date of incurring the expenditure. As a result of this change, the amount written off in this respect during the year is higher by Rs. 25,840 thousand.
- 7. a) The Bank has during the year commenced the business of banking pursuant to receipt of license from Reserve Bank of India.
  b) Previous year figures are for the period 15th Sept. 1994 to 31st March, 1995.
  - In view of the above, figures of the previous period are not comparable with that of the current year.

8 Previous year's figures have been regrouped wherever necessary.

As per our report of even date

For and on behalf of the Board

For V. SANKAR AIYAR & CO Chartered Accountants

S. S. MARATHE D. Chairman

D. K. MUKERJEE Managing Director

N. SAMPATH GANESH

iairman Ma

G P. GUPTA
D. B. PHATAK
Directors

Date: June 14, 1996 Place: MUMBAI

**Partner** 

# **AUDITOR'S REPORT**

AUDITOR'S REPORT ON THE ACCOUNTS OF IDBI BANK LIMITED UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949.

We have audited the attached Balance Sheet as at 31st March, 1996 of IDBI Bank Limited and also the annexed Profit and Loss Account of the Bank for the year ended on that date.

The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with provisions of Section 211 of the Companies Act, 1956.

## We report that:

- (a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and found them to be satisfactory.
- (b) The transactions which have come to our notice, have been, in our opinion, within the powers of the Bank
- (c) In our opinion, proper books of accounts as required by law have been kept by the Bank so far as appears from our examination of those books.
- (d) The Balance Sheet and Profit and Loss Account of the Bank dealt with by this report, are in agreement with the books of accounts.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon and the Principal Accounting Policies, give the information required by the Companies Act, 1956 in the manner so required for banking companies and on such basis, the said Balance Sheet gives a true and fair view of the state of affairs of the Bank as at 31st March, 1996, and the Profit and Loss Account shows a true and fair view of the profit of the Bank for the year ended on that date.

For V. SANKAR AIYAR & CO.
Chartered Accountants.

N. SAMPATH GANESH

Date: June 14, 1996 Place: MUMBAI

# Global Market and Competitiveness of Indian Agriculture

# **Some Issues**

Sucha Singh Gill Jaswinder Singh Brar

India's signing of the GATT agreements in 1994 and her joining the World Trade Organisation as a founder member have put Indian agriculture into the framework of global competition and rule of the global market. However, discussion of the issue of the competitiveness of Indian agriculture has been carried on in a narrow context, ignoring major questions such as global commodity prospects in terms of prices and their stability/instability and the movement of domestic and world market prices and of agricultural and non-agricultural prices within the country. The overriding issue of the structure of the global market has been hardly brought into the discourse.

In this paper an attempt is made to examine competitiveness of some selected agricultural crops in the light of empirical evidence of domestic and international prices, the world commodity situation and the structure of the global market for agricultural commodities.

LAUNCHING of structural adjustment programme in July 1991 for macro-economic stabilisation has opened up Indian economy to outside competition and accelerated its integration with the global economy. This has serious implications for the agriculture of the country in the sense that the supportive system to agriculture has been put to resource crunch. Moreover, the feasibility and relevance of the support measures have been put under question mark both by a section of the farmers and the policy-makers. India's signing of GATT agreements in 1994 and her joining of World Trade Organisation (WTO) as a founder member has put Indian agriculture into framework of global competition and the rule of global market. These developments have brought the question of competitiveness of Indian agriculture to the centre stage of the controversy. In view of the majority of Indian population being dependent on agriculture, this question has attracted the attention of a large number of commentators, government-controlled media researchers. The discussion on this issue has been in an extremely narrow context ignoring major issues such as global commodity prospects both in terms of commodity prices, their stability/instability, movement of domestic and world market prices, movement of agricultural prices and non-agricultural prices within the country. The overriding question of structure of global trading market is hardly brought in this discourse. In this paper an attempt is made to examine competitiveness of some selected agricultural crops in the light of empirical evidence of domestic and international prices, the world commodity situation and structure of global trading market of agricultural commodities. For illustrative purposes the analysis is based on agriculture of Punjab. The selection of

Punjab is guided by two related factors. First, Punjab is agriculturally most advanced region in the country in terms of technology of production and per hectare yield of foodgrains, particularly wheat and rice. Secondly, Puniab produces a large amount of surplus production in both the crops. In other words, the state has a large export surplus and in eventuality of India emerging as exporter of these crops, Punjab will be the major contributor in this process. The analysis based on Punjab reality has a bearing for other regions placed in the similar situation. This paper is divided into four sections. Section I deals with the issue of globalisation of agriculture and its likely context for developing countries like India and their trade of agricultural commodities. Section II deals with international competitiveness of agriculture of Puniab particularly those of wheat and rice. Section III examines the structure of global market for primary commodities and problems of retaining gains of development for the primary producing developing countries. Concluding observations are made in the last section.

1

The discussion here is based on the assumption that GATT agreements 1994 will be honestly implemented and advanced countries do not bring in fresh non-tariff barriers against the poor countries under the pretext of social clauses such as observance of human rights, environment protection and protection of child and female labour. Given this, the GATT commitments will increase access of agricultural commodities in the world trade due to (i) replacement of all types of non-tariff barriers with tariff barriers by the member countries, and (ii)

reduction of tariff rates under a time bour programme. The developed countries w reduce by 36 per cent (of 1986-88 averaglevel) of their tariff rates during six yea while developing countries by 24 per ce during the next 10 years. The least developing countries are not required to undertake as such reduction. Safeguards against sudding abnormal increase in imports, dumpin deficits in balance of payments are threatening of food security have been ke in these agreements.

Besides, a maximum limit of aggrega measure of support (AMS) to agriculture h been fixed at 10 per cent of the value agricultural produce, both product specif and non-product specific for developing countries, and 5 per cent in case of develope countries. In case AMS exceeds those limit then developed countries shall reduce it I 20 per cent and developing countries by 13 per cent during the implementation perio The least developed countries are exempted from such reduction. While calculating AM exemptions have been given for expenditu on research and extension in agricultur investment for building up of infrastructu such as electricity, reticulation of roads at

Table 1 Nei Producer Subsidy in Agricultu
of Developed Countries
(Per cent of total value of production

| Country        | Average<br>1979-81 | 1986 | 199 |
|----------------|--------------------|------|-----|
| European Union |                    |      |     |
| (12 countries) | 37                 | 50   | 48  |
| Japan          | 57                 | 75   | 68  |
| United States  | 16                 | 42   | 30  |
| United States  | 16                 | 42   | 30  |

Source: IMF (1992), Issues and Developments Trade Policy, Washington, DC, quoted The World Bank (1994), Global Econon Prospects and the Developing Countri Washington, DC.

other means of transport, market and port facilities, water supply, dams and drainage schemes and infrastructural works associated with environment programmes, public stockholding for food security purposes, domestic food aid to targeted sections of population, decoupled income support to targeted (weaker) farmers, income insurance and income safety net programmes, payment to farmers for relief from natural disasters, structural adjustment assistance provided through producer retirement, resource retirement and investment aid, payments under environment programmes and payments under regional assistance programmes. GATT agreements on agriculture provide for minimum access to market to the outside suppliers. This has been fixed at minimum of 3 per cent of domestic consumption or the existing level of import in the reference period (1986-88) in beginning of implementation period which has to be increased to 5 per cent at the end of the implementation period. The GATT agreements provide for reduction in subsidy on exports to the extent of 36 per cent by developed countries and 24 per cent by developing country of 1986-90 base period levels at the conclusion implemenation period, ic, 2005 [World Trade Centre 1994].

In anticipation of conversion of non-tariff barriers into tariff barriers, differential reduction in the levels of customs duties, export subsidies and AMS, a hope has been built that increased market access of agricultural products will benefit the developing countries like India. It is expected that prices of these products will rise more in the markets of advanced countries such as the US, European Union and Japan where agriculture is highly subsidised (Table 1) and protected (Table 2). This will make supply of agricultural products from the developing countries more competitive and these exports from the developing countries will perform better. On this basis, agencies like the World Bank view that agricultural trade liberalisation will benefit the developing countries through changes (improvements) in terms of trade, increased trade efficiency and welfare effects of induced changes in tariff revenues. The level of gains to a country are linked to the extent of participation in liberalisation. In support of this opinion, studies of Krisoff et al (1990), Anderson and Tyres (1993) and Brandao and Martin (1993) are cited. In Indian situation this view is upheld by Gulati and Sharma (1994), Gulati et al (1994), PAU Core Group (1994), Singh and Dhaliwal (1995). The World Bank view has a caveat for food importing countries which are expected to suffer on account of expected rise in foodgrains in the post-GATTera. This caveat is missing in Indian studies. UNCTAD is for a more cautious approach on this issue. It is evident from the information compiled from various studies on the expected rise in frices of agricultural commodities.

Various studies which worked out simulated effects of Uruguay round of trade liberalisation on world prices of agricultural commodities do not give very encouraging situation in the post-GATT period from the point of view of the developing countries (Table 3). Maximum rise in prices is expected for temperate zone crops such as rice, meat, sugar and dairy products but tropical products are expected to experience a minimum rise.

Wheat is expected to gain in its prices between 5 per cent and 7.5 per cent, rice between -1.9 per cent and 18.3 per cent, meat between 0.5 per cent and 13 per cent, sugar between 5.0 per cent and 10.6 per cent and dairy products between 7.2 per cent and 6.9 per cent. Thus, the expected change is not uniform and generally is moderate to low level. It is in this context that countrywise concrete studies are needed to find out the position of each one of them in the emerging new trading system. It calls for working out the export competitiveness of those crops in

Table 2: Level of Protection in Developed and Developing Countries, 1985-87

(Per cent of total value of agricultural output)

| Commodity     | US  | Japan | EU  | Α                     | sia | North  | Latin                | Eastern | FSU |  |
|---------------|-----|-------|-----|-----------------------|-----|--------|----------------------|---------|-----|--|
| •             |     |       |     | Low Middle<br>Income* |     | Africa | America <sup>b</sup> | Europe  |     |  |
| Beef          | 38  | 110   | 112 | 2                     | 168 | 0      | 0                    | 84      | 3   |  |
| Dairy         | 130 | 367   | 196 | 12                    | 107 | 50     | 0                    | 6       | 8   |  |
| Wheat         | 51  | 538   | 72  | -6                    | 264 | 24     | 3                    | 27      | 38  |  |
| Rice          | 49  | 368   | 122 | 19                    | 119 | 0      | 162                  | 0       | 100 |  |
| Coarse grains | 24  | 416   | 95  | 0                     | 320 | 23     | 8                    | 38      | 0   |  |
| Sugar         | 70  | 121   | 115 | 14                    | 142 | 14     | 32                   | 97      | 31  |  |
| Oils          | 7   | 16    | 67  | 0                     | 363 | 45     | -29                  | 20      | -12 |  |

Notes: a Asian low income countries exclude India and China.

b Exclude Brazil and Mexico.

Source: Antonio Brandao and Will Martin (1993), 'Implications of Agricultural Trade Liberalisation for Developing Countries', Agricultural Economics, 8:313-43, as quoted in The World Bank (1994), Global Economic Prospects and the Developing Countries. Washington, DC, pp 42-43.

Table 3: Simulated Effects of Uruguay Round Trade Liberalisation on World Prices (Percentages)

|                         |                  |                    | Price Chang | e                               |                                |
|-------------------------|------------------|--------------------|-------------|---------------------------------|--------------------------------|
|                         | UNCTAD/<br>WIDER | Page and<br>Others | FAPRI       | RUNS<br>(Brandao and<br>Martin) | RUNS<br>(Goldin and<br>Others) |
| Temperate zone products |                  |                    |             |                                 |                                |
| Wheat                   | 7.5              | 5.0                | 6.3         | 6.3                             | 59                             |
| Coarse grains           | 3.4ª             | 18                 | 2.4         | 4.4                             | 36                             |
| Rice                    | 18.3             | 12                 | 4.4         | 4.2                             | ~1.9                           |
| Meat                    | 13.0             | 5.3                | 0.5         | 6.11                            | 4 7 <sup>h</sup>               |
| Sugar                   | 10.6             | 5.0                |             | 10.2                            | 10.2                           |
| Soybeans                | 0.0              |                    | 0.0         | 4.528                           |                                |
| Soybean oil             | 0.1              |                    | 3.8         |                                 | 4 1'                           |
| Dairy products          |                  | 9.3                | 6.9°        | 10.1                            | 72                             |
| Tropical products       |                  |                    |             |                                 |                                |
| Coffee                  | 0.4 <sup>b</sup> | 0.8                |             | 0.41                            | -61                            |
| Cocoa                   | 0.0°             | 10                 |             | 0.14                            | -4.0                           |
| Tea                     | 0.5              |                    |             | 2.34                            | 3.0                            |
| Tobacco                 | 0.3 <sup>d</sup> |                    |             |                                 | •••                            |
| Cotton                  | 0.9              |                    |             | 2.23                            | 3.7                            |
| Groundnuts              | 1.5              |                    |             | 4 528                           | •••                            |
| Groundnut oil           | 0.6              |                    | •••         |                                 | 4 1 <sup>i</sup>               |
| Plants and flowers      | ***              | 1.0                |             |                                 |                                |
| Spices                  | •••              | 0.2                | •••         |                                 |                                |

Notes: ·a Simple average of maize and sorghum.

- b Repers to beans: for roasted 0 per cent and for coffee extracts, 1.4 per cent.
- c Refers to beans; for butter 0.5 per cent, for powder 0.8 per cent and for chocolate 1.8 per cent.
- d Refers to leaves; for cigarettes 0.1 per cent and for cigars 0.8 per cent.
- e Refers to butter.
- Refers to beef, yeal and sheepmeat; for other meats, 3.1 per cent.
- g Refers to all oilseeds.
- h Refers to beef, veal and sheepmeat.
- 1 Refers to all vegetable oils.

Source: Commodity Review and Outlook, 1993-94, FAO, Rome, p 25.

which a country/region is expected to have export surplus.

# II

Whether a country in intenational market is able to perform well or not depends on its export competitiveness. Assuming the quality of the domestic and foreign product as the same, export competitiveness is a situation when the difference between the domestic supply price and the foreign (market) price is enough to cover a large number of charges. In other words, a unit of a commodity fetches a price which is considerably higher than for what it is sold in the domestic market. A competitive exporting country after covering the supply price and other charges is in the position to supply a unit of the same quality of product at the lower price compared to the rival exports or the producers of the importing country. In order to examine the question of export competitiveness of Indian agriculture following charges need to be considered along with the procurement price/ market price (in case of non-existence of procurement price): (a) market handling, grading, packing and other charges such as market fee and taxes; (b) local transport and storage charges; (c) inland transport charges from the sale market to international port, (d) storage charges for the product awaiting shipment; (e) transhipment charges; (f) oversea transport and insurance costs; (g) unloading charges from the ship; (h) customs duty charged by the importing country; (i) trader's margin; and (j) local charges and taxes. The list of these charges is indicative of the fact that the exported commodities not

only crosses a long distance but also passes through several processes before it reaches to the final user. This involves a lot of cost. The larger the bulk/weight of a commodity in relation to its value the greater is the share of these costs in the sale price of a commodity in the international market. Since agricultural commodities fall in this category the components of these costs need to be examined carefully before arriving at any conclusion on their export competitiveness. In the recent discussion on this issue in India this aspect

has been dealt with very casually by the researchers. To examine this we have chosen two main crops, i e, wheat and rice, to explore the possibility of their export from Punjab. The result pertaining to Punjab are broadly applicable to Haryana as there is not much difference in the inland transport charges to Bombay.

Estimates of market charges, local transport, storage, and packaging costs, railway freight and interest charges along with procurement price of wheat are shown

TABLE 5: WHEAT PRICES (US No 2 HARD RED WINTER) FOB GULF PORTS AND PUNJAB FAQ AT BOMBAY (Per quintal)

| Year                   | Current<br>US \$ | Average<br>Annual<br>Exchange<br>Rate of Rupee<br>Per US \$ | Rupee Price<br>of US<br>Wheat (FOB<br>Gulf Ports) | Rupce Price<br>of Punjab<br>Wheat (Bombay<br>Railway Station) | Ratio of Prices<br>of Punjab Wheat<br>(at Bombay) and<br>US Wheat FOB<br>Gulf Ports<br>(Percentages) |
|------------------------|------------------|-------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| 1982                   | 16 15            | 9 46                                                        | 152 70                                            | 192 33                                                        | 125 95                                                                                               |
| 1983                   | 15.81            | 10 10                                                       | 159 67                                            | 204.58                                                        | 128 13                                                                                               |
| 1984                   | 15.33            | 11.36                                                       | 156 58                                            | 207 92                                                        | 132.79                                                                                               |
| 1985                   | 13.78            | 12.37                                                       | 170 44                                            | 226 40                                                        | 132.83                                                                                               |
| 1986                   | 11 49            | 12.61                                                       | 144 90                                            | 231.21                                                        | 159 57                                                                                               |
| 1987                   | 11.45            | 12 96                                                       | 148.41                                            | 240 51                                                        | 162.06                                                                                               |
| 1988                   | 14.64            | 13.91                                                       | 203 74                                            | 252 94                                                        | 124 15                                                                                               |
| 1989                   | 17 01            | 16 23                                                       | 276 00                                            | 276 55                                                        | 100 20                                                                                               |
| 1990                   | 13.68            | 17.50                                                       | 239.45                                            | 324 64                                                        | 135 57                                                                                               |
| 1991                   | 12 89            | 22.74                                                       | 293 14                                            | 348.71                                                        | 118 96                                                                                               |
| 1992                   | 15 11            | 25 92                                                       | 391 62                                            | 379 45                                                        | 96 89                                                                                                |
| 1993                   | 14 18            | 29 62                                                       | 419 95                                            | 475 81                                                        | 113 56                                                                                               |
| 1994                   | 14 10            | 31 37                                                       | 442 32                                            | 510.16                                                        | 115 34                                                                                               |
| Average of 1 e 1991-94 | •                | tion period of four                                         | r years,                                          | ,                                                             | 111 19                                                                                               |

Sources: 1 UNCTAD, Year Book, 1994

- 2 Commodity Review and Outlook, 1993-94, FAO, Rome, 1994
  - 3 Food Outlook, FAO, Rome, November-December 1994
  - 4 IMF, International Financial Statistics (various issues), Washington, DC.

Table 4: Procurement Price, Market Charges and Transfort Costs and Other Charges for Taking Wheat from Patial a to Bombay (Rs per quintal)

| 1980-<br>81 | 1981-<br>82                                                                 | 1982-<br>83                                                                                           | 1983-<br>84                                                                                                                                                                      | 1984-<br>85                                                                                                                                                                                                                         | 1985-<br>86                                                                                                                                                                                                                                                                            | 1986-<br>87                                                                                                                                                                                                                                                                                                                                | 1987 ·<br>88                                                                                                                                                                                                                                                                                                                                                        | 1988-<br>89                                                                                                                                                                                                                                                                                                                                                                                                          | 1989-<br>90     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                                                                                                                                                                                                                                                                                                                                            | 1992-<br>93                                                                                                                                                                                                                                                                                                                                                                                               | 1993-<br>94                                                                                                                                                                                                                                                                    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| 117 00      | 130,00                                                                      | 142 00                                                                                                | 151 00                                                                                                                                                                           | 152 00                                                                                                                                                                                                                              | 162.00*                                                                                                                                                                                                                                                                                | 162,00                                                                                                           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| 8 77        | 9 75                                                                        | 10 65                                                                                                 | 11.32                                                                                                                                                                            | 11 40                                                                                                                                                                                                                               | 12 15                                                                                                                                                                                                                                                                                  | 12 15                                                                                                            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| 1 00        | 1 10                                                                        | 1.10                                                                                                  | 1.10                                                                                                                                                                             | 1.20                                                                                                                                                                                                                                | 1.30                                                                                                                                                                                                                                                                                   | 2.72                                                                                                             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| 3.30        | 3.63**                                                                      | 3,99**                                                                                                | 4.38**                                                                                                                                                                           | 4.81**                                                                                                                                                                                                                              | 5 29*                                                                                                                                                                                                                                                                                  | 5.75                                                                                                             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| 0.80        | 0.80**                                                                      | 0.80**                                                                                                | 0.80**                                                                                                                                                                           | 0.80**                                                                                                                                                                                                                              | 0.80**                                                                                                                                                                                                                                                                                 | 0.80                                                                                                             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| 6.00        | 5.90                                                                        | 6 20                                                                                                  | 6.70                                                                                                                                                                             | 8 30                                                                                                                                                                                                                                | 11.30                                                                                                                                                                                                                                                                                  | 11.30                                                                                                            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| 13.50       | 16.09                                                                       | 21 09                                                                                                 | 22.36                                                                                                                                                                            | 22 38                                                                                                                                                                                                                               | 25 90                                                                                                                                                                                                                                                                                  | 28,67                                                                                                            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| 5 26        | 5.85                                                                        | 6.50                                                                                                  | 6.92                                                                                                                                                                             | 7 03                                                                                                                                                                                                                                | 7 66                                                                                                                                                                                                                                                                                   | 7 82                                                                                                             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| 155.74      | 173.12                                                                      | 192 33                                                                                                | 204.58                                                                                                                                                                           | 207.92                                                                                                                                                                                                                              | 226 40                                                                                                                                                                                                                                                                                 | 231 21                                                                                                           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|             | 81<br>117 00<br>8 77<br>1 00<br>3.30<br>es<br>0 80<br>6.00<br>13.50<br>5 26 | 81 82  117 00 130,00  8 77 9 75 1 00 1 10  3.30 3.63** es 0 80 0.80** 6.00 5.90 13.50 16.09 5 26 5.85 | 81 82 83<br>117 00 130,00 142 00<br>8 77 9 75 10 65<br>1 00 1 10 1.10<br>3.30 3.63** 3.99**<br>es<br>0 80 0.80** 0 80**<br>6.00 5.90 6.20<br>13.50 16.09 21 09<br>5 26 5.85 6.50 | 81 82 83 84<br>117 00 130.00 142 00 151 00<br>8 77 9 75 10 65 11.32<br>1 00 1 10 1.10 1 10<br>3.30 3.63** 3.99** 4.38**<br>es<br>0 80 0.80** 0 80** 0 80**<br>6.00 5.90 6 20 6.70<br>13.50 16.09 21 09 22.36<br>5 26 5.85 6.50 6.92 | 81 82 83 84 85<br>117 00 130.00 142 00 151 00 152 00<br>8 77 9 75 10 65 11.32 11 40<br>1 00 1 10 1.10 1 10 1.20<br>3.30 3.63** 3.99** 4.38** 4.81**<br>es<br>0 80 0.80** 0 80** 0 80** 0.80**<br>6.00 5.90 6.20 6.70 8.30<br>13.50 16.09 21 09 22.36 22 38<br>5 26 5.85 6.50 6.92 7 03 | 81 82 83 84 85 86<br>117 00 130.00 142 00 151 00 152 00 162.00°<br>8 77 9 75 10 65 11.32 11 40 12 15<br>1 00 1 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85 86 87 88 89  117 00 130,00 142 00 151 00 152 00 162.00 162.00 166 00 173 00  8 77 9 75 10 65 11.32 11 40 12 15 12 15 14 11 14 70 1 00 1 10 1.10 1 10 1.20 1 30 2.72 2.98 3 30  3.30 3.63** 3.99** 4.38** 4.81** 5 29* 5.75 6 35 7 00 es  0 80 0.80** 0 80** 0 80** 0.80** 0 80** 0.80** 0.80 1 80 1.80  6.00 5.90 6 20 6.70 8 30 11 30 11.30 9 60 9 90 13.50 16.09 21 09 22.36 22 38 25 90 28.67 31.54** 34.69**  5 26 5.85 6.50 6.92 7 03 7 66 7 82 8 13 8 55 | 81 82 83 84 85 86 87 88 89 90  117 00 130,00 142 00 151 00 152 00 162,00 162,00 166 00 173 00 183,00  8 77 9 75 10 65 11,32 11 40 12 15 12 15 14 11 14 70 15 55 1 00 1 10 1,10 1 10 1,20 1 30 2,72 2,98 3 30 3 57  3,30 3,63** 3,99** 4,38** 4,81** 5 29* 5.75 6 35 7 00 7 70  es  0 80 0,80** 0 80** 0 80** 0,80** 0 80** 0,80** 0 80** 0,80 1 80 1.80 1 80  6,00 5,90 6 20 6,70 8 30 11 30 11,30 9 60 9 90 13 60 13,50 16,09 21 09 22,36 22 38 25 90 28,67 31,54** 34,69** 41 98**  5 26 5.85 6,50 6,92 7 03 7 66 7 82 8 13 8 55 9 35 | 81 82 83 84 85 86 87 88 89 90 91  117 00 130,00 142 00 151 00 152 00 162,00 162,00 166 00 173 00 183,00 215 00  8 77 9 75 10 65 11,32 11 40 12 15 12 15 14 11 14 70 15 55 19 35 100 110 1.10 1.10 1.20 130 2.72 2.98 3 30 3 57 3 75**  3.30 3.63** 3.99** 4.38** 4.81** 5 29* 5.75 6 35 7 00 7 70 9 10 es  0 80 0.80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80* 0 1 80 1 8 | 81 82 83 84 85 86 87 88 89 90 91 92  117 00 130,00 142 00 151 00 152 00 162,00 162,00 166 00 173 00 183,00 215 00 225 00  8 77 9 75 10 65 11,32 11 40 12 15 12 15 14 11 14 70 15 55 19 35 20 25 100 1 10 1.10 1 10 1.20 1 30 2,72 2,98 3 30 3 57 3 75** 3 93  3,30 3,63** 3,99** 4,38** 4,81** 5 29* 5.75 6 35 7 00 7 70 9 10 10 01 es  0 80 0,80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80 1 80 1 | 81 82 83 84 85 86 87 88 89 90 91 92 93  117 00 130,00 142 00 151 00 152 00 162,00 162,00 166 00 173 00 183,00 215 00 225 00 250,00  8 77 9 75 10 65 11,32 11 40 12 15 12 15 14 11 14 70 15 55 19 35 20 25 22 50 100 110 1.10 110 1.20 130 2.72 2.98 3 30 3 57 3 75** 3 93 4 75  3,30 3,63** 3,99** 4,38** 4.81** 5 29* 5.75 6 35 7 00 7 70 9 10 10 01 11.30 es  0 80 0,80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 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32 50 100 110 1.10 1.10 1.20 130 2.72 2.98 3 30 3 57 3 75** 3 93 4 75 4 67  3,30 3,63** 3,99** 4,38** 4,81** 5 29* 5.75 6 35 7 00 7 70 9 10 10 01 11.30 11 30 es  0 80 0,80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80** 0 80 1 80 1 |

Notes: \* This includes market fee of 2 per cent + purchase tax of 4 per cent + rural development fund from 1987-88 at 1 per cent and from 1993-94 at 2 per cent + commission agent's charges at 1.5 per cent up to 1989-90 and 2 per cent from 1990-91

Sources: ESO, Statistical Abstract of Punjab (various issues), Chandigarh.

FCI, Chandigarh Regional Office. Punjah Mandi Board, Chandigarh.

<sup>\*\*</sup> Estimated value.

<sup>\*\*\*</sup> At the rate of 14 per cent per annum up to 1989-90 and at 16 per cent since 1990-91

a This includes additional bonus of Rs 5 paid by the government Estimates do not include transshipment cost and trader's margin.

for 1980-81 to 1994-95 to work out price of Punjab wheat at Bombay railway station for onward loading on the ship for export (Table 4).1 This is price of fair average quality of wheat and it does not include transhipment cost and trading margin for the exporter. Price of Punjab wheat at Bombay railway station is compared with the US No 2 hard red winter fob gulf ports. It is assumed that fob price of the US wheat will be the same at Bombay port as it is at Gulf ports. This assumption has been made because India has not been the major importer of wheat during these years. By multiplying current US \$ price of wheat with India's average official exchange rate, the prices are converted into rupees. The ratio of Punjab wheat price to the US wheat is estimated in percentage for the period of 1982-94 (Table 5). This has been used as a rough measure of export competitiveness.2 It is a rough measure because it does not include trader's margin and transhipment cost. Estimates show that out of the 13 years of study only for the year 1992 this ratio was lower than 100, being 96.89, and 100.20 in 1989. For the rest of the years this ratio stood between 113.56 and 162.06. This means that Indian price of Punjab wheat at Bombay had been considerably higher than the fob gulf price of the US wheat. In other words, during these years Punjab wheat was not competitive in the export market. If we add 5 per cent more in Punjab wheat price as trader's margin and transhipment cost then it is not

competitive for all these years in the international market. It is also interesting to note that Punjab wheat is not competitive even in the post-1991 period when Indian rupee was devalued in a big way. Ignoring trader's margin and transhipment cost, the average value of the ratio of prices of Punjab wheat to the US wheat was 111.13 for post-liberalisation years (1991-94).

In case of rice, Punjab is producing three distinct varieties. They are superfine rice, common (coarse) rice and basmati rice. While working out figures for competitiveness of

Punjab rice two more processes are added, compared to wheat. First is transportation of paddy to mill point and is dried for milling purpose. The second is processing the paddy to separate rice from the husk which involves milling charges. Recovery of rice is estimated at the rate of 67 per cent in case of superfine variety (also for basmati rice) and 69 per cent for common (coarse) variety. Various types of market charges and expenses along with local transport and storage charges, railway freight and interest charges are estimated for the period 1980-81 to 1994-95

TABLE 7 COMPARISON OF THAILAND RICE (FOB BANGKOK) AND PUNJAB SUPERFINE RICE (BOMBAY RAILWAY STATION)

(Per quintal)

| Year | Thailand<br>Rice in<br>Current<br>US \$ | Exchange<br>Rate of<br>US \$<br>in Rs | Rupee Price<br>of Thailand<br>Rice<br>(Bangkok<br>FOB price) | Rupec Price<br>of Punjab<br>Rice (Bombay<br>Railway Station) | Ratio of Price<br>of Punjab<br>Rice and<br>Thailand Rice<br>(in Percentage) |
|------|-----------------------------------------|---------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------|
| 1982 | 29.36                                   | 9.455                                 | 277 60                                                       | 266.71                                                       | 96 08                                                                       |
| 1983 | 27 68                                   | 10.099                                | 279 54                                                       | 286 98                                                       | 102 66                                                                      |
| 1984 | 25 23                                   | 11 363                                | 286 69                                                       | 304 11                                                       | 106 08                                                                      |
| 1985 | 21.73                                   | 12.369                                | 268.78                                                       | 316 20                                                       | 117 64                                                                      |
| 1986 | 21.02                                   | 12 611                                | 265.08                                                       | 365 03                                                       | 137,71                                                                      |
| 1987 | 22 98                                   | 12 962                                | 297 87                                                       | 343.37                                                       | 115.28                                                                      |
| 1988 | 30.16                                   | 13 917                                | 419 75                                                       | 386.64                                                       | 92 11                                                                       |
| 1989 | 32.03                                   | 16 226                                | 519 72                                                       | 441 87                                                       | 85 02                                                                       |
| 1990 | 28 72                                   | 17 504                                | 502.72                                                       | 496 35                                                       | 98 73                                                                       |
| 1991 | 31.42                                   | 22 742                                | 714 55                                                       | 546 80                                                       | 76 52                                                                       |
| 1992 | 28 74                                   | 25 918                                | 744 88                                                       | 627 37                                                       | 84.22                                                                       |
| 1993 | 26 80                                   | 29 616                                | 740 40                                                       | 743 99                                                       | 100 48                                                                      |
| 1994 | 25 00                                   | 31 370                                | 784 25                                                       | 801 81                                                       | 102 24                                                                      |

Table 6 Procurement Price, Market Chargls, Transport Cost and Other Charges of Punjar Superfine Rice at Bombay Railway Station
(Rs per quintal)

| Items                                   | 1980-  | 1981-  | 1982-  | 1983-  | 1984-   | 1985-  | 1986   | 1987-  | 1988-  | 1989-  | 1990-  | 1991-  | 1992-  | 1993-  | 1994.  |
|-----------------------------------------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                         | 81     | 82     | 83     | 84     | 85      | 86     | 87     | 88     | 89     | 90     | 91     | 92     | 93     | 94     | 45     |
| Procurement price                       |        |        |        |        |         | * **   |        |        |        |        |        |        |        |        |        |
| of paddy                                | 113 00 | 123.00 | 130 00 | 140,00 | 148 004 | 150 00 | 175 00 | 158 00 | 180 00 | 205 00 | 255.00 | 250 00 | 290 00 | 350 00 | 380 00 |
| Compulsory market                       | t      |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| charges'                                | 8 47   | 9 22   | 9 75   | 10.50  | 11.10   | 11 25  | 13.12  | 13,43  | 15.30  | 17 42  | 20 25  | 22.50  | 26 10  | 35 00  | 38 00  |
| Mandi laboui                            | 1.00   | 140    | 1 10   | 1.10   | 1 20    | 1.30   | 2 72   | 2.98   | 3 30   | 3,57   | 3 75   | 3 93   | 4 75   | 4 67   | 4 67   |
| Local transport and<br>handling charges |        |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| up to mill point                        | 3.30   | 3 63   | 3.99   | 4 38   | 4 81    | 5 29   | 5 75   | 6.35   | 7 00   | 7 70   | 9 10   | 10.01  | 11 30  | 11.30  | 11.30  |
| Local storage charg                     | es     |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| (two months)                            | 0.80   | 0.80   | 0.80   | 0.80   | 0.80    | 0.80   | 0.80   | 1.80   | 1 80   | 1.80   | 1.80   | 1 80   | 2 00   | 1.80   | 1 80   |
| Drying charges                          |        |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| (2 per cent of 1-4)                     | 2.52   | 2 74   | 2 90   | 3.12   | 3.30    | 3 36   | 3 93   | 3.62   | 4 11   | 4 67   | 5 16   | 5.73   | 6 64   | 8 02   | 8 68   |
| Milling charges                         | 3 ()() | 3 3()  | 3 63   | 3 99   | 4.36    | 4 81   | 5 00   | 5.00   | 5.00   | 6.50   | 7.50   | 7.50   | 7.50   | 7 50   | 7 50   |
| Rice price at                           |        |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| mill premises*                          | 197 15 | 214 61 | 227 12 | 244,61 | 259.09  | 263.90 | 307 94 | 285.34 | 323 15 | 355 07 | 406 81 | 449.96 | 519.84 | 624 31 | 674 55 |
| Gunny bag cost                          | 6 00   | 5 90   | 6 20   | 6 70   | 8 30    | 11 30  | 11.30  | 9.60   | 9 90   | 13 60  | 16 95  | 16.95  | 16 95  | 18 00  | 18 (x) |
| Local transport and                     |        |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| handling charges                        | 3.30   | 3 63   | 3 99   | 4.38   | 4 81    | 5 29   | 5 75   | 6.35   | 7 00   | 7.70   | 9.10   | 10 01  | 11 30  | 11,30  | 11.30  |
| Interest                                |        |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| (three months)                          | 7 22   | 7 84   | 8.31   | 8 93   | 9.53    | ) 81   | 11.37  | 10.54  | 11 90  | 13.52  | 17.31  | 19 08  | 21.92  | 26.14  | 28.15  |
| Rail freight charges                    | ;      |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| to Bombay                               | 13.50  | 16 09  | 21 09  | 22 36  | 22 38   | 25 90  | 28 67  | 31.54  | 34.69  | 41 98  | 46 18  | 50 80  | 57 36  | 64 24  | 69.81  |
| Rice price at Bomb                      | ay     |        |        |        |         |        |        |        |        |        |        |        |        |        |        |
| Railway Station                         | 227.17 | 248 07 | 266 71 | 286 98 | 304 11  | 316 20 | 365 03 | 343.37 | 366 64 | 441 87 | 496 35 | 546 80 | 627 37 | 743.99 | 801.81 |

Common with the wheat

Note. Estimates of rice price do not include trader's margin and transhipment charges.

include the bonus paid by the government.

b recovery at the rate of 67 per cent

(Tables 6 and 8). On this basis, price of Punjab rice is worked out at Bombay railway station both for superfine variety and common variety. Without considering transhipment cost and trader's margin ratio of prices superfine rice from Punjab and those of Thailand rice (Bangkok fob) are worked out for 13 years from 1982-94 (Table 7). Out of 13 years for seven years (1983-87, 1993-94) Punjab rice has been costlier than Thailand rice. For two years (1982 and 1990) it has been less costly than Thailand's rice marginally, hardly covering transhipment cost and trader's margin. Only for four years (1988, 1989 and 1991, 1992) it has been less costly than Thailand's rice. the difference in prices being between 7.89 per cent and 23.48 per cent. The last two favourable years (1991 and 1992) have shown these results due to mas-sive depreciation of the rupee as a part of liberalisation policy known as structural adjustment programme. This advantage has been dried due to domestic rise in the price during the last two years and fall in the international price.

The coarse variety of rice has been and continues to be competitive in price terms in all the years since 1988. This is due to low procurement price and high recovery rate (by 2 per cent compared to superfine rice). Being inferior in quality, there may be a problem of selling it in the international market. Moreover, if one looks at the trend of price competitiveness it is declining at a fast rate. It was 30 07 per cent in 1991 came down to 7.17 per cent in 1994 (Table 9).

Basmati rice from Punjab has expanded considerably during the last few years. Due to its qualities of aroma, flavour and softness. its market is expanding. As vet in India. there is no policy of price support to this variety. Secondly, the average level of yield of this crop is very low compared to other varieties. Lastly, this crop is largely area specific. It is grown mainly in the submountainous districts of Punjab, Haryana and adjoining districts of UP.4 As yet, data pertaining to economies of cultivation of this crop and its competitiveness are not available. Available evidence suggests two things. One, the farmers producing this crop face uncertainty of prices. They vary widely from season to season. Secondly, India's main rival in the export market is Pakistan. The quality aspect in export market is important factor and Indian rice exports has been complained to contain higher levels of inorganic bromide residues [Bhasin 1994].

India, in general, is not major of exporter rice. It has started producing a large export surplus during the last few years and is expected to do so up to 2005 [World Bank 1993]. Her entry into the global trading will seriously reduce its prices. At present, her export surplus is larger than the total world exports of rice.

On export competitiveness our estimates differ from Gulati et al (1990, 1994) and

TABLE 9: PRICE OF INDIAN AND THAILAND RICE

(Rs Per quintal)

| Year | Thailand<br>Rice on<br>Current<br>US \$ | Exchange<br>Rate of<br>US \$<br>in Rs | Thailand<br>Rice in<br>Rupees f o b<br>Bangkok | Indian Rice<br>in Rs at<br>Bombay<br>Railway Station | Ratio of Indian<br>Price and<br>Thailand Price<br>(in Percentage |
|------|-----------------------------------------|---------------------------------------|------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------|
| 1982 | 29 36                                   | 9 455                                 | 277 60                                         | 247.32                                               | 89 09                                                            |
| 1983 | 27.68                                   | 10.099                                | 279.54                                         | 266 51                                               | 95 34.                                                           |
| 1984 | 25.23                                   | 11 363                                | 286.69                                         | 283 18                                               | 98.73                                                            |
| 1985 | 21.73                                   | 12 369                                | 268 78                                         | 295 11                                               | 109 80                                                           |
| 1986 | 21.02                                   | 12 611                                | 265.08                                         | 342 64                                               | 129.26                                                           |
| 1987 | 22.98                                   | 12 962                                | 297.87                                         | 321.53                                               | 107.94                                                           |
| 1988 | 30 16                                   | 13.917                                | 419 75                                         | 342 99                                               | 81 71                                                            |
| 1989 | 32.03                                   | 16.226                                | 519 72                                         | 400 82                                               | 77 12                                                            |
| 1990 | 28.72                                   | 17 504                                | 502 72                                         | 450.58                                               | 89 63                                                            |
| 1991 | 31 42                                   | 22 742                                | 714 55                                         | 499.71                                               | 69.93                                                            |
| 1992 | 28.74                                   | 25 918                                | 744 88 .                                       | 578 18                                               | 77 62                                                            |
| 1993 | 26.80                                   | 29 616                                | 740 40                                         | 657 53                                               | ४८ ह                                                             |
| 1994 | 25.00                                   | 31.370                                | 784 25                                         | 728 04                                               | 92 83                                                            |

TABLE 8: PROCUREMENT PRICE, MARKET CHARGES, TRANSPORT COST AND OTHER CHARGES FOR TAKING RICE FROM PUNIAB TO BOMBAY

(Rs per-quintal

|                             |             |            |             |             |             |             |             |                 |             |             |             |             |                     | · · · · · · · · · · · · · · · · · · · |       |
|-----------------------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-----------------|-------------|-------------|-------------|-------------|---------------------|---------------------------------------|-------|
| Items                       | 1980-<br>81 | 1981<br>82 | 1982-<br>83 | 1983-<br>84 | 1984-<br>85 | 1985-<br>86 | 1986-<br>87 | 1987-<br>88     | 1988-<br>89 | 1989-<br>90 | 1990-<br>91 | 1991-<br>92 | 1992-<br>9 <u>3</u> | 1993-<br>94                           | 1994  |
| Procurement price           | of paddy    |            |             |             |             |             |             |                 |             |             |             |             | ················    |                                       |       |
| (common coarse)             | 105.00      | 115 00     | 122.00      | 132.00      | 140 00*     | 142 00      | 167.001     | 150 00          | 160 00      | 185 00      | 205.00      | 230 00      | 270.00              | 310 00                                | 350.0 |
| Compulsory marke            | t           |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| charges'                    | 7.87        | 8 62       | 9 15        | 9.90        | 10.50       | 10 65       | 12 52       | 12 75           | 13.60       | 15.72       | 18 45       | 20 70       | 24 30               | 31.00                                 | 35.0  |
| Mandi labour                | 1.00        | 1.10       | 1 10        | 1 10        | 1 20        | 1.30        | 2.72        | 2.98            | 3 30        | 3.57        | 3 75        | 3.93        | 4.75                | 4 67                                  | 4.6   |
| Local transport and         | 1           |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| handling charges            | 3 30        | 3 63       | 3,99        | 4.38        | 4 81        | 5 29        | 5 75        | 6.35            | 7 00        | 7 70        | 9.10        | 10.01       | 11.30               | 11.30                                 | 11.3  |
| Local storage charg         | ges         |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| (two months)                | 0.80        | 0.80       | 0.80        | 0.80        | 0.80        | 0.80        | 0.80        | 1.80            | 1 80        | 1.80        | 1.80        | 1.80        | 2 00                | 1.80                                  | 18    |
| Drying charges <sup>h</sup> | 2 34        | 2 57       | 2 73        | 2.95        | 3.13        | 3.18        | 3.76        | 3 44            | 3 68        | 4 24        | 4 73        | 5 29        | 6 20                | 7 14                                  | 8.0   |
| Milling charges             | 3.00        | 3 30       | 3 63        | 3.99        | 4.38        | 4.81        | 5 00        | 5 00            | 5 ()()      | 6.50        | 7.50        | 7.50        | 7 50                | 7 50                                  | 7.5   |
| Rice price at               |             |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| mill premises               | 178.71      | 195.63     | 208.39      | 224.81      | 238 87      | 243.52      | 286.30      | 264 23          | 280.97      | 325 41      | 362 80      | 404 68      | 472.54              | 541 17                                | 604 6 |
| Gunny bag cost              |             |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| (per quintal)               | 6.00        | 5 90       | 6.20        | 6.70        | 8 30        | 11.30       | 11.30       | 9.60            | 9.90        | 13 60       | 16.95       | 16.95       | 16 95               | 18 00                                 | 180   |
| Local transport and         | i           |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| handling charges            | 3.30        | 3 63       | 3 99        | 4.38        | 4 81        | 5.29        | 5.75        | 6.35            | 7 00        | 7.70        | 9.10        | 10 01       | 11.30               | 11.30                                 | 11.3  |
| Interest (3 months)         | 6.58        | 7.18       | 7.65        | 8 26        | 8.82        | 9 10        | 10.62       | 9.81            | 10.43       | 12 13       | 15.55       | 17 27       | 20 03               | 22.82                                 | 25.3  |
| Railway freight             |             |            |             |             |             |             |             |                 |             |             |             |             |                     |                                       |       |
| charges to Bomba            | y 13 50     | 16.09      | 21 09       | 22 36       | 22.38       | 25.90       | 28.67       | 31.54           | 34 69       | 41 98       | 46 18       | 50.80       | 57 36               | 64.24                                 | 69 8  |
| Total (8-12)                | 208.09      | 228.48     |             | 266 51      | 283 18      | 295 11      | 342 64      | 321.53          | 342 99      | 400 82      | 450.58      | 499 71      | 578.18              | 657.53                                | 728 ( |
| 10001 (0 12)                | 200.07      | 220.TO     | 277.14      | 200 .71     | 20.7 10     |             |             | · • • · · · · · |             |             | 12.0 .70    | .,,,,,      |                     |                                       | •     |

<sup>\*</sup> They are at the same rate as for wheat

Note: Estimates of price do not include trader's margin and transhipment cost.

a include extra bonus paid to the farmers by the government.

b at the rate of 2 per cent on procurement price+mandi charges+local transport and mandi labour

c recovery rate of rice from paddy is calculated at 69 per cent.

d at the rate of 14 per cent per annum up to 1989-90 and 15-16 per cent since 1990-91

'AU Core Group (1994). The major cause of differences arise out of estimates of narketing costs and distribution margins. Julati et al have estimated them at the rate of 6 per cent and 5 per cent of the procurement price, respectively, for wheat and rice of Juniab. These are grossly underestimates of he actual market costs and distribution nargins. The actual figures are much higher ind these costs have been rising over period of time. But Gulati et al have used them at given constant rates. Compulsory market tharges consisting of purchase tax, market committee fee, rural development fund and ommission agents charges put together were 7.5 per cent between 1980-81 and 1986-87, 3.5 per cent during 1987-88 and 1988-89, ) per cent during 1989-90 to 1992-93 and :0 per cent since 1993-94. The other market landling charges other than railway freight nave varied between 13.09 per cent and 20.52 per cent of procurement price during 1980-81 and 1994-95. The market expenses have been higher in case of rice due to nilling process which involve additional ransport charges to mill point, cost of drying baddy and milling charges. If compulsory narket charges and other market handling osts are clubbed together they turn out to be between 20.59 per cent and 29.52 per cent of procurement price of wheat and even ugher than this in case of rice. Further, if railway freight for export via Bombay is idded then these charges for wheat excluding ranship cost and traders' margin have ranged between 33.11 per cent and 54.98 per cent during 1980-81 and 1994-95 (Table 10). In case of rice these charges will be higher than those of wheat. These are much higher than nearly 10 per cent estimated by PAU Core Group. It is painful to point out that Gulati et al and PAU Core Group appear to have deliberately chosen to make underestimate of market handling and distribution margin to give results suited to the government propaganda that opening up of Indian agriculture to outside global competition will be beneficial to Indian agriculture

Our estimates point out that if Punjab agriculture which is most advanced in the country with high per acre yield (much higher than other regions) is not internationally competitive then it will be much more difficult for other regions to successfully compete with the agriculture of the advanced countries in the world.

The advantage of high per hectare yield inboth wheat and rice of Punjab is neutralised by high costs associated with marketing and distribution of these crops. Agricultural products are bulky and involve a high transport cost from Punjab to ports from where it can be exported. Due to fast increase in railway freight charges, its share as percentage of procurement price has been increasing over the years and stands around

20 per cent in 1994-95. The market handling cost has also been generally rising and has remained between 13.09 per cent and 20.52 per cent of the procurement price. The compulsory market charges have increased from 7.50 per cent between 1980-81 to 1986-87 to 10 per cent of the procurement cost (Table 10). Given Punjab's long distance from ports, it is difficult to economise on railway freight charges. In the same way, reduction in compulsory market charges involve the finances of the state government and any reduction below 1986-87 and 1988-89 average on exported items will invite WTO provisions and will be treated as export subsidy. Any general reduction in these charges will put serious strain on the already shattered financial position of the state. The third component of these charges is the handling cost. In this gunny bag is the major factor. These bags are supplied by the jute industry which is again beyond the scope of the state policy. Similarly, in transport, storage and interest charges, which involves private transporters, commercial banks and warehousing corporations, there is little scope.

Therefore, the only policy option remains with the state is to increase further productivity of agricultural crops. For this two distinct steps need to be taken, first, this will require massive investment in the agriculture both by the cultivators as well as by the state to strengthen infrasructure, irrigation system, regular, and cheap supply of electricity,

TABLE 10 MARKET CHARGES, HANDLING COSTS AND RAILWAY FREIGHT ON WILLAT AS PERCENTAGE OF PROCUREMENT PRICE.

| Year    | Compul-<br>sory!<br>Market<br>Charges | Handling<br>Cost | Railway'<br>Freight | Total |
|---------|---------------------------------------|------------------|---------------------|-------|
| 1980-81 | 7.5                                   | 13.98            | 11.63               | 33 11 |
| 1981-82 | 7.5                                   | 13.29            | 12 37               | 33 16 |
| 1982-83 | 7.5                                   | 13 09            | 14 85               | 35 44 |
| 1983-84 | 7.5                                   | 13.18            | 14 90               | 35.58 |
| 1984-85 | 7.5                                   | 14 57            | 1471                | 36 78 |
| 1985-86 | 7.5                                   | 16 27            | 15 97               | 39 75 |
| 1986 87 | 7.5                                   | 17.52            | 17 25               | 42.27 |
| 1987-88 | 8.5                                   | 17 39            | 18.91               | 44.80 |
| 1988-89 | 8 5                                   | 17 66            | 20 05               | 46 21 |
| 1989-90 | 90                                    | 19 68            | 22 44               | 51 12 |
| 1990-91 | 9.0                                   | 20.52            | 21 47               | 50 99 |
| 1991-92 | 90                                    | 20 49            | 25 49               | 54,98 |
| 1992-93 | 9 ()                                  | 19 84            | 22 94               | 51.78 |
| 1993-94 | 10.0                                  | 16 64            | 20.38               | 47 02 |
| 1994-95 | 10.0                                  | 15 81            | 19.95               | 45 76 |

Notes 1 This ...cludes (a) purchase tax.
(b) market fee, (c) rural development fund, and (d) commission agent's charges

- 2 This initides (a) mandi labour, (b) local transport and handling charges, (c) local storage charges, (d) cost of gunny bags, and (e) interest charges for three months.
- 3 Railway freight from Patiala to Bombay

provisions for efficient marketing system, etc. Secondly, there is need to strengthen agricultural research to achieve further major breakthrough in inventing new varieties of seed which lead to at least 30-40 per cent increase in per hectare yield. Since private institutions in agriculture research are nonexistent, the state will have to shoulder this responsibility and give special attention in the area of agricultural research. Since the present system of research of public institutions such as agricultural universities is under considerable financial constraint and management crisis, innovative initiative need to be taken to tackle the problems of raising agricultural productivity on a priority basis. Under GATT agreements 1994 and WTO provisions such initiatives do not invite any hostile response as they come in the category of exempted items

TABLE 11 PRIMARY COMMODITY PRICE INSTABILITY IN THE WORLD MARKET 1979-92\*

| Commodity      | Instability<br>Index | Standard Percent-<br>age Deviation<br>from Trend |
|----------------|----------------------|--------------------------------------------------|
| Tobacco        | 0.45                 | 4,93                                             |
| Bauxite        | 0.68                 | 6.83                                             |
| Beef           | 0.78                 | 7 70                                             |
| Iron           | 0.85                 | 9 3 [                                            |
| Phosphate      | 1 08                 | 11.68                                            |
| Wheat          | 1 14                 | 11 64                                            |
| Soybean        | 1.18                 | 11.28                                            |
| Rubber         | 1 24                 | 12.35                                            |
| Sorghum        | 1 29                 | 12 86                                            |
| Cocoa          | 1 30                 | 1371                                             |
| Maize          | 1 32                 | 13 14                                            |
| Soybean meal   | 1.34                 | 12 20                                            |
| Tin            | 1.35                 | 12.81                                            |
| Cotton         | 1 38                 | 13 96                                            |
| Oranges        | 1 49                 | 14 77                                            |
| Wool           | 1.50                 | 15 27                                            |
| Logs           | 1.50                 | 14 41                                            |
| Bananas        | 1.51                 | 14 85                                            |
| Soybean oil    | 1 69                 | 16 66                                            |
| Zinc           | 1 76                 | 17 03                                            |
| Coffee         | 1.80                 | 16 96                                            |
| Tea            | l 87                 | 15 44                                            |
| Rice           | i 90                 | 19 70                                            |
| Palm oil       | 2 01                 | 19 20                                            |
| Copper         | 2 01                 | 20 99                                            |
| Petroleum      | 2.06                 | 20.61                                            |
| Groundnut oil  | 2.11                 | 23.13                                            |
| Alminium       | 2 12                 | 20 40                                            |
| Lead           | 2.64                 | 27 08                                            |
| Jute           | 2 65                 | 19 50                                            |
| Copra          | 2.72                 | 27 91                                            |
| Groundnut meal | 2.72                 | 41 54                                            |
| Coconut oil    | 2 94                 | 29.13                                            |
| Nickel         | 3 17                 | 31.48                                            |
| Sugar          | 441                  | 43 54                                            |

Note: \* The instability index is given by  $\frac{100}{(n-2)} \left\{ \sum \left[ (x_i \cdot x_i^*)/x_i^* \right]^2 \right\}^{1/2}$ 

where n is the number of observations and x\* is the trend forecasted value of x Source: World Bank, Price Prospects for Major Primary Commodities, Vol. II, Washington, DC, 1993, p. 120.

Even if agricultural commodities show competitiveness in the international market the following three issues need a scrious consideration. They are: (1) volatility of prices in the international market, (2) trend of prices and (3) international trade market structure. These factors considerably influence the realisation of gains to exporting countries of agricultural commodities. Proper knowledge of these factors and intelligent response of a country lead to enhancement of its gain from the trade. On the other hand, lack of knowledge or improper response may lead to loss of exploitation of international market situation.

Agricultural commodities, unlike manufacturers, are subject to vagaries of nature. A crop failure due to draught or floods in a major supplier country lead to global shortage of a commodity and consequently, rise in its price. A bumper crop, on the other hand, can depress the prices in the global market. The problems connected with storage and buffer stocks has been one of the factors in the destabilisation of prices and earnings from the primary commodities for the producers from the developing countries. Volatility of prices of primary commodities has been one of the issues continuously debated at various UNCTAD, and creation of a large fund for building buffer stocks has been suggested but non-implemented solution. Being exporters of primary commodities, the developing countries have substantially higher export earnings instability than the developed countries. It is argued that fluctuations in export earnings of developing countries generate domestic instability, complicate the task of development planning and reduce the efficiency within which investment resources are used [Macbean 1966; Schiavo-Campo and Erb 1969; Massell 1970, Glezakos 1973; Savvidos 1984; Lanceiri 1987; Love 1992]. Wheat is mode-rately high instability commodity, rice is a high instability crop, and edible oils and sugar are very high (price) instability crops (Table 11). India's opening up of agriculture to the world trade and further increased emphasis on production for exports is likely to bring economic instability within the country with consequent instability in the earnings of the producers and their pattern of investment. High and frequent instability in prices not only negatively influence investment but brings peril to the small producers. In Indian agriculture more than 2/3 of the farmers being small and marginal in size, the question of their future is an important policy issue. They are affected negatively not only as producers of these commodities but as consumers also. Globalisation of trade of agriculture means that the country's agriculture will also be subjected to the global instability. There is a need to be aware of this problem and advance preparations are necessary to avoid harmful consequences.

Prices of primary commodities in the work market have been a subject by a large number of scholars and an issue of debate at a large number of international conferences in the post-second world war period. It has been argued that the prices of primary commodities have been lagging behind those o manufactured goods leading to deterioration of terms of trade of primary commodities exporting developing countries [Kindle berger 1956; Singer 1950, 1982; Lewis 1955 Myrdal 1956; Prebisch 1950, 1964; Nurksi 1959; Kaldor 1963; Emmanual 1972; Diwar and Marwah 1976; Spraos 1980, 1983; Chi and Morrison 1984]. Diakosnnas and Scandizzo (1991) analysed 81 studies or this issue published between 1817 and 1986 After looking into positive, negative and secular trends, ultimately, they agree witl the conclusion that there can be controvers on the extent of deterioration but not of deterioration as such. Recently, the Work Bank (1993) has published actual prices o primary commodities between 1970 and 1991, and estimated projections for short term up to 1995 and long-term for 2000 and 2005 at constant dollar pricess of 199 (Table 12). The constant prices have o various primary commodities have bee worked out by deflating them with MU\ (manufacturers unit value index 1990 = 100) Data clearly bring out that at constant price of primary commodities vis-a-vis those o manufacturers have actually decline between 1970 and 1991, and projected t-

Table 12 Commodity Prices and Price Projections in 1990 Constant Dollars\*

|                |       |      |      |      | Actuals       |               |      |      |      |       |      |      |      |      |
|----------------|-------|------|------|------|---------------|---------------|------|------|------|-------|------|------|------|------|
|                |       |      |      |      |               |               |      |      |      | Short | Term |      | Long | Term |
|                |       | 1970 | 1980 | 1985 | 1988          | 1989          | 1990 | 1991 | 1992 | 1993  | 1994 | 1995 | 2000 | 2005 |
| Food           |       |      |      |      | ~ <del></del> | · <del></del> |      |      |      |       | ~    |      |      |      |
| Coffee         | c/KG  | 457  | 478  | 468  | 318           | 252           | 197  | 183  | 130  | 1 12  | 164  | 195  | 226  | 216  |
| Cocoa          | c/KG  | 269  | 362  | 329  | 166           | 131           | 127  | 117  | 106  | 108   | 111  | 113  | 124  | 136  |
| Tea            | c/KG  | 4.37 | 310  | 289  | 188           | 213           | 203  | 181  | 193  | 188   | 182  | 190  | 198  | 204  |
| Sugar          | c/KG  | 323  | 878  | 130  | 236           | 298           | 277  | 194  | 188  | 185   | 195  | 220  | 255  | 280  |
| Beef           | c/KG  | 520  | 384  | 314  | 264           | 271           | 256  | 261  | 229  | 228   | 227  | 228  | 274  | 253  |
| Bananas        | \$/MT | 659  | 527  | 551  | 502           | 578           | 541  | 548  | 471  | 443   | 439  | 434  | 422  | 414  |
| Oranges        | \$/MT | 670  | 543  | 581  | 476           | 471           | 531  | 510  | 488  | 473   | 471  | 470  | 453  | 436  |
| Rice           | \$/MT | 574  | 603  | 315  | 316           | 238           | 287  | 308  | 272  | 261   | 258  | 260  | 245  | 237  |
| Wheat          | \$/MT | 250  | 265  | 253  | 188           | 213           | 156  | 140  | 161  | 147   | 146  | 148  | 159  | 129  |
| Maize          | \$/MT | 233  | 174  | 164  | 112           | 118           | 109  | 105  | 99   | 94    | 95   | 95   | 101  | 82   |
| Grain Sorghum  | \$/MT | 207  | 179  | 150  | 103           | 312           | 104  | 103  | 97   | 92    | 91   | 91   | 98   | 79   |
| Fats and oils  |       |      |      |      |               |               |      |      |      |       |      |      |      |      |
| Palm oil       | \$/MT | 1037 | 811  | 730  | 459           | 370           | 290  | 332  | 371  | 380   | 353  | 343  | 303  | 266  |
| Coconut oil    | \$/MT | 1584 | 936  | 860  | 593           | 546           | 337  | 424  | 554  | 498   | 509  | 535  | 564  | 437  |
| Groundnut oil  | \$/MT | 1510 | 1194 | 1319 | 619           | 819           | 964  | 875  | 568  | 584   | 583  | 617  | 554  | 421  |
| Soybean oil    | \$/MT | 1224 | 829  | 834  | 486           | 456           | 447  | 444  | 4()4 | 416   | 443  | 433  | 409  | 374  |
| Soybeans       | \$/MT | 466  | 412  | 327  | 318           | 291           | 247  | 235  | 221  | 224   | 234  | 234  | 219  | 233  |
| Copra,         | \$/MT | 897  | 629  | 563  | 417           | 368           | 231  | 280  | 357  | 326   | 335  | 350  | 396  | 322  |
| Palm kernels   | \$/MT | 670  | 480  | 424  | 280           | 265           | 185  | 215  | 216  | 214   | 219  | 234  | 243  | 227  |
| Groundnut meal | \$/MT | 407  | 334  | 208  | 220           | 211           | 185  | 147  | 147  | 149   | 163  | 172  | 157  | 175  |
| Soybean meal   | \$/MT | 411  | 364  | 229  | 28!           | 260           | 209  | 195  | 195  | 199   | 204  | 209  | 185  | 210  |
| Non-food       | 4     | •••  |      |      |               |               |      |      |      |       |      |      |      |      |
| Cotton         | c/KG  | 252  | 284  | 192  | 147           | 177           | 182  | 164  | 122  | 117   | 136  | 140  | 150  | 145  |
| Jute           | \$/MT | 1092 | 428  | 850  | 388           | 394           | 408  | 370  | 300  | 308   | 311  | 308  | 321  | 313  |

Note: \* Deflated by manufacturers unit value index (1990=100) p xviii.

Source: World Bank (1993)

remain low in short term. Though some recovery is expected in the long run, yet these prices will remain substantially lower than their level during 1980s. Even when current dollar prices are considered the situation is not encouraging (Table 13). Leaving the case of a few commodities such as beef, bananas, oranges and coconut oil no other commodity is projected to attain the price level they achieve in 1980 or 1985 in the short term. Even in the long run, i e, 2005, many commodities will not be in the position to achieve the level of their prices of 1980 or 1985 in current dollar terms.

The results of the studies of the past price trends by a host of scholars and bodies and their projections up to 2005 by the World Bank show that the countries which specialise in the export of primary commodities, or those which like India intend to do so in the near future, are bound to lose through the mechanism of the international trade. The evidence has an important policy implication which questions the wisdom of exporting primary commodities and provides a strong support to the strategy of developing manufacturing sector in the primary commodities producing developing countries instead of relying and developing specialisation in the export of primary commodities.

The entire of international trade theory has been built on the assumption of perfect competition in the world market. There is, therefore, a general neglect among the scholars on the issue of structure of trade

market in the world. This is in spite the fact that there has been many scholars writing on the rise and prominence of the MNCs in the world economy.

The structure of the commodity market is an important determinant of distribution of gains between the producers, consumers and traders. Market imperfections affect the distribution of gains among these three categories of people. Since in the case of internationally traded commodities these categories belong to different countries, therefore, the changes in share of distribution of gains among them is converted into gains and losses to different countries. In the past, the developing countries tried to increase their gain through various forms of state interventions such as commodity agreements, state trading, etc. These measures partially helped these countries [Girman 1987]. In the post-Soviet era there has been a general environment against such state interventions in the world trading. Several of commodity agreements reached in the past have been allowed to expire without their fresh renewal. The state intervention in the international trading are now described as undesirable market distortions. The GATT agreements 1994 prohibit these measures except in serious economic emergencies such as balance of payments crisis, threatened food security or threat to internal and external defence security and situation arising out of environmental problems. In an environment of free market thinking in the GATT agreements leading to establishment of WTO, there is not a single word written on developing and enforcing a code of conduct for MNCs or monopoly companies involved in the world trading.

MNCs are traditionally involved in mining and plantation of primary products and also in their exports from the developing countries. Several factors have contributed to their significant role. They are: (1) complexity of processing technology and the direct cost of capital, skilled labour, energy and other inputs used in processing; (2) monopoly and oligopoly in processing; (3) advantages of foreign processing such as economies of scale, availability of infrastructure and need to blend raw materials from different souces; (4) use of trade barriers by the developed countries for discouraging imports of processed products from the developing countries; and (5) strategic decision of MNCs to process commodities at home or in third countries [Girvan 1987].

Besides MNCs, giant trading companies have arrived on the scene. Though they existed earlier yet they have experienced a vast transformation in the post-second world war period. Their number has drastically shrunk, the size of their assets increased and they have diversified their activities into multi-commodity trading. Consequently, there is fast upsurge in concentration of their trading power. The bulk of most of the commodities marketed in the world trade are handled by less than six multi-commodity traders. These traders belong to western Europe, the US and Japan. The scale of their operation is so large that they dominate completely the world trade to the extent of

TABLE 13: WORLD COMMODITY PRICES AND PRICE PROJECTIONS IN CURRENT DOLLARS (US)

| Commodity      |        |      |      |      | Actuals | Projections |      |      |      |              |      |      |      |       |
|----------------|--------|------|------|------|---------|-------------|------|------|------|--------------|------|------|------|-------|
|                |        |      |      |      |         |             |      |      |      | Short Term   |      |      | Long | Term  |
|                |        | 1970 | 1980 | 1985 | 1988    | 1989        | 1990 | 1991 | 1992 | 1993         | 1994 | 1995 | 2000 | 2005  |
| Food           |        |      |      |      |         |             |      |      |      | <del> </del> |      |      |      |       |
| Coffce         | c/KG   | 115  | 344  | 321  | 303     | 239         | 197  | 187  | 139  | 187          | 185  | 225  | 310  | 340   |
| Cocoa          | c/KG   | 68   | 270  | 225  | 159     | 124         | 127  | 120  | 113  | 119          | 125  | 131  | 170  | 215   |
| Tea            | c/KG   | 110  | 223  | 198  | 179     | 202         | 203  | 184  | 206  | 208          | 205  | 220  | 272  | 322   |
| Sugar          | \$/MT  | 81   | 632  | 90   | 225     | 282         | 277  | 198  | 200  | 205          | 220  | 254  | 350  | 441   |
| Beef           | \$/MT  | 130  | 276  | 215  | 252     | 257         | 256  | 266  | 244  | 252          | 256  | 264  | 376  | 399   |
| Bananos        | \$/MT  | 165  | 379  | 378  | 478     | 547         | 541  | 560  | 502  | 490          | 494  | 502  | 579  | 552   |
| Oranges        | \$/MT  | 168  | 391  | 398  | 453     | 445         | 531  | 521  | 520  | 523          | 530  | 543  | 622  | 687   |
| Rice           | \$.'MT | 144  | 434  | 216  | 301     | 320         | 287  | 314  | 290  | 288          | 290  | 300  | 336  | 374   |
| Wheat          | \$/MT  | 63   | 191  | 173  | 180     | 201         | 156  | 143  | 172  | 162          | 164  | 171  | 218  | 204   |
| Maize          | \$/MT  | 58   | 125  | 112  | 107     | 112         | 109  | 107  | 105  | 104          | 107  | 110  | 139  | 130   |
| Grain Sorghum  | \$/MT  | 52   | 129  | 103  | 99      | 106         | 104  | 105  | 103  | 102          | 103  | 105  | 134  | 125   |
| Fats and oils  |        |      |      |      |         |             |      |      |      |              |      | •    |      |       |
| Palm oil       | \$/MT  | 260  | 584  | 501  | 437     | 350         | 290  | 339  | 395  | 420          | 397  | 396  | 416  | 420   |
| Coconut oil    | \$/MT  | 397  | 674  | 590  | 565     | 517         | 337  | 433  | 590  | 550          | 573  | 618  | 774  | 721   |
| Groundnut oil  | \$/MT  | 379  | 859  | 905  | 590     | 775         | 964  | 894  | 605  | 645          | 656  | 713  | 760  | 664   |
| Soybean oil    | \$/MT  | 307  | 597  | 572  | 463     | 432         | 447  | 454  | 430  | 460          | 499  | 500  | 562  | 590   |
| Soybean        | \$/MT  | 117  | 296  | 224  | 304     | 275         | 247  | 240  | 235  | 248          | 263  | 270  | 300  | 368   |
| Copra          | \$/MT  | 225  | 453  | 386  | 398     | 348         | 231  | 286  | 380  | 360          | 377  | 404  | 544  | 508   |
| Palm kernels   | \$/MT  | 168  | 345  | 291  | 267     | 251         | 185  | 220  | 230  | 237          | 246  | 270  | 334  | 358   |
| Groundnut meal | \$/MT  | 102  | 240  | 143  | 210     | 200         | 185  | 150  | 157  | 165          | 184  | 199  | 216  | 276   |
| Soybean meal   | \$/MT  | 103  | 262  | 157  | 268     | 246         | 209  | 199  | 208  | 220          | 230  | 241  | 254  | 331   |
| Non-food       |        |      |      |      |         | 3           |      |      |      |              |      | 471  | 4.74 | .,,,1 |
| Cotton         | c/KG   | 63   | 205  | 132  | 140     | 167         | 182  | 168  | 130  | 129          | 153  | 162  | 206  | 229   |
| Jute           | \$/M i | 274  | 308  | 583  | 370     | 373         | 408  | 378  | 320  | 340          | 350  | 356  | 441  | 493   |

Source: The World Bank, Price Prospects for Major Primary Commodities 1990-2005, op cit.

(

85-90 per cent (Table 14). Out of the 21 commodities, 3-6 big companies control more than 80 per cent of the world trade of 13 commodities. Only in case of hides and skins their share was 25 per cent and in the remaining 7 commodities the share of these companies exceeded 50 per cent of the world trade. The opening up of trade of agriculture will expose the producers from the developing countries to the operations of the giant trading companies. Their size of operation, financial clout and specialised trading techniques put them in strong and strategic position vis-a-vis the large number of small producers from the developing countries. The need of developing countries to enter or retain their market share and earn scarce foreign exchange often forces them to enter into deals with these trading companies. It is pertinent to mention here that entry of Pepsi in India was argued and justified on the ground that this MNC was capable of marketing a large quantity of its processed vagetables and fruits from Punjab due to its links with chain of stores and hotels [Gill and Gill 1990]. These trading companies possess two other advantages in dealing with the developing countries. They are: (1) economic intelligence network and (2) ability to sustain large inventories. Their well organised economic intelligence have

Table 14 Corporati Control of Global Commodity Trade, 1983

| Commodity          | World<br>Exports<br>(\$ million) | Percentage<br>Marketed<br>by 3-6 largest<br>Transnational<br>Traders |
|--------------------|----------------------------------|----------------------------------------------------------------------|
| Food               |                                  |                                                                      |
| Wheat              | 17,851                           | 85-90                                                                |
| Sugar              | 10,636                           | 60                                                                   |
| Corn               | 9,833                            | 85-90                                                                |
| Coffee             | 9,636                            | 85-90                                                                |
| Rice               | 3,613                            | 70                                                                   |
| Cocoa beans        | 2,051                            | 85                                                                   |
| Tea                | 1,844                            | 80                                                                   |
| Bananas            | 1,324                            | 70-75                                                                |
| Pineapples tresh   | 74                               | 90                                                                   |
| Agricultural raw n | merials                          |                                                                      |
| Forest products    | 47,255                           | 90                                                                   |
| Cotton             | 6,567                            | 85-90                                                                |
| Tobacco            | 4,239                            | 85-90                                                                |
| Hides and skins    | 4,047                            | 25                                                                   |
| Natural rubber     | 3,321                            | 70-75                                                                |
| Jute               | 135                              | 85-90                                                                |
| Ores, Minerals and | d Metals                         |                                                                      |
| Mineral fuels      | 3,82,685                         | 75                                                                   |
| Copper             | 8,287                            | 80-85                                                                |
| Iron ore           | 6,231                            | 90-95                                                                |
| Tın                | 2,320                            | 75-80                                                                |
| Phosphates         | 1,588                            | 50-60                                                                |
| Bauxite            | 833                              | 80-85                                                                |
|                    |                                  |                                                                      |

Source Frederic F Clairmont and John H
Cavanagh, 'World Commodities Trade:
Changing Role of Giant Trading
Companies', Economic and Political
Weekly, October 15, 1988.

computerised centres that monitor by satellite everything related to commodity output. trade, meteorological conditions, prices and future markets. This is supplemented with information related to political conditions, domestic collaborators and social forces hostile to these companies. This information is used for building bargaining power of these companies. The capacity of these companies to build and sustain a large inventories of the traded commodities help them in planning their marketing strategies. The small and poor producers of the developing countries are compelled to sell their output immediately after harvest which are purchased by these companies to build their inventories to be unloaded when profit conditions are most favourable. With the centralised private command the big trading companies have the advantage of first strike capability which is used to destroy the bargaining power of not only small producers but also collective strength whenever built by the developing countries either through state trading or through international commodity agreements which are undermined by mega traders through inventory manipulations. In presence of such huge/ mega trading companies, private trading companies from developing countries are no match. There is a history of take over by the mega trading companies such as Cargill, of the relatively weaker companies from the advanced countries. They can indulge in collusion with other such companies and influence future market operations [Clairmont and Cavanagh 1988]. The near monopoly or oligopoly position of the mega traders is one of the major distortions in the world commodity markets. This distortion has the tendency to be more serious with the increase of concentration of market power the mega traders. The developing countries have to confront this distortion without the earlier backing of organised ideological strength of G-77 of UNCTAD. The consequence will be that in the future, the prices of primary commodities will be more manipulated and rigged by giant trading companies to the disadvantage of the producers of the developing country. Large investments by these companies in advertisements leading to creation of brand names recognition and loyalty and control over distribution network are big hurdles which cannot be crossed without equally large investments by competitors backed by high quality products at competitive prices. The very high cost involved in the processes between the farm gate and the final consumers, such as processing, packaging, advertising, marketing and distribution, makes the share of primary commodity of the final product as very small. For raw cotton growers price represents 4-8 per cent of the final product, 6 per cent for tobacco; 14 per cent for bananas,

11-24 per cent for jute goods; 12-25 per cent for coffee and for tea 15 per cent of the US retail price of tea bags [Girvan 1987; World Bank 1994]. This means that any country such as India if it decides to specialise in production export of primary products particularly that of agriculture, it opts for the lesser share of the price paid by the final consumers. The major share of this price is taken away by the grant trading and processing companies. This has a important policy implication for the developing countries. In order to retain the larger share of the price paid by the final consumers, these countries need to develop and promote indigenous processing (industrialisation) and collective marketing arrangement which operates in favour of a large number of small producers. Obviously, these countries in the present day global market situation of monopoly or oligopoly cannot dispense with the state intervention on a bigger scale.

#### IV

With India's signing of GATT agreements 1994 and becoming founder member of WTO, globalisation of agricultural production will experience an increase and global market forces will play greater role in determination of cropping pattern, investment level, price structure, quality of production and level of international trade. The measures such as minimum compulsory market acces, to foreign suppliers, removal of non-tariff barriers and their replacement by tariff barriers at a reduced rates, limitation of AMS, introduction of sanitary and phytosanitary measures, removal of restrictions on foreign companies in domestic trade and processing and acceptance of standard Intellectual Property Rights and their application to new seeds and plants varieties, will contribute to the process of globalisation and allow free play to the global trading and agro-processing companies in countries like India.

Globalisation of agriculture will create increased international trading opportunities for those countries/regions which produce a large surplus both in wheat and rice crops The possibility of these regions gaining from such opportunities depend on their expor competitiveness. In other words, if these regions are in the position to supply these commodities in the international market a prices lower than their competitors assuming the quality of the products to be comparable These regions are far off from the seaport and these commodities being bulky in relatio to their unit price, there is a high componer of rail freight along with high marketing an handling costs are subject to a high level c compulsory market charges. The Punia agriculture in spite of being most advance in the country is not internationall competitive in wheat and rice commoditie

due to high costs involved between the farm gate prices and fob export prices. Under the present production technology, marketing and handling system and tax structure accompanied by double digit inflation has eliminated whatever advantages the country could acquire in these two commodities following massive devaluation of rupee in 1991. To be internationally competitive in wheat and rice, the country will have to increase farm productivity, introduce efficiency in market handling and lower the tax rates in marketing of these crops. With growing consumers' quality consciousness in advanced countries and signing of sanitary and phytosanitary agreement our crops have to be of high quality with minimum toxic residues. The improvement in farm productivity and improvement in quality of output requires more investment both in agriculture sector and agricultural research. The latter demands skill greater attention on account of application of uniform patent law

on new seeds and plants varieties. Since private research in this area is non-existent in India, the existing research institutions such as agricultural universities and regional research centres must be strengthened and their functioning upgraded to meet the challenge ahead in evolving new varieties to compete with private multinational seeds companies such as Cargill.

International prices of agriculture are subject to a high level of instability due to fluctuations in the level of production caused by vagaries of the nature. Problems associated with the storage makes it difficult question. The experience of the last decade also confirms this. Moreover, prices of these commodities have shown a declining trend at constant dollar prices vis-a-vis manufactured commodities. A large number of studies support the view that exporters of primary commodities (including agricultural products) experience a secular deterioration in their terms of trade. For

producers of agricultural commodities the declining terms of trade become a mechanism of transfer of income from them to producers of manufactured goods. Moreover, when marketing of agricultural products gets linked up with the agro-processing with involvement of mega traders, the share of income of primary producers becomes small. It is found that trading of agricultural products is concentrated with 3-6 mega (global) trading companies. These companies with a large investment resources, trading network and skill, market intelligence, integration with complex processing and established trade brands rig prices of these commodities to their advantage and leave a little share for the farmers who have neither waiting capacity and nor bargaining power.

The trend of international prices and structure of global trading market brings an important lesson for the developing countries like India. There is a need for effective state intervention in the international trading of

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Centre for Education and Communication F 20, Jungpura Extension New Delhi - 110014 agricultural commodities to protect the small and poor farmers from international instability of prices and their rigged downward trend by creating collective bargaining power. Another lesson is drawn from the sharing of price paid by final users between processors, traders and the farmers. Experience shows that when the three categories belong to different countries with farmers belonging to the developing world. the share left for the latter is very small. This questions the wisdom for developing specialisation in the export of non-processed agricultural commodities. In fact, this provides support to the time tested viewpoint that the developing countries must achieve a breakthrough in industrialisation and shift to the export of processed materials. This has a greater relevance for countries like India which suffer from the problem of a large unemployed human power. This will not only retain a large part of the value added within the country but also create opportunities of employment for the unutilised workforce.

# Notes

[Discussions with Baldev Singh and J R Gupta of Punjab University, Patiala, Karam Singh, Balwinder Singh and A J Singh of Punjab Agricultural University (PAU), Ludhiana, was extremely helpful on various points. Their help is gratefully acknowledged without implicating them for errors and omissions.]

- 1 The changes on the actual amounts being collected in the markets are paid by FCI but the time period for storage has been reduced from four months to three months and interest charges to two months assuming that private exporters are more efficient than the FCI.
- 2 The ratio of Indian price + other expenses to fob foreign price is used as a rough measure of competitiveness. If the ratio is equal to 100 then the commodity is neither competitive nor non-competitive. If it is less than 100 it is treated as competitive and non-competitive in case of the ratio being 100.
- 3 Estimates of transhipment costs and trader's margin is lower than per cent worked out by Gulati et al (1989) under the head of port clearance charges.
- 4 This is based on our discussion with experts of PAU, Ludhiana, officers agriculture department of Punjab government and some cultivators of the basmati rice.
- 5 In the recent discussion in India on export competitiveness of agriculture in wake of policy of liberalisation and globalisation, these issues are neglected almost completely.

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# Investment, Exports and Growth Orthodoxy Vindicated

## Prema-Chandra Athukorala

IN an important article Prabhat Patnaik and CPChandrasekhar (henceforth P-C) examine the investment-export-growth nexus in developing countries through the estimation of bivariate regression using cross-section data for 25 developing countries [Patnaik and Chandrasekhar 1996]. They claim that their results overwhelmingly support the proposition that the investment ratio plays the key role in determining inter-country differences in both growth and export performance and that the so-called 'efficiency of resource use' which undergirds Fund-Bank advocacy is of no relevance in this regard.

The P-C results, if they are to be believed, have significant implications for economic policy reforms in developing countries. In particular, for India, the results, coupled with a significant reduction in the investment ratio during the post-reform year as reflected in the data published by National Statistical Organisation (NSO), seem to make a strong case against the continuation of the marketoriented policy reforms initiated in 1990. As the authors put it, "no increase in the growth rate can possibly occur unless the investment ratio is raised substantially. In practice, however, the effect of these policies has been precisely the opposite - a significant reduction in the investment ratio." But are the P-C results robust enough to warrant such a strong policy inference?

Dubey (1996) points to a number of pitfalls in the P-C analysis. In particular, he demonstrates that the regression coefficient which links growth to investment ratio (outputcapital ratio) is sensitive to the countries included and time period covered in the analysis. When the sample is augmented by adding 15 more countries to the P-C list and the sample period is changed from 1968-88 to 1972-92, the regression coefficient and the R<sup>2</sup> (overall fit of the equation) drop from 0.32 and 0.72 to 0.18 and 0.245 respectively. In the light of this comparison of regression results, coupled with an observation of wide swings in the output-capital rate across countries and over time periods as revealed in P-C data, Dubey infers that the outputcapital rate is "a very slippery and unrealistic concept for planning and policy" (p 631). Dubey also argues (convincingly, I believe) that "the authors' efforts to develop and test a neo-classical explanation of the causal link from exports to investment are not serious" and that the particular approach adopted by

them<sup>2</sup> to demolish the neo-classical view that "getting prices right is crucial to export performance" is "extremely tenuous and difficult to sustain" (p 632). Notwithstanding these limitations, Dubey admits that for the sample of countries and the period studied, "the insight of the old development economists that investment is the key to growth comes out [from P-C results] with flying colours" (p 630).

The purpose of this note is to demonstrate that even for the sample countries and the period studied the data used by P-C are not inconsistent with the neo-classical 'dogma' which they strive to demolish. We do this by re-estimating more appropriate formulations of output growth and export growth regressions using P-C data. First, we discuss the methodological issues leading to our alternative approach, and then present and interpret the results.

#### METHODOLOGICAL ISSUES

The P-C results come from an econometric procedure which does not allow for explicit testing of the neoclassical view which favours outward-oriented policy on 'efficiency of resource use' grounds. If one wants to demolish a particular theoretical proposition in favour of another, both propositions need to be appropriately incorporated in the model. What the authors do instead is to focus solely on the bivariate relations pertaining to the hypothesis the favour, and therefore by design their analytical procedure is not capable of discriminating between the old ('investment holds they key') view and the neo-classical view. Put simply, 'good fit' of their chosen model is only supporting the old view against the null of no relation between investment and growth/exports, which is not the alternative postulated by the neo-classical economists.

In an attempt to (implicitly) justify their peculiar model choice, the authors observe that as the neo-classical position, which advocates outward oriented policies on efficiency greends, came to occupy the centrestage of development thinking, "the investment ratio dropped out of the picture as a significant phenomenon to concentrate attention upon". We wonder if this peculiar (erroneous) characterisation of the neo-classical view (or Fund-Bank position, as P-C call it) has more to do with setting up a convenient straw man for polemical

purposes than setting the stage for an objective analysis of the investment-export-growth nexus. The economists of neo-classical persuasion do consider investment as a key variable in the growth process. However, they differ from the pioneers of development economics in that they place emphasis on both resource accumulation (investment) and 'efficiency of resource use' as key determinants of growth [Krueger 1980, Edwards 1993]. After all, the concept of 'efficiency is meaningless in the absence of resources'!

A key postulate of the neo-classical view is that the outward-oriented growth strategy generates faster export growth and faster

TABLE: INVESTMENT, EXPORTS AND GROWTH:
REGRESSION RESULTS

```
1968-88
G = -1.95 + 0.32(1/Y)
                                R^2 = 0.72
      --1.25
              +0.25(I/Y) +0.13G
                              (1.65)*
                  (4.29)**
       (1.29)
                     R^2 = 0.75; F_{VA} = 3.45
        5.87
               +0.59(1/Y)
                                R^2 = 0.52
               +0.49(I/Y) +3.33D_{OR}
       -5.58
                  (4.35)** (2.48)**
                   R^2 = 0.63; F_{VA} = 6.15**
1968-78
G = -0.18 + 0.29(J/Y)
                                R^2 = 0.47
G = -1.00 + 0.24(I/Y)
                             +0.16G
       (0.07)
                 (3.17)**
                              (2.10)^{\frac{2}{4}}
                    R^2 = 0.51; F_{VA} = 4.45**
       -1.58 + 0.39(I/Y)
                                R^2 = 0.15
       -0.36 +0.25(I/Y) +4.73D<sub>OR</sub> (0.45) (1.34) (2.19)**
                    R^2 = 0.32; F_{VA} = 5.65**
1978-88
G = -4.03 + 0.36(I/Y)
                                R^2 = 0.54
       -2.13 + 0.22(I/Y)
                             +0.17G_{.}
                  (4.33)**
                              (3.57)**
       (2.27)
                      R^2 0.77; F_{VA} = 12.77**
G = -6.43 + 0.59(I/Y)
                                 R^2 = 0.34
G_{.} = -5.22 + 0.39(I/Y) + 7.87D_{on}
                  (2.52)** (3.24)**
        (1.23)
                    R^2 = 0.55; F_{v_A} = 10.50**
```

Note: t-ratios of regression coefficients are reported in brackets with the level of statistical significance (one-tailed test) denoted as: \*=5 per cent; \*\* 1 per cent.

F<sub>VA</sub> is the F statistic for the variable addition test conducted on the related bivariate regression. In all cases the degrees of freedom for the test is 1,22.

Source: The bivariate regressions are reproduced from Patnaik and Chandrasekhar (1996)
Others are author's estimates based on data reported in that article.

export growth, in turn, results in more rapidly growing GDP. Quite apart from its direct contribution to output growth (exports are a part of GDP), export growth promotes economic growth through various dynamic effects - improved resource allocation in line with international comparative advantage, the maintenance of higher capacity utilisation, economies of scale and technical change and relieving the foreign exchange constraint (on the procurement of imported inputs, including technology). Also the 'stick and carrot' of competition in export markets provides incentives for productivity improvement and technological change. Clearly the role of investment is implicit in this neo-classical characterisation of the growth-conducive implications of outward-oriented growth strategy. What the neo-classical economists simply postulate is that for a given investment rate different countries can achieve different growth outcomes depending on the nature of the policy regime.

The proper analytical procedure is, therefore, to incorporate both the conventional investment-oriented view and the neo-classical efficiency considerations in the estimating equation, and then allow data to determine their relevance in determining inter-country differences in growth and export performance. A simple way to do this is to include export growth as an additional explanatory variable in the output growth regression and a variable to capture the nature of policy regime in the export growth equation.<sup>3</sup> Thus, we have,

$$G = \beta_0 + \beta_1 (I/Y) + \beta_2 G_X + \mu$$
 (1)  

$$G_X = \alpha_0 + \alpha_1 (I/Y) + \alpha_2 D_{OR} + \mu$$
 (2)  

$$\beta_1, \beta_2, \alpha_1, \alpha_2 \ge 0$$

where,

G = GDP growth, I/Y = gross investmentoutput ratio,  $G_x = real$  export growth,  $D_{OR} = outward$ -orientation dummy variable, which takes value 1 for countries which pursue outward-oriented policies and zero for other countries, and  $\mu$  the stochastic error term.

Ideally we should use a direct measure of outward-orientation in place of  $D_{OR}$ . Unfortunately such a measure is not readily available for all countries in the sample. In the absence of a direct measure, the common practice is to identify countries with outward-oriented policy regimes through a close study of their policy history and then distinguish them from the other countries in terms of the dummy variable technique. This is the procedure adopted here.

# RESULTS

Equation 1 and 2 are estimated by applying the ordinary least squares (OLS) technique to data gathered from various tables in P-C (1996). A common methodological concern relating to the econometric estimation of the relationship between export growth and GDP growth (or between export growth and I/Y)

is the possible two-way causality between the two variables [Edwards 1993]. This may lead to biased coefficient estimates when estimation is done using OLS. Mindful of this issue, we tested for the endogeneity of  $G_{\chi}$  in both equations using the Wu-Hauseman procedure. There was no evidence of endogeneity, and hence the use of OLS is justified. The estimated equations, together with alternative P-C estimates, are reported in the Table.

To comment on the results for the export equation (equation 2) first, there is strong statistical support for the hypothesis that, quite apart from the level of investment, the nature of policy-orientation does matter in explaining inter-country differences in export performance. The coefficient attached to Don is statistically significant at the 1 per cent\* level in all cases with the expected (positive) sign. The equation for the total sample period (1968-88) suggests that, for a given investment ratio, the export growth rate of outward-oriented countries is, on the average, 3.33 percentage points higher than the average growth for the overall sample. For the two sub-sample periods (1968-78 and 1978-88) this figure is 4.73 and 7.87 respectively. (The lower figure for the former period may reflect adverse world market conditions surrounding the first oil boom.) It is also important to note that the inclusion of  $G_x$  as an additional variable improves the overall fit of the equation (as measured by R2) in all cases, and the augmentations of the regression equation by adding Gx is amply supported by the variable addition F test.

Let us now consider the GDP growth equations. The coefficient attached to the export growth variable (G<sub>x</sub>) is statistically significant at the 5 per cent level or better in estimates for all three time periods. The inclusion of this variable improves the overall fit as measured by R<sup>2</sup> in all cases, compared to the P-C bivariate regressions. As in the case of export growth equation, this augmentation is supported by the F test for variable addition. More importantly, the output-capital rate (that is, the coefficient attached to I/Y) is considerably smaller in magnitude in our estimates, suggesting a significant omitted variable bias in P-C estimates. What the results simply suggest is that for two countries with the same I/Y, the growth rates tend to be significantly different depending on the nature of the policy regime; the country which pursues an outward-oriented policy stance (and hence maintains superior export performance) showing a higher growth rate. This is exactly what the neo-classical 'dogma' postulates.

In sum, our alternative regression estimates provide strong support for the neo-classical (Bank-Fund) view that, in addition to the investment rate, the nature of policy-orientation

is crucial in explaining inter-country differences in growth performance.

#### **Notes**

[The author is indebted to Kunal Sen for careful reading of the draft of this paper.]

- 1 Elsewhere [Athukorala and Sen 1995] we have demonstrated that the decline in investment rate as reflected in NSO data is largely a statistical artefact resulting from some shortcomings in the NSO estimation procedure.
- 2 Bivariate regression analysis of the relationship between export growth and the ratio between the GDP in purchasing power parity (a la Kravis, Heston and Summers) dollar and GDP in 'official' dollar (as a measure of the 'cheapness' of a country's product in world trade).
- 3 Note that P-C estimate two export growth equations, one with investment rate and the other with GDP growth as the explanatory variable We do not consider the latter here as it is not central to the issue at hand,
- 4 See for instance Stopford et al (1991) and the work cited therein.
- The country classification used here is the one developed by the World Bank (1987) and reproduced in Edwards (1993). We combine 'strongly outward-oriented' and 'moderately outward-oriented' in this classification to form our 'outward-oriented' country group. China is included in this group for the total sample period and the 1978-88 sub-period. Countries included in this group for the three time periods age: 1968-78: Brazil, Chile, China, Colombia, Guatemala, Hong Kong, Indonesia, Korea, Malaysia, Thailand, Turkey, Uruguay; 1968-78: Brazil, Colombia. Guatemala, Hong Kong, Indonesia, Korea, Malaysia, Thailand; 1978-88: Brazil, Chile, China, Hong Kong, Korea, Malaysia, Thailand, Turkey, Uruguay.

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# The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

| Balance Sheet of on 31                          | March    |                 |                              | Profit and Loss Account of India Branches for the year ended 31 March 1996                           |                                |                                                                                 |  |  |  |
|-------------------------------------------------|----------|-----------------|------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------|--|--|--|
| SCH                                             | SCHEDULE |                 | As<br>31.3.1<br>HEDULE (Rs 0 |                                                                                                      | As on<br>31.3.1995<br>(Rs 000) | Year ended   Year ended   31.3.1996   31.3.19<br>SCHEDULE   (Rs 000)   (Rs 000) |  |  |  |
| CAPITAL AND LIABIL                              |          |                 | I. INCOME                    |                                                                                                      |                                |                                                                                 |  |  |  |
| Capital                                         | 1        | 590,000         | 490,000                      | Interest earned 13 5.319,161 4,013,2<br>Other Income 14 1.340,403 1,320,9                            |                                |                                                                                 |  |  |  |
| Reserves and surplus                            | 2        | 6,734,556       | 3,355,069                    | TOTAL 6,659,564 5,334,2                                                                              |                                |                                                                                 |  |  |  |
| Deposits                                        | 3        | 38,443,806      | 34,006,383                   |                                                                                                      |                                |                                                                                 |  |  |  |
| Borrowings                                      | 4        | 2,832,845       | 2,893,895                    | II. EXPENDITURE                                                                                      |                                |                                                                                 |  |  |  |
| Other liabilities and provisions                | 5        | 4,151,280       | 3,324,407                    | Interest expended. 15 3,022,560 2,183,1<br>Operating expenses 16 1,420,783 1,293,1<br>Provisions and |                                |                                                                                 |  |  |  |
| TOTAL                                           |          | 52,162,487      | 43,579,754                   | contingencies 1,309,736 1,374,3                                                                      |                                |                                                                                 |  |  |  |
| ASSETS                                          |          |                 |                              | TOTAL 5,753,079 4,850,6                                                                              |                                |                                                                                 |  |  |  |
| Cash and balances with<br>Reserve Bank of India | 6        | 4,851,082       | 7,029,917                    | III. PROFIT                                                                                          |                                |                                                                                 |  |  |  |
| Balances with banks and money at call and short |          |                 |                              | Net profit for the year   906,485   483,5                                                            |                                |                                                                                 |  |  |  |
| notice                                          | 7        | 2,478,522       | 1,441,644                    | TOTAL 2,549,886 1,719,9                                                                              |                                |                                                                                 |  |  |  |
| Investments                                     | 8        | 14,606,307      | 14,162,516                   | IV. APPROPRIATIONS                                                                                   |                                |                                                                                 |  |  |  |
| Advances                                        | 9        | 21,459.008      | 16,047,919                   | Transfer to statutory reserves 181,297 96,7                                                          |                                |                                                                                 |  |  |  |
| Fixed Assets                                    | 10       | 3,897,862       | 1,779,736                    | Transfer from capital reserves - (20,13                                                              |                                |                                                                                 |  |  |  |
| Other Assets                                    | 1)       | 4,869,706       | 3,118,022                    | Transfer to capital                                                                                  |                                |                                                                                 |  |  |  |
| TOTAL                                           |          | 52,162,487      | 43,579,754                   | reserves 1,643,401 Profit remitted to Head Office during the year -                                  |                                |                                                                                 |  |  |  |
| Contingent liabilities                          | 12       | 140,199,961     | 56,493,551                   | Balance carried over to Balance Sheet 725,188 1,643,4                                                |                                |                                                                                 |  |  |  |
| Bills for Collection                            |          | 2,493,157       | 2,353,716                    | TOTAL 2,549,886 1,719,9                                                                              |                                |                                                                                 |  |  |  |
| Notes to Accounts .                             | 17       |                 |                              | Notes to Accounts 17                                                                                 |                                |                                                                                 |  |  |  |
| Schedules referred to here Balance Sheet.       | in form  | an integral par | t of the                     | Schedules referred to herein form an integral part of the Profit and Loss Account.                   |                                |                                                                                 |  |  |  |

For BHARAT S RAUT & CO. Chartered Accountants

SAMMY MEDORA

C A G GIBSON

J D PULLEN

Partner

Area Financial Controller

Chief Executive Officer, India

Mumbai: 14 June 1996



# The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

| Schedules forming part of the Balance Sheet of the<br>India Branches as on 31 March 1996                                                    |                                  |                                   |                                                                                                                               |                                             |                                 |  |  |  |  |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------|--|--|--|--|
|                                                                                                                                             | As on<br>31.3.1996<br>(Rs 000)   | As on<br>31.3.1995<br>(Rs 000)    |                                                                                                                               | As on<br>31.3.1996<br>(Rs 000)              | As on<br>31.3.1995<br>(Rs 000)  |  |  |  |  |
| SCHEDULE 1 - CAPITAL  Amount of deposit kept with the Reserve Bank of India under Section 11(2) of the Banking Regulation Act, 1949.  TOTAL | 590,000 490<br>590,000 490       |                                   | SCHEDULE 4 - BORROWINGS  I. Borrowings in India i) Reserve Bank of India ii) Other Banks iii) Other institutions and agencies | 2,015,800<br>781,608<br>34,000<br>2,831,408 | 1,610,000<br>343,446<br>926,100 |  |  |  |  |
| SCHEDULE 2 - RESERVES                                                                                                                       |                                  |                                   | II. Borrowings outside India                                                                                                  | 1,437                                       | 2,879,546                       |  |  |  |  |
| AND SURPLUS                                                                                                                                 |                                  |                                   | TOTAL                                                                                                                         | 2,832,845                                   |                                 |  |  |  |  |
| I. Statutory Reserve Opening Balance Additions during the year  II. Capital Reserve                                                         | 490,616<br>181,297<br>671,913    | 393,903<br>96,713<br>490,616      | SCHEDULE 5 - OTHER<br>LIABILITIES AND<br>PROVISIONS                                                                           | 2,032,043                                   | 2,893,895                       |  |  |  |  |
| Opening Balance Additions during the year Remittance from Head Office                                                                       | 1,218,494                        | 1,050,408                         | Bills payable     II. Inter-office adjustments     Branches in India (net)                                                    | 1,152,569<br>-                              | 1,195,462                       |  |  |  |  |
| Transfer from Profit and Loss Account                                                                                                       | 1.643.401                        | _                                 | III. Due to Head Office                                                                                                       | 140,224                                     | 304,050                         |  |  |  |  |
| Transfer from Unremitted                                                                                                                    | 1,045,401                        | -                                 | IV. Interest accrued  V. Others (including provisions)                                                                        | 1,844,459<br>1,014,028                      | 1,258,117<br>566,778            |  |  |  |  |
| Head Office charges Revaluation of premises Transfer to Profit and                                                                          | 304,050<br>2,168,952             | -                                 | TOTAL                                                                                                                         | 4,151,280                                   | 3,324,407                       |  |  |  |  |
| Loss Account                                                                                                                                | 5,334,897                        | (20,134)<br>1,218,494             | SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA                                                                     |                                             |                                 |  |  |  |  |
| Opening Balance Movements during the year                                                                                                   | 2,558                            | 2,558                             | Cash in hand (including foreign currency notes)     Balances with Reserve Bank of India                                       | 86,698                                      | 92,243                          |  |  |  |  |
| IV. Balance in Profit and<br>Loss Account<br>Opening Balance                                                                                | 1.643.401                        | 1,236,415                         | i) in Current Account ii) in Other Accounts                                                                                   | 4,764,384                                   | 6,937,674                       |  |  |  |  |
| Transfer to Capital Reserve                                                                                                                 | (1,643,401)                      |                                   | ii, iii diidi giddaiiid                                                                                                       | 4,764,384                                   | 6,937,674                       |  |  |  |  |
| Transfer of Profit for the                                                                                                                  |                                  |                                   | TOTAL                                                                                                                         | 4,851,082                                   | 7,029,917                       |  |  |  |  |
| year after appropriations  TOTAL                                                                                                            | 725,188<br>725,188<br>6,734,556  | 406,986<br>1,643,401<br>3,355,069 | SCHEDULE 7 – BALANCES<br>WITH BANKS AND                                                                                       |                                             |                                 |  |  |  |  |
| SCHEDULE 3 - DEPOSITS                                                                                                                       |                                  |                                   | MONEY AT CALL AND                                                                                                             |                                             |                                 |  |  |  |  |
| A. I. Demand Deposits                                                                                                                       |                                  | }                                 | SHORT NOTICE                                                                                                                  |                                             |                                 |  |  |  |  |
| i) From banks ii) From others                                                                                                               | 60,274<br>7,876,714<br>7,936,988 | 49,544<br>8,896,572<br>8,946,116  | I. In India  1) Balances with banks in current accounts                                                                       | 376,639<br>376,639                          | 419,438<br>419,438              |  |  |  |  |
| <b>II.</b> Savings Bank Deposits                                                                                                            | 5,091.833                        | 5,223,380                         | ii) Money at call and short                                                                                                   | 3/0,039                                     | 417,430                         |  |  |  |  |
| III. Term Deposits  1) From banks                                                                                                           | <b>-</b> ·                       |                                   | notice with banks                                                                                                             |                                             | -                               |  |  |  |  |
| 11) From others                                                                                                                             | 25,414,985<br>25,414,985         | 19,836,887                        | II. Outside India                                                                                                             | 376,639                                     | 419,438                         |  |  |  |  |
| TOTAL                                                                                                                                       | 38,443,806                       | 34,006,383                        | In Current Accounts                                                                                                           | 2,101,883                                   | 1,022,206                       |  |  |  |  |
| B. Deposits of branches in India                                                                                                            | 38,443,806                       | 34,006,383                        | TOTAL                                                                                                                         | 2,478,522                                   | 1,441,644                       |  |  |  |  |



# The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

|     |          | S                                         |                                |                                         |     | e Balance Sheet of the<br>31 March 1996 |                                |                                |
|-----|----------|-------------------------------------------|--------------------------------|-----------------------------------------|-----|-----------------------------------------|--------------------------------|--------------------------------|
|     |          |                                           | As on<br>31.3.1996<br>(Rs 000) | As on<br>31.3.1995<br>(Rs 000)          |     |                                         | As on<br>31.3.1996<br>(Rs 000) | As on<br>31.3.1995<br>(Rs 000) |
| SCH | ŒĐULI    | E 8 – INVESTMENTS                         |                                |                                         | II. | Other Fixed Assets                      |                                |                                |
| 1   |          | ments in India in                         |                                |                                         | 1   | (including furniture and fixtures)      |                                |                                |
|     | .,       | vernment securities                       | 9,522 756                      | 8 95, 127                               |     | Cost as at 1 April 1995                 | ļ                              |                                |
|     |          | her approved securities ares - fully paid | 1 048 959 26 388               | 973 074                                 |     | including cost taken over under         |                                |                                |
|     |          | bentures and Bonds                        | 2 377,120                      | 2 584 636                               |     | the Scheme of Arrangement               | 1,155,808                      | 1,075,688                      |
|     |          | bsidiaries and/or joint                   |                                | 2 764 0 70                              |     | ADD Additions during                    | 102.004                        | 102 400                        |
|     |          | ntures - Fully paid                       | 1                              | 1                                       |     | the year                                | 1,257,902                      | 1,179,368                      |
|     |          | Partly paid                               | 500                            | 500                                     |     | LESS Deductions during                  | 1,237,902                      | 1,179,308                      |
|     | vı) Otl  | hers                                      | 1,630,583                      | 1,630 583                               |     | the year                                | (25,017)                       | (23,560)                       |
|     |          | TOTAL                                     | 14,606,307                     | 14,162,516                              |     | the year                                | 1,232,885                      | 1,155,808                      |
| SCH | IEDUL    | E 9 - ADVANCES                            |                                |                                         |     | LESS Depreciation to                    | .,252,005                      | 1,133,000                      |
| A   |          | Is purchased and                          |                                |                                         | 1   | 31 March 1996                           |                                | }                              |
|     |          | counted                                   | 2,951 138                      | 2 878 677                               | İ   | Accumulated depreciation                |                                |                                |
|     | -        | sh credits overdratts                     |                                |                                         |     | to date                                 | (716,074)                      | (527,282)                      |
|     |          | l loans repayable on                      | 6 366 334                      | 6 999 109                               | İ   |                                         | (716,074)                      | (527,282)                      |
|     |          | mand<br>rm loans                          | 6,265,334<br>12,242,536        | 6,170,133                               |     | TOTAL                                   | 516,811                        | 628,526                        |
|     | 111) 10  | TOTAL                                     | 21,459,008                     | 16,047,919                              | 1   | TOTAL                                   | 3,897,862                      | 1,779,736                      |
|     | ٠. ۵     |                                           |                                |                                         | SCI | HEDULE 11 - OTHER                       |                                | 1                              |
|     |          | ured by tangible assets                   | 18,480,696                     | 12,540,039                              |     | SETS                                    | 1                              |                                |
|     |          | vered by Bank/<br>vernment Guarantees     | 1 080,679                      | 991,839                                 | 1   | Inter office adjustments                |                                | ļ                              |
|     |          | secured                                   | 1,897,633                      | 2,516,041                               |     | Branches in India (net)                 |                                | _                              |
|     | ,        | 101AL                                     | 21,459,008                     | 16,047,919                              | 11  | Due from Head Office                    | -                              | -                              |
| C   | Advan    | ces in India                              |                                | -304115-35                              | Ш   | Interest accrued                        | 1 145 984                      | 446,567                        |
|     |          | onty Sectors                              |                                |                                         | IV  | Tax paid in advance/tax                 |                                |                                |
|     |          | cluding export finance)                   | 5 560,727                      | 5 264,005                               | ١   | deducted at source (net)                | 746 693                        | 444,416                        |
|     |          | olic Sector                               | 42 061                         | 259                                     | V   | Stationery and stamps                   | 19 121                         | 20,337                         |
|     | 111) Oth |                                           | 15,856,220                     | 10 783,655                              | VI  |                                         | 1 528,708                      | 1,161,230                      |
|     |          | TOTAL                                     | 21,459,008                     | 16,047,919                              | VII | Others<br>TOTAL                         | 1,429,200                      | 1,045,472                      |
| SCH | EDUL     | E 10 - FIXED                              |                                |                                         | Ì   | IOIAL                                   | 4,869,706                      | 3,118,022                      |
| ASS |          |                                           |                                |                                         | 1   | HEDULE 12 - CONTINGENT                  | •                              |                                |
|     | Premis   |                                           |                                | ł                                       | LIA | BILITIES                                |                                |                                |
|     |          | ing Leasehold)                            |                                | !                                       | I   | Claims against the bank not             | }                              |                                |
|     |          | s at 1 April 1995                         |                                | ĺ                                       | 1   | acknowledged as debts                   | ### O. A. #                    | <b></b>                        |
|     |          | ng revaluation or<br>ken over under the   |                                | 1                                       |     | (including indirect tax matters)        | 779,217                        | 696,322                        |
|     |          | e of Arrangement                          | 1 213 579                      | 1 180,357                               | 11  | Liability for partly paid               | 500                            | 500                            |
|     | ADD      |                                           |                                | , , , , , , , , , , , , , , , , , , , , | m   | ****                                    | 300                            | JUU                            |
|     |          | the year                                  | 21,955                         | 33 222                                  | *** | outstanding forward                     |                                |                                |
|     |          | Revaluation of                            |                                |                                         |     | exchange contracts                      | 123,062,092                    | 39,564,821                     |
|     |          | Premises                                  | 2,168,952                      | 1 212 570                               | IV  | _                                       |                                | . , , ,                        |
|     | LESS     | Deductions during                         | 3 404 486                      | 1 213 579                               | 1   | of customers                            |                                |                                |
|     |          | the year                                  | _                              | _                                       | 1   | a) In India                             | 5,258,373                      | 4,198,138                      |
|     |          | ,                                         | 3 404 486                      | 1 213,579                               | 1   | b) Outside India                        | 3,802,408                      | 3,788,082                      |
|     | LESS     | Depreciation to                           |                                | 1                                       | V   | Acceptances endorsements                |                                |                                |
|     |          | 31 March 1996                             |                                |                                         |     | and other obligations                   | 7.105,165                      | 7,884,189                      |
|     |          | ulated depreciation                       |                                |                                         | VI  | Bills rediscounted                      | 164,204                        | , 318,928                      |
|     | to date  |                                           | (23.435)                       | (62,369)                                | VII | Other items for which the               | 20.000                         | 40 000                         |
|     |          | i                                         | (23,435)                       | (62,369)                                | ı   | bank is contingently liable             | 28,002                         | 42,571                         |



# The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

#### Schedules forming part of the Profit and Loss Account of the India Branches for the year ended 31 March 1996 Year ended Year ended Year ended Year ended 31.3.1996 31.3.1995 31.3.1996 31.3.1995 (Rs 000) (Rs 000) (Rs 000) (Rs 000) SCHEDULE 13 - INTEREST **SCHEDULE 16 - OPERATING EXPENSES EARNED** Interest/discount on Payments to and advances/bills 3,071,612 1,956,064 provisions for employees 531,468 448,877 1,800,488 1,836,465 Income on investments Interest on balances with 11 Rent, taxes and lighting 54,164 47.383 Reserve Bank of India 356,858 162,624 and other inter-bank funds 111 Printing and stationery 42,813 37,846 IV Others 90,203 58,136 IV TOTAL 5,319,161 4.013.289 Advertisement and publicity 46,336 57,703 Depreciation on bank's SCHEDULE 14 - OTHER 207,776 222,719 property **INCOME** VI Indian Advisory ı Commission, exchange Committee Members' 567 491 627 050 and brokerage fees, allowances and II Profit on sale of 757 360 expenses 15.024 341,797 investments (net) Ш Loss on sale of land buildings and other assets Auditors fees and (221)(2.520)1,100 1,100 expenses Profit on exchange 679.750 transactions (net) 381,669 2,473 6214 VIII Law Charges Miscellaneous Income 18,800 32,488 IX Postage, Telegram 1,320,925 TOTAL 1,340,403 72,547 71,712 Telephones, etc 63 017 70 802 Х Repairs and maintenance **SCHEDULE 15 - INTEREST EXPENDED** XI Insurance 30,924 24 656 1,840,997 Interest on deposits 2,621,432 140 224 119 543 Head Office Charges Interest on Reserve Bank of India/inter-bank XIII Other expenditure 220 234 191 155 285.672 borrowings 372,198 Others 28,930 56,525 TOTAL 3,022,560 2,183,194 TOTAL 1,420,783 1,293,120



## The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

#### **SCHEDULE 17**

## NOTES FORMING PART OF THE FINANCIAL STATEMENTS OF THE INDIA BRANCHES FOR THE YEAR ENDED 31 MARCH 1996

#### 1. Basis of preparation

- (a) The financial statements made upto 31 March 1996 comprise the accounts of the IndianBranches of The Hongkong and Shanghai Banking Corporation Limited ("the Bank"), which is incorporated and registered in Hong Kong. The Bank's ultimate holding company is HSBC Holdings plc, which is incorporated and registered in England.
- (b) The financial statements are prepared under the historical cost convention as modified by the revaluation of premises, and in accordance with the generally accepted accounting principles and the statutory provisions and practices prevailing within the banking industry in India.

#### 2. Principal Accounting Policies

- (a) Income recognition
  - Interest income is recognised in the profit and loss account as it accrues, except in the case of interest on doubtful debts.
  - Fee income is accounted for in the period when receivable, except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.
- (b) Transactions involving foreign exchange
  - (i) Assets and liabilities denominated in foreign currencies are translated into Indian Rupees at the rates of exchange notified by the Foreign Exchange Dealers Association of India ("FEDAI") at the year end, except for those foreign currency non-resident deposits eligible for conversion with the Reserve Bank of India ("RBI"), which are translated at the notional rates applicable to these deposits.
  - (ii) Revenues and expenses are translated at the rates prevailing on the transaction date.
  - (iii) Outstanding foreign exchange contracts are revalued at the forward exchange rate notified by FEDAI at the year end and the resultant gain or loss is included in the Profit and Loss Account.
- (c) Staff retirement benefits
  - Provision for retirement benefits in respect of pension and gratuity funds is made based on actuarial valuations conducted by a qualified actuary.
- (d) Net profit
  - The net profit in the profit and loss account is after providing for depreciation in the value of investments, provision for taxation, provision for doubtful advances and other necessary provisions.
- (e) Securities
  - (i) All securities, which cover both debt and equity securities, are classified as current securities and are valued at the lower of cost and market value in aggregate for each category of investment in compliance with RBI requirements, except for zero coupon negotiable instruments which are stated at carrying cost (i.e. cost adjusted for yield accrual).
  - (ii) Market value is determined in accordance with the RBI circular DBOD No. BP.BC. 43/21.04.048/96 dated 6 April 1996. Quoted securities are valued based on market quotations. Unquoted securities are valued by reference to the yield to maturity as prescribed by the RBI.
- (f) Advances
  - Advances are stated net of provision for doubtful advances and interest in suspense. Specific provision is made for doubtful advances as and when they are so considered, based on a periodic review and in line with the provisioning guidelines issued by the RBI. When there is no longer any realistic prospect of recovery, the outstanding advance is written off.
  - Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet against the relevant balances and not recognised in the profit and loss account until received.
- (g) Fixed assets
  - (i) Fixed assets are stated at historical cost less accumulated depreciation, with the exception of premises which are stated at valuation or cost less accumulated depreciation.
  - (ii) Premises are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation is transferred to the 'Capital Reserve' account.
  - (iii) Depreciation is calculated to write off the assets over their estimated useful lives on a straight line basis as tollows:
    - Freehold land is not depreciated.
    - Premises are depreciated at 2% per annum.
    - Other fixed assets are depreciated at 20% per annum.



Member HSBC Group

#### The Hongkong and Shanghai Banking Corporation Limited (Incorporated in Hong Kong with limited liability)

#### 3. Fixed assets

- (a) The most recent revaluation of the freehold premises was conducted in December 1995 and the Bank revalued its owned freehold premises by Rs. 2,169 million based on independent professional valuations.
- (b) Certain premises acquired under a Scheme of Arrangement are held in the name of Hongkong Bank (Agency) Private Limited, a wholly owned subsidiary, for the benefit of the Bank. Accordingly, these premises have been treated as assets of the Bank in these financial statements.

#### 4. Securities

- (a) Securities include securities of Rs. 23,850,000 which have not been transferred to the Bank's name. The Bank has filed an affidavit with the Custodian under the Special Court Ordinance, 1992 and awaits the Court's ruling. On the basis of legal advice received, management expect that these securities will transfer into the Bank's name thereafter.
- (b) There are certain securities transactions currently in dispute with the Bank involving an aggregate sum (including interest) of Rs. 331.3 million (Previous year Rs. 331.3 million) which are not acknowledged as debts by the Bank. In addition, the consequential taxation implications of the above transactions remain unclear. The Bank has defended its position by filing a counter claim. On the basis of legal advice received, management does not expect any loss to the Bank.

#### 5. Retirement benefits

The Bank has made provision for pension payments to staff who retired on or before 31 December 1980 amounting to Rs. 13.65 million and for the monthly payments relating to the Voluntary Retirement Scheme introduced in 1991 amounting to Rs. 18.10 million and provision for accumulated leave amounting to Rs. 18.10 million based on actuarial valuation. This represents a change from the practice followed in the previous year wherein these costs were accounted for on a cash basis. Had the Bank not changed its policy, the net profit for the year would have been higher by Rs. 49.85 million.

#### 6 Other assets

The Bank holds a valid Banker's Receipt for 110,760 Canstock Units of face value Rs 100/- each which have not been physically delivered by the counterparty pending settlement of an unresolved issue, included under contingent liabilities, in respect of securities transactions with the same counterparty. The units were redeemed and the proceeds due at redemption are included in Other Assets pending settlement of the dispute. In February 1996, the Bank filed a suit against the counterparty to recover the assets/amount with interest, covered by the said Banker's Receipt.

#### 7. Taxation

Tax liabilities in respect of Mercantile Bank Limited taken over by the India Branches are pending final outcome of the tax assessments/appeals filed by the Bank/Tax authorities relating to the assessment years 1974-75 to 1983-84 and those in respect of the Bank for assessment years 1984-85 to 1991-92. The amount of liability is not ascertainable In respect of assessment year 1992-93 and 1993-94 there is a Contingent Liability of approximately Rs. 427 million which is presently in appeal. Management consider that adequate provision has been made for tax liabilities relating to these items.

#### 8. Capital adequacy ratio

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines, is as follows:

|                                            | As on      | As on      |
|--------------------------------------------|------------|------------|
|                                            | 31.3.1996  | 31,3.1995  |
|                                            | (Rs 000)   | (Rs 000)   |
| Tier 1 capital                             | 2,879,691  | 2,698,394  |
| Tier 2 capital                             | 1,411,345  | 435,317    |
| Total capital                              | 4,291,036  | 3,133,711  |
| Total risk weighted assets and contingents | 36,657,333 | 26,913,444 |
| Capital ratios                             |            |            |
| Tier I capital                             | 7.86%      | 10.03%     |
| Total capital                              | 11.71%     | 11.64%     |
| Comparative figures                        |            |            |

Certain comparative figures have been amended to conform with the current year's presentation.



#### Auditors' Report on the Financial Statements of the India Branches of The Hongkong and Shanghai Banking Corporation Limited under Section 30 of the Banking Regulation Act, 1949

We have audited the Balance Sheet of the India Branches of The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong with limited liability) ("the Bank") as at 31 March 1996 and the related Profit and Loss Account for the year then ended. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the financial statements are not required to be, and are not drawn up, in accordance with Schedule VI of the Companies Act, 1956. The financial statements are therefore drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 31 March 1996 and of its profit for the year then ended.

#### We further report that:

- (a) the financial statements are in agreement with the books of account and give the information required by the Companies Act, 1956 in the manner so required for banking companies;
- (b) the Bank has maintained proper books of account as required by law insofar as appears from our examination of those books;
- (c) the returns received from the branches of the Bank have been found adequate for the purposes of our audit; and
- (d) the transactions which have come to our notice have been within the powers of the Bank.

For Bharat S Raut & Co. Chartered Accountants

Sammy Medora
Partner

Mumbai: 14 June 1996



### Hongkong Bank (Agency) Private Limited

#### Balance Sheet as at 31 March 1996

| 31-03-1995<br>Rs (000s) | LIABILITIES                                                                                                                       | Rs (000s) | Rs (000s) | 31-03-1995<br>Rs (000s) | ASSETS                                                                                                                           | Rs (000s)       | Rs (000s) | Rs (000s) |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------|-----------|
| 1 000                   | Share Capital<br>Authorised<br>100 000 Ordinary Shares<br>of Rs 10 each                                                           |           | 1 000     |                         | Current Assets, Loans and Advances: Current Assets Sundry Debtors                                                                |                 |           |           |
| 1 000                   | Issued<br>100 000 Ordinary Shares<br>of Rs 10 each                                                                                |           | 1 000     | 71<br>9<br>82           | Unsecured Considered<br>Good over six months<br>Other debts                                                                      | 40<br><u>13</u> | 53        |           |
| 490<br>                 | Subscribed<br>100 Ordinary Shares of<br>Rs 10 each fully paid<br>99 900 Ordinary Shares<br>of Rs 10 each Rs 5 paid                | 1<br>499  | 500       | 500                     | Bank balances with<br>scheduled bank -<br>On deposit with The<br>Hongkong and<br>Shanghai Banking<br>Corporation Ltd<br>Calcutta | 500             |           |           |
|                         | Note The entire share capital is held by The Hongkong and Shanghai Banking Corporation Ltd and its nominees                       |           |           | 63                      | On Current Account with The Hongkong and Shanghai Banking Corporation Ltd Calcutta                                               | 30              |           |           |
| 62                      | Reserves and Surplus Balance in Profit and Loss Account  Current Liabilities and Provisions  Current Liabilities Sundry Creditors |           | 67        | <u>168</u><br>731       | On Current Account with The Hongkong and Shanghai Banking Curporation Ltd Mumbai                                                 | <u>201</u>      | 731       |           |
| 248<br>33               | The Hongkong and<br>Shanghar Banking<br>Corporation Ltd<br>Others                                                                 | 232<br>15 | 247       | 30-                     | Advances Recoverable in Cash or in kind or value to be received  Unsecured considered good                                       |                 | 30        | 814       |
| 843                     | TOTAL                                                                                                                             |           | 814       | 843                     | TOTAL                                                                                                                            |                 |           | 814       |

Notes on Accounts as per Schedule attached form an integral part of the Balance Sheet This is the Balance Sheet referred to in our report of even date

K H VACHHA
Partner
For and on behalf of
PRICE WATERHOUSE
Chartered Accountants

J P SAMANT Secretary J D PULLEN Director G MONTEIRO Director C A G GIBSON Director

Mumbai June 10, 1996



| Hongkong        | Bank (A    | Agency)     | Private    | Limited    |
|-----------------|------------|-------------|------------|------------|
| Profit and Loss | Account fo | or the year | ended 31 l | March 1996 |

| 31-03-1995<br>Rs (000a)                           |                                                                                                                                                                                                                                                   | Ra (000a)                         | Ra (900s)                | 31-63-1995<br>Rs (000e)  |                                                                   | Rs (000e)                | Rs (000s) |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------|--------------------------|-------------------------------------------------------------------|--------------------------|-----------|
| 145<br>40<br>23<br>15<br>15<br>24<br>15<br>3<br>1 | To Expenses reimbursed to the holding company:  Salaries Rent Electricity Stationery Postage and Telegrams To Legal Expenses To Auditors' remuneration Audit Fees Other Services Out of pocket expenses To Charges General To profit carried down | 148<br>32<br>21<br>15<br>15<br>15 | 231<br>6<br>17<br>2<br>5 | 268<br>2<br>18<br>2<br>1 | By Sundry Fees: Trusteeship Income Management Investment Services | 240<br>3<br>18<br>-<br>- | 261       |
| 291                                               |                                                                                                                                                                                                                                                   |                                   | 261                      | 291                      |                                                                   |                          | 261       |
| 62                                                | To Balance carried to balance sheet                                                                                                                                                                                                               |                                   | 67                       | 5                        | By profit brought down                                            |                          | 5         |
|                                                   |                                                                                                                                                                                                                                                   |                                   |                          | 57                       | By balance brought forward from last account                      |                          | 62        |
| 62                                                |                                                                                                                                                                                                                                                   |                                   | 67                       | 62                       |                                                                   |                          | 67        |

Notes on Accounts as per Schedule attached form an integral part of the Profit and Loss Account This is the Profit and Loss Account referred to in our report of even date

K H VACHHA

Partner

J P SAMANT Secretary

J D PULLEN Director

**G MONTEIRO** Director

C A G GIBSON

Director

For and on behalf of PRICE WATERHOUSE Chartered Accountants Mumbas June 10 1996

#### SCHEDULE OF NOTES ON ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1996

Significant Accounting Policy – Fee income is accounted on an accrual basis. No provision has been made in these accounts for income tax for the year as also for the earlier years as the income of this Company belongs to The Hongkong and Shanghai Banking Corporation Limited the holding company, as per the Scheme of arrangement approved by the Bombay High Court whereby the contractual obligation under the agreement dated 14 May 1929 with Mercantile Bank Limited has vested in The Hongkong and Shanghai Banking Corporation Limited.

and Shanghai Banking Corporation Limited
Contingent Liability in respect of taxation matters Rs 104,000 (previous year Rs 104,000)
Other additional information pursuant to the provisions of the paragraphs 3 4C and 4D of Part II of Schedule VI of the Companies Act 1956 has not been furnished as there are no particulars to be given
Additional information as required under Part IV of Schedule VI to the Companies Act, 1956

Registration details

Private Placement Nil

Registration ocusins
Registration No. 28916 State Code 55
Balance Sheet Date 31 March 1996
Capital raised during the Year (Amount in Rs thousands)
Public Issue Nil Bonus Issue Nil Rights Issue Nil Private Plac
Position of Mobilisation and Deployment of Funds (Amount in Rs thousands)
The Indulation 414 Total Assets 814

Total Liabilities 814 Total Assets 814 Sources of Funds

Paid-Up Capital 500 Application of Funds

Reserves and Surplus 67

Secured Loans Nil

Unsecured Loans Nil

Net Fixed Assets Nil Investments Nil

Net Current Assets 567 Misc Expenditure Nil Accumulated Losses Nil

Performance of Company (Amount in Rs thousands)
Turnover 261 Total Expenditure 256 Profit/Loss before Tax +5 Profit/Loss after Tax +5 Earnings per share Rs 0.05 Dividend Nil Generic Names of three principal products/services of Company (as per monetary terms) Not Applicable since the Company is a service provider

and does not deal in any products

Trusteeship fees include Rs 30 000 (previous year Rs 30,000) in respect of companies where trust deeds are yet to be executed. The Company is in the process of running down the Trusteeship business as it is not remainerative. The Securities and Exchange Board of India (SBBI) has permitted the Company to continue with the existing Debenture Trusteeships until maturity, though the Company has not been regulated as a Debenture Trustee under the SEBI regulations. The Company has decided not to accept any new Debenture Trusteeships as directed by SEBI Previous years figures have been regrouped wherever necessary.

K H VACHHA Partner

JP SAMANT Secretary

J D PULLEN Director

**G MONTEIRO** Director

C A G GIBSON

For and on behalf of PRICE WATERHOUSE Chartered Accountants Mumba: June 10, 1996

# AUDITORS' REPORT TO THE MEMBERS OF HONGKONG BANK (AGENCY) PRIVATE LIMITED

- 1 We report that we have audited the Balance Sheet of Hongkong Bank (Agency) Private Limited as at March 31 1996 and the relative Profit and Loss Account for the year ended on that date both of which we have signed under reference to this report
- 2 In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and the Profit and Loss Account together with the notes thereon, give in the prescribed manner the information required by the Companies Act, 1956 and also give respectively, a true and fair view of the state of the Company's affairs as at March 31 1996 and its profit for the year ended on that date
- 3 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our audit In our opinion, proper books of account have been kept as required by law so far as appears from our examination of the books and the abovementioned accounts are in agreement therewith
- 4 The Company is engaged in the business of supplying and rendering services. Accordingly, as required by the Manufacturing and Other Companies (Auditor's Report) Order 1988 dated September 7, 1988 and issued by the Central Government and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that
  - The Company has not taken any loans secured or unsecured from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 and/or from companies under the same management as defined under sub section (1B) of section 370 of the Companies Act, 1956
  - The Company has not granted any loans secured or unsecured to companies, firms or other parties listed in the legister maintained under section 301 and/or to companies under the same management as defined under subsection (1B) of section 370 of the Companies Act 1956
  - III The Company has not granted any loans or advances in the nature of loans
  - iv The Company has not accepted any deposits from the public
  - v In our opinion there is a system of internal control commensurate with the size of the Company and the nature of its business
  - vi The paid up capital of the Company at the commencement of the financial year did not exceed Rs 25 lacs or the average annual turnover for a period of three consecutive financial years immediately preceding the financial year did not exceed Rs 2 crores and as such we are not commenting on its internal audit system
  - vii On the last day of the financial year there was no amount outstanding in respect of undisputed income tax, wealth tax sales tax customs duty and excise duty which were due for more than six months from the date they became payable
  - viii During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices we have not come across any personal expenses which have been charged to Profit and Loss Account, nor have we been informed of such case by the management
  - 1X The Company is not a sick industrial company within the meaning of clause (O) of Section 3(1) of The Sick Industrial Companies (Special Provisions) Act 1985
  - We have not reported on the matters contained in paragraph 4A(i) to (vi) (x) to (xii) (xiv) (xvi) to (xvii) in respect of fixed assets records and physical verification of fixed assets revaluation of fixed assets physical verification and valuation of inventories internal control procedures relating to purchase and sale of goods purchases and sales made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act 1956 unscruceable or damaged stores and raw materials or finished goods records for sale and disposal of realisable by products and scrap cost records and provident fund and employees state insurance dues respectively as they are not applicable to the Company in respect of the financial year under
  - xi In view of the hature of services rendered by the Company the matters specified in items (ii) to (iv) under paragraph 4(B) of the Order to the extent they relate to receipts issues consumption of materials and stores allocation between materials and manhours consumed stores and labour authorisation at proper levels are also not applicable

K H VACHHA
Partner
For and on behalf of
PRICF WATERHOUSE
Chartered Accountants

Mumbai June 10, 1996

# البنك البريطاني للشرق الاؤسط



# The British Bank of the Middle East

(Incorporated in England by Royal Charter 1889)

| ON 31                                           |          | γ                              | T                              | <del> </del> |                                                                   |          | T                                   | ARCH 1990                          |
|-------------------------------------------------|----------|--------------------------------|--------------------------------|--------------|-------------------------------------------------------------------|----------|-------------------------------------|------------------------------------|
| SCHE                                            | DULE     | As on<br>31.3.1996<br>(Rs 000) | As on<br>31,3,1995<br>(Rs 000) |              | SCHED                                                             | ULE      | Year ended<br>31.3.1996<br>(Rs 000) | Year ender<br>31.3.1999<br>(Rs 000 |
| CAPITAL AND LIABILI                             | TIES     |                                |                                | I.           | INCOME                                                            |          |                                     |                                    |
| Capital                                         | 1        | 177,500                        | 127,500                        |              | Interest earned Other income                                      | 13<br>14 | 1,192,615<br>40,994                 | 974,879<br>124,196                 |
| Reserves and Surplus                            | 2        | 988,265                        | 643,031                        |              | TOTAL                                                             |          | 1,233,609                           | 1,099,07                           |
| Deposits                                        | 3        | 8,122,617                      | 7,568,895                      | Ì            | 101115                                                            |          |                                     | 1,0>>,0                            |
| Borrowings Other liabilities and provisions     | 5        | 758,553<br>977,987             | 731,735<br>756,849             | II.          | EXPENDITURE                                                       |          |                                     |                                    |
| TOTAL                                           | j        | 10,847,422                     | 9,700,510                      |              | Interest expended Operating expenses Provisions and contingencies | 15<br>16 | 880,774<br>96,891<br>100,144        | 632,051<br>85,122<br>154,149       |
|                                                 |          |                                |                                |              | TOTAL.                                                            |          | 1,077,809                           | 871,322                            |
| ASSETS                                          |          |                                |                                | ш.           | PROFIT                                                            |          |                                     |                                    |
| Cook and believes such                          |          |                                |                                |              | Net profit for the year                                           |          | 155,800                             | 227,753                            |
| Cash and balances with<br>Reserve Bank of India | 6        | 680,733                        | 1,454,851                      |              | Profit brought forward                                            |          | 460,632                             | 277,536                            |
| Balances with banks and money at call and       | Ū        | 000,775                        | 7,151,051                      |              | TOTAL                                                             |          | 616,432                             | 505,289                            |
| short notice                                    | 7        | 944,682                        | 1,029,119                      |              |                                                                   |          |                                     |                                    |
| Investments                                     | 8        | 4,062,014                      | 4 097,082                      | IV.          | APPROPRIATIONS                                                    |          |                                     |                                    |
| Advances                                        | 9        | 4,388,585                      | 2,533,365                      |              | Transfer to statutory                                             |          |                                     |                                    |
| Fixed assets Other assets                       | 10<br>11 | 283,450<br>487,958             | 81,554<br>504,539              |              | reserves Transfer from capital                                    |          | 31,160                              | 45,551                             |
| TOTAL                                           |          | 10,847,422                     | 9,700,510                      |              | reserves                                                          |          | (2,158)                             | (894                               |
|                                                 |          |                                |                                |              | Balance Carried over to Balance Sheet                             |          | 587,430                             | 460,632                            |
| Contingent liabilities                          | 12       | 13,390,893                     | 2,439,553                      |              | TOTAL                                                             |          | 616,432                             | 505,289                            |
| Bills for collection                            |          | 506,875                        | 327,354                        |              |                                                                   |          |                                     |                                    |
| Notes to Accounts                               | 17       |                                |                                |              | Notes to Accounts                                                 | 17       |                                     | 1                                  |
| Schedules referred to herein<br>Balance Sheet   | torm a   | in integral part               | of the                         |              | edules referred to herein to                                      | torm a   | in integral par                     | t of the                           |

For Bharat S Raut & Co Chartered Accountants

Sammy Medora

Partner

S Dureja

Financial Control Manager

JAJ Hunt

Manager and Chief Executive Officer, India

Mumhai 14 June, 1996

# البنك البريطاني للشرق الاؤسط



# The British Bank of the Middle East

HSBC Member HSBC Group

(Incorporated in England by Royal Charter 1889)

|                                                                    | ·                              | <del></del>                    |                                                  |                                |                               |
|--------------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------------------------------|--------------------------------|-------------------------------|
|                                                                    | As on<br>31.3.1996<br>(Rs 000) | As on<br>31.3.1995<br>(Rs 000) |                                                  | As on<br>31.3.1996<br>(Rs 000) | As or<br>31.3.1995<br>(Rs 000 |
| SCHEDULE 1 - CAPITAL                                               |                                |                                | SCHEDULE 4 - BORROWINGS                          |                                |                               |
| Amount of deposit kept with                                        |                                |                                | I. Borrowings in India                           |                                |                               |
| under Section 11(2)                                                |                                |                                | 1) Reserve Bank of India                         | 39,500                         | Nı                            |
| of the Banking Regulation                                          |                                | ł                              | 11) Other banks                                  | 714,834                        | 724,384                       |
| Act 1949                                                           | 177 500                        | 127 500                        | iii) Other institutions and agencies             | 4,219                          | 5,90                          |
| TOTAL                                                              | 177,500                        | 127,500                        | agonere v                                        | 758,553                        | 730,290                       |
| SCHEDULE 2 - RESERVES<br>AND SURPLUS                               |                                |                                |                                                  | 120,233                        | 730,27                        |
|                                                                    |                                |                                | II. Borrowings outside India                     | Nil                            | 1 44:                         |
| I. Statutory Reserve                                               |                                |                                |                                                  |                                |                               |
| Opening balance                                                    | 139,351                        | 93,800                         | TOTAL                                            | 758,553                        | 731,73                        |
| Additions during the year                                          | 31 160                         | 45 551                         |                                                  |                                |                               |
|                                                                    | 170,511                        | 139,351                        |                                                  |                                |                               |
| II Capital Reserve Opening balance Additions during the year       | 43 048                         | 43 942                         | Secured borrowings included<br>in I and II above | 4 219                          | 5,900                         |
| Property Revaluation<br>Reserve (See Schedule 17<br>Note 2(g)(ii)) | 189 434                        | Nıl                            | SCHEDULE 5 - OTHER<br>LIABILITIES AND            |                                |                               |
| Transfer to Profit and Loss Account                                | (2 158)                        | (894)                          | PROVISIONS                                       |                                |                               |
| LOSS ACCOUNT                                                       |                                |                                | l Bilis pavable                                  | 82 444                         | 37,179                        |
| III. Balance in Profit                                             | 230,324                        | 43,048                         | II Due to Head Office                            | 83 592                         | 75,18                         |
| and Loss Account                                                   | 587,430                        | 460 632                        | III Interest accrued                             | 586,380                        | 621.32                        |
| TOTAL                                                              | 988,265                        | 643,031                        | III IIIIelest accrued                            | 000,000                        | 021,32                        |
|                                                                    |                                |                                | IV Others (including provisions)                 | 225 571                        | 23,16                         |
| SCHEDULE 3 - DEPOSITS                                              |                                |                                | TOTAL                                            | 977,987                        | 756,84                        |
| A. I. Demand Deposits                                              |                                |                                |                                                  |                                |                               |
| 1) From banks                                                      | 17,189                         | 47 775                         |                                                  |                                |                               |
| ii) From others                                                    | 217 788                        | 255 803                        | SCHEDULE 6 - CASH AND<br>BALANCES WITH RESERVE   |                                |                               |
|                                                                    | 234,977                        | 303,578                        | BANK OF INDIA                                    |                                |                               |
| Il. Savings Bank Deposits                                          | 310 972                        | 340 876                        | 1 Cash in hand                                   | 4,556                          | 4,73                          |
|                                                                    |                                | 1                              | (including foreign currency                      |                                |                               |
| III. Term Deposits                                                 |                                |                                | notes)                                           |                                | 1                             |
| from others 1) From others                                         | 7 576 668                      | 6 924 441                      | II Balances with                                 |                                |                               |
|                                                                    | 0.100 (17                      | 5 540 905                      | Reserve Bank of India                            | 676,177                        | 1 450 11                      |
| TOTAL                                                              | 8,122,617                      | 7,568,895                      | 1) In Current Account                            | 0/0,1//                        | 1 4 70 11                     |

1,454,851

680,733

B. Deposits of branches in India

8,122 617

7 568 895

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# السلك البربيطاني للشترق الاؤسسط



# The British Bank of the Middle East

Member HSBC Group

(Incorporated in England by Royal Charter 1889)

#### Schedules forming part of the Balance Sheet of the India Branches as on 31 March 1996

|      |      |                             | As on<br>31.3.1996<br>(Rs 000) | As on<br>31.3.1995<br>(Rs 000) |                                      | As on<br>31.3.1996<br>(Rs 000) | As on<br>31.3.1995<br>(Rs 000) |
|------|------|-----------------------------|--------------------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------|
|      |      | DULE 7 - BALANCES           |                                |                                | SCHEDULE 10 - FIXED ASSETS           |                                |                                |
| WI   | ГН   | BANKS AND MONEY             |                                | l                              | I. Premises (including Leasehold)    | 1                              | ĺ                              |
| AT   | CA   | LL AND SHORT                |                                | ļ                              | (See Schedule 17 Note 4)             | l                              |                                |
| NO'  | TIC  | CE .                        |                                |                                | At valuation as on 31 March          | 57.00                          | 50.50                          |
| I.   | In   | India                       |                                | [                              | of the preceding year                | 57,680                         | 57,658                         |
|      | 1)   | Balances with banks         |                                |                                | Additions during the year Additions  | 22,569                         | 22                             |
|      |      | a) in current accounts      | 7,398                          | 6,763                          | Revaluation                          | 189,434                        | Nil                            |
| II.  | Ou   | itside India                |                                | 1                              | Revaluation                          | 269,683                        | 57,680                         |
|      | ı)   | in current accounts         | 937.284                        | 1,022,356                      | Depressation to date                 |                                | 1                              |
|      |      |                             |                                |                                | Depreciation to date                 | (7,503)<br>262,180             | 53,500                         |
|      |      | TOTAL                       | 944,682                        | 1,029,119                      | II. Other Fixed Assets               | 202,180                        |                                |
|      |      |                             |                                | <del></del>                    | (including Furniture and Fixture)    |                                |                                |
| SCH  | ED   | ULE 8 - INVESTMENTS         |                                |                                | At cost as on 31 March               |                                |                                |
| (See | Sc   | hedule 17 Note 2(e))        |                                |                                | of the preceding year                | 46,037                         | 43,643                         |
| I.   | In   | vestments in India in       |                                |                                | Additions during the year            | 2,129                          | 2,772                          |
|      | 1)   | Government securities       | 2,347,587                      | 2,251,030                      | l radinono danna dan jour            | 48,166                         | 46,415                         |
|      | n)   | Other approved securities   | 260,489                        | 270,703                        | Deductions during the year           | (732)                          | (378                           |
|      | 111) | Shares - fully paid         | 50                             | 50                             |                                      | 47,434                         | 46,037                         |
|      | ıv)  | Debentures and Bonds        | 879,550                        | 890,582                        | Depreciation to date                 | (26,164)                       | (17,983                        |
|      | v)   | Others                      |                                |                                |                                      | 21,270                         | 28,054                         |
|      |      | - Unit '64 of Unit          |                                |                                | TOTAL                                | 283,450                        | 81,554                         |
|      |      | Trust of India              | 443,950                        | 443,950                        |                                      |                                |                                |
|      |      | - Certificate of            |                                |                                | SCHEDULE 11 - OTHER ASSETS           |                                |                                |
|      |      | Deposit                     | 130,388                        | 240,767                        | I Interest accrued                   | 129,393                        | 181,285                        |
|      |      |                             |                                |                                | II Tax paid in advance/tax           |                                |                                |
|      |      | TOTAL                       | 4,062,014                      | 4,097,082                      | deducted at source (net)             | 199,464                        | 162,284                        |
|      |      |                             |                                |                                | III Stationery and stamps            | 508                            | 882                            |
| SCH  | ED   | OULE 9 – ADVANCES           |                                |                                | IV Items in the course of collection |                                | 26,47                          |
|      |      | hedule 17 Note 2(f))        |                                |                                | V Others                             | 81,465                         | 133,611                        |
| Ą    | ı)   | Bills purchased and         |                                |                                | TOTAL                                | 487,958                        | 504,539                        |
|      |      | discounted                  | 786,750                        | 385,544                        | SCHEDULE 12 - CONTINGENT             |                                |                                |
|      | 11)  | Cash credits, overdrafts    |                                |                                | LIABILITIES                          |                                |                                |
|      |      | and loans repayable on      |                                |                                | I Liability on account of            |                                |                                |
|      |      | demand                      | 3,046,295                      | 1,904 439                      | outstanding forward contracts        | 12,291,392                     | 1,667,943                      |
|      | 111) | Term loans                  | 555,540                        | 243,382                        | II Guarantees given on               |                                |                                |
|      |      | i                           |                                |                                | behalf of customers                  | 542 214                        | 266 442                        |
|      |      | TOTAL                       | 4,388,585                      | 2,533,365                      | a) In India<br>b) Outside India      | 563,314                        | 266,442<br>19,179              |
|      |      |                             |                                |                                | III Acceptances, endorsements and    | 2,140                          | 19,179                         |
| В    | 1)   | Secured by tangible assets  | 3,872,749                      | 2,190,159                      | other obligations                    | 480,636                        | 430,057                        |
|      | 11)  | Covered by Bank/            |                                |                                | IV Other items for which             | 400,050                        | 450,057                        |
|      |      | Government guarantees       | 206,692                        | 65,850                         | the bank is contingently liable      |                                |                                |
|      | m)   | Unsecured                   | 309,144                        | 277,356                        | a) Disputed Income Tax               |                                |                                |
|      |      |                             |                                |                                | liabilities pending in appeal        |                                |                                |
|      |      | TOTAL                       | 4,388,585                      | 2,533,365                      | (See Schedule 17 Note 5)             |                                |                                |
|      |      |                             |                                |                                | 1) For Assessment                    | 1                              |                                |
|      |      | Advances in India           |                                |                                | Year 1991-92                         | 32,737                         | 32,762                         |
|      | 1)   | Priority Sectors (including | i                              |                                | 11) For Assessment                   | 6.400                          | A0 150                         |
|      |      | export finance)             | 442,629                        | 462,489                        | Year 1992-93                         | 8,429                          | <b>2</b> 3,170                 |
|      | 11)  | Others                      | 3,945,956                      | 2,070,876                      | 111) For Assessment                  | 10 045                         | <b>A7.1</b>                    |
|      |      |                             |                                |                                | Year 1993-94                         | 12,245                         | Nil                            |
|      |      | TOTAL                       | 4,388,585                      | 2,533,365                      | TOTAL                                | 13,390,893                     | 2,439,553                      |

# البنك البريطاني للشرق الاؤسط



# The British Bank of the Middle East

HSBC منبرجمية Member HSBC Group (Incorporated in England by Royal Charter 1889)

Schedules forming part of the Profit and Loss Account of the India Branches for the year ended 31 March 1996

|             |                                                 | Year ended<br>31.3.1996<br>(Rs 000) | Year ended<br>31.3.1995<br>(Rs 000) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                 | Year ended<br>31.3.1996<br>(Rs 000) | Year ended<br>31.3.1995<br>(Rs 000) |
|-------------|-------------------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------------------------|-------------------------------------|
|             | HEDULE 13 – INTEREST<br>RNED                    |                                     |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | IEDULE 16 – OPERATING<br>PENSES |                                     |                                     |
| I.          | Interest/discount on                            |                                     |                                     | I.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Payments to and provisions      |                                     |                                     |
|             | advances/bills                                  | 517,733                             | 268,472 .                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | for employees                   |                                     |                                     |
| 11.<br>III. | Income on investments Interest on balances with | 460,853                             | 537,028                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (See Schedule 17 Note 3)        | 41,432                              | 28,427                              |
|             | Reserve Bank of India and other inter-bank      |                                     | ·                                   | II.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Rent, taxes and lighting        | 3,617                               | 3,216                               |
|             | funds                                           | 188,300                             | 150,391                             | III.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Printing and stationery         | 2,341                               | 1,967                               |
| IV.         | Others                                          | 25,729                              | 18,988                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                 |                                     |                                     |
|             | TOTAL:                                          | 1 102 616                           | 074 970                             | IV.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Advertisement and               |                                     |                                     |
|             | IOIAL:                                          | 1,192,615                           | 974,879                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | publicity                       | 2,787                               | 6,162                               |
|             |                                                 |                                     |                                     | V.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Depreciation on bank's          | ,                                   |                                     |
|             | HEDULE 14 - OTHER                               |                                     |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | property                        |                                     |                                     |
| INC         | COME                                            |                                     | 1                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (See Schedule 17 Note           |                                     |                                     |
|             | Commission archange                             |                                     |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 2(g)(iii))                      | 9,889                               | 10,297                              |
|             | Commission, exchange and brokerage              | 29,542                              | 24,774                              | VI.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Indian Advisory                 |                                     |                                     |
| l.          | Profit on sale of                               | 23,372                              | 24,774                              | V 1.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Board Members fees,             |                                     |                                     |
| •••         | investments (net)                               | (13,733)                            | 75,483                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | allowances and expenses         | 24                                  | 14                                  |
| II          | Loss on sale of land.                           | (15,755)                            | 15,105                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                 |                                     | -                                   |
| •••         | buildings and other assets                      | (45)                                | Nil                                 | VII.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Auditors' fees and              |                                     |                                     |
| V.          | Profit on exchange                              | ,,                                  |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | expenses                        | 300                                 | 300                                 |
|             | transactions (net)                              | 25,230                              | 23,939                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                 |                                     |                                     |
|             |                                                 |                                     |                                     | VIII                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | . Law Charges                   | 91                                  | 7:                                  |
|             | TOTAL:                                          | 40,994                              | 124,196                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                 |                                     |                                     |
|             |                                                 |                                     |                                     | IX.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Postage, Telegrams,             | 2.027                               | 4 60'                               |
|             |                                                 |                                     |                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Telephones, etc.                | 3,927                               | 4,682                               |
|             | IEDULE 15 – INTEREST<br>PENDED                  |                                     |                                     | X.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Repairs and maintenance         | 2,171                               | 3,947                               |
|             | Interest on deposits                            | 798,110                             | 546,271                             | XI.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Insurance                       | 3,260                               | 3,460                               |
| I.          | Interest on Reserve Bank of India/inter-bank    |                                     |                                     | XII.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Head Office Charges             | 8,408                               | 8,590                               |
|             | borrowings                                      | 81,841                              | 83,211                              | YIII                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Other expenditure               | 18,644                              | 13,985                              |
| II.         | -                                               | 823                                 | 2,569                               | \ \text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\tin}\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\ti}\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\ti}\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\tin}\titt{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\ti}\titt{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\text{\texi}\text{\text{\text{\texi}\text{\text{\text{\text{\text{\texi}\text{\texi}\text{\texit{\text{\texi}\tittt{\texi}\text{\texit{\texi}\text{\texi}\text{\texi}\ti | . Other experientiale           | 10,077                              | 13,760                              |
|             | TOTAL:                                          | 880,774                             | 632,051                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | TOTAL:                          | 96,891                              | 85,122                              |

# البنك البريطاني للشترق الاؤستط The British Bank of the Middle East

HSBC Member HSBC Group

(Incorporated in England by Royal Charter 1889)

#### SCHEDULE 17

#### NOTES FORMING PART OF THE FINANCIAL STATEMENTS OF THE INDIA BRANCHES FOR THE YEAR ENDED 31 MARCH 1996

#### 1 Basis of preparation

- (a) The financial statements made upto 31 March 1996 comprise the accounts of the India Branches of The British Bank of the Middle East ("the Bank"), which is incorporated and registered in England. The Bank's ultimate holding company is HSBC Holdings plc, which is incorporated and registered in England.
- (b) The financial statements are prepared under the historical cost convention as modified by the revaluation of premises, and in accordance with the generally accepted accounting principles and the statutory provisions and practices prevailing within the banking industry in India

#### 2 Principal Accounting Policies

#### (a) Income recognition

Interest income is recognised in the profit and loss account as it accrues, except in the case of interest on doubtful debts

Fee income is accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases the fee is recognised on an appropriate basis over the relevant period.

#### (b) Transactions involving foreign exchange

- 1) Assets and liabilities denominated in foreign currencies are translated into Indian Rupees at the rates of exchange notified by the Foreign Exchange Dealers Association of India ("FEDAI") at the year end, except for those foreign currency non resident deposits eligible for conversion with the Reserve Bank of India ("RBI"), which are translated at the notional rates applicable to these deposits
- 11) Revenues and expenses are translated at the rates prevailing on the transaction date
- iii) Outstanding foreign exchange contracts are revalued at the forward exchange rate notified by FEDAI at the year end and the resultant gain or loss is included in the profit and loss account

#### (c Staff retirement benefits

Provision for retirement benefits in respect of pension and gratuity funds is made based on actuarial valuations conducted by a qualified actuary

#### (d) Net profit

The net profit in the profit and loss account is after providing for depreciation in the value of investments, provision for taxation, provision for doubtful advances, and other necessary provisions

#### (e) Securities

- 1) All securities, which cover both debt and equity securities, are classified as current securities and are valued at the lower of cost and market value in aggregate for each category of investments in compliance with RBI requirements, except for zero coupon negotiable instruments which are stated at carrying cost (i.e. cost adjusted for yield acciual)
- 11) Market value is determined in accordance with the RBI circular DBOD No BP BC 43/21 04 048/96 dated o April 1996. Quoted securities are valued based on market quotations. Unquoted securities are valued by reference to the yield to maturity as prescribed by the RBI.

# البنك البربيطاني للشرق الاؤسسط



## The British Bank of the Middle East

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#### (f) Advances

Advances are stated net of provision for doubtful advances and interest in suspense. Specific provision is made for doubtful advances as and when they are so considered, based on a periodic review and in line with the provisioning guidelines issued by the RBI. When there is no longer any realistic prospect of recovery, the outstanding advance is written off.

Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet.

Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet against the relevant balances

#### (g) Fixed assets

- Fixed assets are stated at historical cost less accumulated depreciation, with the exception of premises which are stated at valuation or cost less accumulated depreciation
- 11) Premises are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value Surplus arising from the revaluation is transferred to Capital Reserve' account
- iii) Depreciation is calculated to write off the assets over their estimated useful lives on straight line basis as follows
  - Freehold land is not depreciated
  - Premises are depreciated at 2% per annum
  - Other fixed assets are depreciated at 20% per annum

#### 3 Retirement benefits

The Bank has made provision for pension payments to staff who retired on or before 31 December 1980 amounting to Rs 1 37 million and for the monthly payments relating to the Voluntary Retirement Scheme introduced in 1991 amounting to Rs 3 77 million based on actuarial valuation. This represents a change from the practice followed in the previous year wherein these costs were accounted for on a cash basis. Had the Bank not changed its policy, the net profit for the year would have been higher by Rs 5 14 million.

#### 4 Fixed Assets

The most recent revaluation of the freehold premises was conducted in December 1995 and the Bank revalued its owned freehold premises by Rs 189 million based on independent professional valuations

#### 5 Taxation

There is a contingent liability for assessment years 1991-92 1992-93 and 1993 94 of approximately Rs 52 million which is presently in appeal. On the basis of information and advice currently available, management does not anticipate any liability on the matters disputed by the tax authorities.

#### 6 Capital adequacy ratio

The Bank's capital adequacy ratio, calculated in accordance with the RBI guidelines is as follows

|                                                           | As on<br>31 3 1996<br>(Rs 000) | As on<br>31 3 1995<br>(Rs 000) |
|-----------------------------------------------------------|--------------------------------|--------------------------------|
| Tier 1 capital Tier 2 capital                             | 642,561<br>103 646             | 543 448<br>19 372              |
| Total capital                                             | 746,207                        | 562,820                        |
| Total risk weighted assets and contingents Capital ratios | 7,303,749                      | 5 001 849                      |
| Tier 1 capital Total capital                              | 8 80%<br>10 22%                | 10 86%<br>11 25%               |

#### 7 Comparative figures

Certain comparative figures have been amended to conform with the current year's presentation

# البنك البريطاني للشرق الاؤسط The British Bank of the Middle East

HSBC 

Member HSBC Group

(Incorporated in England by Royal Charter 1889)

# AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE INDIA BRANCHES OF THE BRITISH BANK OF THE MIDDLE EAST UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949.

We have audited the Balance Sheet of the India Branches of The British Bank of the Middle East (incorporated in England by Royal Charter 1889) ("the Bank") as at 31 March 1996 and the related Profit and Loss Account for the year then ended. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956, the financial statements are not required to be, and are not drawn up, in accordance with Schedule VI of the Companies Act, 1956. The financial statements are therefore drawn up in conformity with Forms A and B (revised) of the Third Schedule to the Banking Regulation Act, 1949.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 31 March 1996 and of its profit for the year then ended.

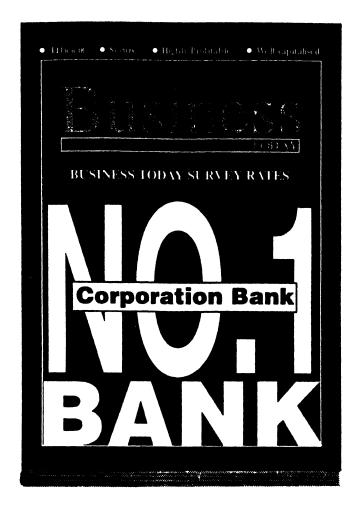
#### We further report that:

- a) the financial statements are in agreement with the books of account and give the information required by the Companies Act, 1956, in the manner so required for banking companies;
- b) the Bank has maintained proper books of account as required by law insofar as appears from our examination of those books:
- the returns received from the branch of the Bank have been found adequate for the purposes of our audit; and
- d) the transactions which have come to our notice have been within the powers of the Bank.

For Bharat S Raut & Co. Chartered Accountants

SAMMY MEDORA
Partner

Mumbai: 14 June, 1996



Just in case you missed reading the May 7-21 issue, we thought we'll bring it your notice that the Business Today Survey rates us
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At Corporation Bank, we believe good enough is not enough and it is reflected in our performance. As a pro-active, efficient, customer-oriented organisation, we've moved up from the 1993-94 position of No 3 to the No 1 position among all Indian banks in 1994-95. Thanks to our dedicated employees and to the unflinching loyalty of millions of customers, this marks the beginning of a new journey.



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### MONTHLY INCOME OPTION **CUMULATIVE OPTION**

#### FEATURES

- Close ended 5 year plan with 2 options
- MONTHLY INCOME OPTION 15% p.a. minimum targeted dividend payable monthly for the first year Dividend for the subsequent years will be announced before the end of the preceding year and sent in advance
- CUMULATIVE OPTION Returns will be cumulated and distributed as capital appreciation on maturity
- Repurchase after three years under both the options at NAV based price
- Listing on NSE
- Minimum investment Rs 2000 No maximum limit
- Benefits under Section 48 and 80L of the IT Act 1961
- Tax Deduction at Source as per the IT Act 1961
- Applications received up to 15th of the month shall get full dividend for that month while those received after the 15th shall get dividend fur half the month

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Risk Factors. All investments in mutual funds and securities are subject to market risks and the NAV of schemes may go up or down depending upon the factors and forces affecting securities market. Part performance is not necessarily indicative or future results. Monthly Income Plan. 96 III is only the name of the Plan and does not in any manner indicate either the quality of Plan its future prospects or returns. There can be no assurance that the Plan's objective will be achieved. In the event of actual income not being sufficient to pay minimum targeted dividend of 15% plai members may suffer loss of unit capital to that extent. Please read the Offer Document before investing



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#### Vol XXXI No 33

# ECONOMIC AND POLITICAL

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#### **Regional Growth**

With the revival of interest in neo-classical growth theory, researchers have been talking about 'endogenous' explanation of 'converging' or 'diverging' national growth rates across the world. While the major part of this research has focused on differential per capita growth rates among different groups of nations, a subset of researchers have been preoccupied with the question of convergence of regional growth rates within a specified geographic boundary. Some questions regarding the analysis of convergence as applied to Indian states.

2239

#### Privatisation of Commons and the Poor

Privatisation of common property resources is often decried on the ground that it deprives the rural poor of a critical source of livelihood and benefits only the rich and the powerful. The problem, however, gets complicated when the poor themselves encroach on the commons for their livelihood. Such a situation has arisen in the Marathwada region of Maharashtra where the dalits have encroached upon village common lands to establish ownership. A number of important agrarian issues arise in this context.

#### **Economic Diversification: A Household View**

It is common to study economic diversification at the regional level, but this approach is of limited use in understanding the reasons and processes by which an individual or a household diversifies economic activities. A study of economic diversification by households in rural Gujarat shows how while diversification can occur from a position of strength as a process of investment of surplus generated from primary activity, it can also occur from a position of vulnerability and be used as a household strategy of survival.

2243

#### **Lessons of Enron**

The Enron deal has given investors an unrealistic expectation of the returns they can hope to get under the government's power policy. The amended power purchase agreement negotiated by the committee appointed by the Shiv Sena-BJP government is even worse for the interests of the state than the earlier one. The balance of payments consequences of fuel imports for naphtha and fuel oil based power plants will be rumous. 2207

#### **Gendering Justice**

The Rupan Bajaj verdict has accomplished the subversion of the patriarchal traditions of the Indian state and a rupture of the boundaries between the political sphere and society, between the home and the world, between the workplace and the street, forcing a re examination of the categories through which these realities are comprehended 2223

#### **Purposeless**

In spite of being formally charged with a wide range of functions, the scheduled castes corporations in the different states continue to operate as extended arms of the state governments to dole out financial assistance

2217

#### In Bondage

For the first three decades after independence, the country's rulers refused even to acknowledge the phenomenon of debt-bonded labourers. Then in 1976 after the proclamation of emergency, the government viewed the passing of legislation abolishing bonded labour as synonymous with the freeing of all bonded labourers and cancelling of their debts. The hypocrisy of these postures is exposed by a small survey of five villages in Hallia block of Mirzapur district in UP.

#### Rejecting the Mass

The emerging gay and lesbian movement offers not just alternative identities but prospects for social reconstruction in spite of its marginality, the movement rejects the monolith and the mass. It is a reminder that if forced conformity is to be resisted, it must be by representing human lives as multiple, selfhood as several and communities as voluntary and various. 2228

#### **Many Russias**

In addition to splitting Russian society vertically into the rich and the poor, Bons Yeltsin's policies have enriched a few of the country's regions while vastly impoverishing the others 2226

#### S C Dube

LIKE K N Raj (July 20), I too was taken aback by Krishna Kumar's severe criticism of Andre Beteille's obituary note on the late S C Dube (June 29). No reader with an open mind could regard it as anything but a sincere tribute to the many-sided contributions of Dube towards the development of social anthropology and sociology in India. By no means can the note be characterised as "tongue in cheek".

Beteille thought - and rightly, I think that if Dube had been head of a department located in a big city instead of Saugar, his impact on the discipline would have been even greater. While making this statement I am aware that Saugar University had several brilliant men such as Daya Krishna, but that does not alter the fact that Saugar is a "provincial town". In this connection, I may add that in the late 1960s I was a member of a selection committee to choose a professor of anthropology at Lucknow and the committee unanimously recommended Dube for the position. But since Dube did not appear in person for the interview, the rival candidate obtained a stay order from the court. Dube's record was distinguished enough even then for him to be invited to the position, but I do not know if Lucknow had such a provision in their rules.

Reading Rai's letter one may get the impression that Krishna Kumar is a

sociologist. He is professor of education in Delhi University. I mention this for the record.

M N SRINIVAS

Bangalore

K N RAJ's letter (July 20) in defence of Andre Beteille's obituary of S C Dube is touching, but it misses both the points made in my letter (June 29) which I hardly need to reiterate. It is disturbing to realise how easily scholars can attribute motives. Rai suggests two in my case: hero-worshipping of Dube or a personal grievance against Beteille. I am happy to dismiss both. Indeed, they are rather ludicrous.

KRISHNA KUMAR

Delhi

#### Withdraw Ban Order

PUDR unequivocally condemns the recent ban order by the A P government on the CPI(M-L) [People's War] and six mass organisations. The organisations were first banned in 1992 by the Congress government. A legislation called the A P Public Security Act was enacted at that time in order to impose the ban. The ban order which was valid for one year was renewed for two successive years. In June 1995 the TDP government lifted the ban. The timing of this had a direct relation with the impending election to the Lok Sabha.

Today, three months after the elections the Naidu government has cited increase violence and lack of development as reason for justifying the reimposition. Both of thes reasons are frivolous and lack credibility Government figures claim that violence by the People's War has increased - a total o 416 persons, including policemen, have been killed between 1993 and July 1996. Violenc per se is no justification for imposing a bar. For, the Indian Penal Code lists every possible violent act as an offence and specifie punishments for each. The ban order therefore, is only an attempt to illegitimise and declare an offence, the holding of particular political belief and ideology.

The charge that People's War is responsible for preventing development is ridiculous The social structure of these region dominated by landlords, traders and contractors prevents development. The stat government too has taken no initiative i this regard. Thus, questions regarding lanreforms, forest dwellers' rights over fores land, abolition of money lending, and fai wages form the major demands of thes organisations. The imposition of the ba conveniently converts these pressing socia questions into law and order problems. Thi attitude has already led a large number o people's movements to lose respect for th state, and its lews.

Such a state of affairs has come about i the context of the state abdicating it responsibility to solve social and politica problems as well as respect for its own law! Imposing a ban becomes merely justification for killing people on the basi of their beliefs. In this context it needs t be noted that 256 people were extra-judiciall killed in encounters by the A P police i 1992, the year the ban was initially imposed Since then 387 more people have bee killed in a similar manner. The ban orde merely seeks to justify and legitimise thi illegal violence by the police. A petition b the A P Civil Liberties Committee pendin before the NHRC highlights the complet lack of accountability of the A P police i the murder of 496 people between 1991 1993. It is not strange, therefore, that the P government has asked for additional centra forces soon after imposing the ban. The ba order, therefore, speaks of the government' own lack of respect for the law and th Constitution, PUDR demands the immediat withdrawal of the ban order and an end t encounter killings.

SHARMILA PURKAYASTH

|                                                                        | Inland             |                |                           |                            |
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| Concessional Rates                                                     |                    |                |                           |                            |
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| Students                                                               | -                  | 225            | -                         |                            |
| Concessional rates are available or relevant institution is essential. | nly in India. To a | vail of conces | sio <b>nal rates, c</b> e | ertificate from            |
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# Small Change for Banks

THERE is a fear that with the focus on the bottomline under the dispensation of financial sector reforms, commercial banks would disfavour small borrowers who are said to have higher servicing costs. Evidence shows that the growth of advances to the household sector (consisting of individuals. and unincorporated enterprises) has been considerably below that to corporate enterprises in the public and private sectors. Between March 1991 and March 1993, bank credit to the household sector rose by 22 per cent compared to a rise of 40 per cent and 52 per cent in that to the private and public corporate sectors, respectively. Likewise, there has been a significant decline in the share of priority sector advances in total bank advances and the authorities have tried to ease the enforcement of this major social goal by enlarging the scope of the priority sector (by including indirect agricultural credit, credit for larger small-scale units and export credit in respect of foreign bank branches) and by permitting banks to transfer the shortfall in favour of the Small-Scale Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD). Despite these relaxations, advances to agriculture constituted only 14.3 per cent of net bank credit at the end of March 1996, which was not only significantly lower than the target of 18 per cent but also lower than what it was (15.1 per cent) two years ago at the end of 1993-94. Similarly, the share of all priority sector advances in total net bank credit has remained at 37.8 per cent for the past three years, or well below the 40 per cent target.

The share of rural branches in total bank credit has steadily come down from the peak of 15.3 per cent in the second half of the 1980s to 11.1 per cent in March 1996. The share of semi-urban branches has similarly fallen from 16-17 per cent to 12.7 per cent. The credit-deposit ratio of rural branches, which had crossed the government prescribed level of 60 per cent, has slipped to 47.7 per cent as per the latest quarterly statistics for March 1996. The C-D ratio of semi-urban branches has fallen from 55 per cent to 40.6 per cent. On the other hand, the concentration of bank credit in the top 100 centres of the country has been steadily rising in the post-reform period from around 67 per cent during March 1990-March 1991 to 72.5 per cent in March 1996.

It is necessary to draw attention to these developments at a time when the RBI has been harping on the importance of the central bank's autonomy. Should not autonomy be accompanied by responsibility and accountability for achieving social goals? It is quite likely that even public sector banks will continue to move away from retail banking and small borrowers. There is evidence of this in the RBI's latest survey

of small borrowal accounts for the period up to March 1993. The results of the survey together with the RBI's regular banking statistics under what is called the 'Basic Statistical Returns' (BSR) suggest that the share of small borrowal accounts in total advances has dwindled, even though a sizeable proportion of such accounts are part of socially-oriented policies such as lending in rural centres for agriculture and priority sectors, for scheduled castes and tribes and women and, above all, for beneficiaries of IRDP and other special employment-oriented programmes.

As per the BSR data, small borrowal accounts with credit limit of Rs 25,000 or less constituted 95 to 95.8 per cent of total borrowal accounts of scheduled commercial banks between June 1984 and March 1990; thereafter there occurred a slight decline to 94.2 per cent by March 1993. The decline has been much more perceptible in the share of small borrowal accounts in total bank credit outstanding, from a peak of 25.4 per cent in June 1989 to 19.8 per cent in March 1993. No doubt, in the intervening period there were, loan waivers under the Agricultural and Rural Debt Relief Scheme of 1990, implemented between May 15, 1990 and June 30, 1991, which gave debt relief up to Rs 10,000 to certain categories of eligible borrowers of public sector commercial banks, RRBs and co-operative banks. Public sector commercial banks and RRBs waived loans to the extent of Rs 3,629 crore under the scheme. But, significantly, the expansion of bank credit to small accounts got stunted thereafter. Between March 1991 and March 1993, the number of small accounts declined from 588 lakh to 585 lakh, whereas the number of big-size accounts rose from 31 lakh to 36 lakh. Further, the outstanding credit to small accounts went up by just 17.8 per cent from Rs 27,323 crore to Rs 32,091 crore over the two-year period whereas that to the rest of the accounts rose by 34.6 per cent from Rs 96,880 crore to Rs 1,30,376 crore (which is only fractionally due to the fall in the value of the rupoe).

The RBI's survey also provides an interesting profile of the small borrowal accounts. About 87.6 per cent of small accounts and 62 per cent of the amount outstanding were accounted for by accounts with credit outstanding of Rs 10,000 or less. The bulk of small lending has been in favour of agriculture – 45.8 per cent of the number of accounts and 42.4 per cent of the amount. Trade and personal and professional services were the next in importance. Significantly, artisans and craftsmen and village industries together had a negligible share of 5.2 per cent in accounts and 3.6 per cent in amount. Rural bank branches accounted for 58.8 per cent and 49.2 per cent of small advances in terms of accounts and amount, respectively, and semi-urban branches for 25.4 per cent and 28.5 per cent,

respectively. In other words, urban and metropolitan branches more or less shun small accounts. Women beneficiaries have 16.4 per cent of the accounts and 13.6 per cent of the amount. Scheduled caste and scheduled tribe borrowers had 27.6 per cent and 17.6 per cent, respectively. Between April 1992 and March 1993, Rs 136 crore pertaining to 8.3 lakh small borrowal accounts (1.4 per cent of accounts and 0.4 per cent of amount) were written off. There is no information on write-off in respect of large borrowers. But going by data on nonperforming assets (NPAs), the performance of small borrowers is far superior to that of the big accounts. NPAs of public sector banks in respect of advances with balances less than Rs 25,000 were Rs 3,982 crore as of March 31, 1995 which constituted only 10.4 per cent of their total NPAs in respect of all categories of borrowers (Rs 38,385 crore). This proportion is considerably lower than the share of small borrowal accounts in total bank credit of about 20 per cent.

Above all, what stands out is that banks on their own would not have extended any significant amount of small-size loans. Apart from the requirements of priority sector advances and targets for weaker sections and women entrepreneurs, and 60 per cent creditdeposit ratio in rural areas, the involvement of banks in special employment and assetcreating programmes has contributed a great deal to inducing banks to extend small loans. The RBI survey reveals that 34.2 per cent of small borrowal accounts and 22.6 per cent of the amount of borrowing as at the end of March 1993 were attributable to the coverage of beneficiaries under the Integrated Rural Development Programme (IRDP). Other employment programmes such as selfemployment programme for the urban poor (SEPUP), self-employment for educated unemployed youth (SEEUY), scheme for urban micro enterprises (SUME) and the differential interest rate scheme (DRI) covered another 10 per cent of accounts and 8 per cent of amount, so that 43 per cent of accounts and 31 per cent of the amount of small borrowers are on account of these special schemes. While banks undoubtedly classity and reclassify their borrowers to satisfy different obligations for priority sector, IRDP and other lending, the data resterate the sole of directed credit in taking bank credit to the socially and economically underprivileged.

**PDS** 

#### **Confusing Decision**

WHAT does one read into the ultimate conclusion to which the recent conference in New Delhi of state food ministers reached in regard to the targeting of the public central food minister Devendra Yadav claimed success in persuading the conference to endorse the proposal for targeting the PDS, the fact is that the state food ministers agreed to targeting on two conditions: one, that their requirements of rice and wheat for the PDS, as it is at present, would be met fully; and, two, that the central issue price would continue to be substantially below the market price. The centre had obviously to make major concessions in order to have its proposal for targeting accepted and it is uncertain that in the process the centre did not give away quite a lot. After all, the whole exercise was undertaken with a view to (a) reducing the burden of food subsidy on the exchequer, and (b) concentrate the benefit of PDS on poor households. In fact, the opposite will be the financial outcome of the conference's decision. The burden of tood subsidy on the exchequer will go up by another estimated Rs 3,000 crore because while the non-poor will continue to enjoy the benefits they currently enjoy, the poor so identified will get the benefit of still lower prices - equal to 50 per cent of the central issue prices.

Surprisingly, the leading opponent of the central proposals was a communist minister from Kerala whose reported concern for the non-poor of his state not only in regard to the availability of foodgrains but at below market prices seemed to be in striking contrast to what needed to be done for the genuinely poor. True, Kerala is a major food deficit state and ought to be genuinely assured about availability, but why should the nonpoor in the state continue to get foodgrains at specially low prices when this benefit could be extended in larger measure to the poor within the same budgetary provision? Why Kerala is sending such conflicting signals, be it on the PDS or the so-called 'creamy layer', is a question worth closer examination

#### **POLITICS**

#### Remote Control

IF Bal Thackeray holds the remote control in running the government in Maharashtra, it is Narasimha Rao who seems to wield the magic wand in Delhi. Judging by the way prime minister Deve Gowda is bending over backward to keep him in good humour, one wonders whether the two have not struck a tacit understanding whereby Rao is able to call the shots (to protect himself) in exchange of his party's support to the wobbly coalition at the centre.

Surely, the most amazing spectacle in recent years was the much publicised visit to Rao by the new CBI chief Joginder Singh on the preposterous plea of seeking Rao's 'blessings' in his new job. Singh of course

distribution system (PDS)? Although the "tried to fob it off by bunching it up with " similar visits to other ex-prime ministers. But Rao is no ordinary ex-PM. Here is a person allegations against whom are being investigated by the CBI. The Supreme Court, while taking serious note of this unprecedented behaviour of a CBI official. pulled up Singh by telling him that he had taken his first step as the new CBI chief in the "wrong direction". Singh's indiscretion - as it is being looked upon by the apex court could not have been a faux pas committed by a greenhorn. Joginder Singh is an old hand in the sleuthing profession. He is known to have worked as a senior official in Karnataka when Deve Gowda was chief minister and is reported to have been close to him. The political grapevine in the capital has it that Singh's visit to Rao had Deve Gowda's green signal and was deliberately orchestrated as a public display (from Singh greeting Rao and getting closetted with him at a party in Delhi and later accompanying him to his home - all in full view of the press and reported in the capital's newspapers) in order to assure Rao of the position which he still enjoys in prime minister Deve Gowda's esteem. It was a political gesture, similar to the habit of frequent visits to Sonia Gandhi that both Rao and his rivals in the Congress indulged in when they were in power. Since Deve Gowda has to depend on the support of the Congress, of which Narasimha Rao happens to be the chief, he has no alternative but to continue to placate Rao, till Congressmen themselves get united and gather enough guts to get rid of a leader who not only stands indicted on corruption charges but had also failed miserably during his tenure as prime minister of the country.

Pending such a change in the leadership of the Congress Party, one can understand Deve Gowda's compulsion to meet whatever demands Rao might be voicing in his private negotiations with the prime minister - which seem to be quite frequent given Deve Gowda's habit of dropping in at Rao's home every now and then. While these visits are being reported in the national press ostensibly as part of the policy of 'transparency' claimed to be followed by the United Front government - what really takes place during these meetings between a prime minister and an ex-prime minister (who is arraigned as an accused in financial scandals) remains opaque to the Indian public.

But the announcement of certain official policies soon after such confabulations indicates the drift of the United Front government - a dangerous one towards protecting suspected criminals in order to retain their support for survival in power. The controversial proposal to give cabinet status to former prime ministers, with all the immunity that goes with such status, is again being viewed as calculated to bail out Narasimha Rao from the numerous cases in which he is embroiled.

That such blatant efforts to protect and please Narasimha Rao are not shared by the other constituents of the United Front government is evident from the CPI home minister Indrajit Gupta's feeble efforts to bring about tough measures to punish guilty politicians and his outbursts of frustration at his failure to carry them out. At the National Council meeting of his party recently, he was reported to have confessed that he could not put an end to the politician-police criminal nexus that operated all over the ministerial territory that he is supposed to be ruling over. Even during the few months that he had been occupying the home minister's office, the measures that he had announced had either been rejected or ignored by the cabinet and on other occasions he had not been apparently consulted in major decision-making. To start with, his proposal to reduce expenditure on protection for VIPs by withdrawing SPG protection from a large number of politicians who did not deserve it - welcomed by citizens who constantly face inconveniences in their daily movements because of SPG interference in civic living - has been scuttled. He was not even consulted - which as the home minister he should have been - by the Deve Gowda cabinet when it decided to appoint as the governor of Uttar Pradesh a bureaucrat like Romesh Bhandari (against whom the Left Front has strings of allegations). To cap it all, he was not apparently taken into confidence by his own officials in the home ministry who mooted, processed and cleared the proposal to give cabinet rank status to former prime ministers (including Narasimha Rao) - a development of which Indrajit Gupta claims to have been ignorant, according to his statement at a press conference on August 12.

Any minister with an iota of self-respect should either punish officials who defy his instructions or resign if he cannot get his instructions carried out. Does the CPI veteran as the country's home minister propose to demean himself as a doormat of the Deve Gowda-Narasimha Rao political alliance?

#### FOREIGN EXCHANGE

#### **Shadow Is Substance**

THE Reserve Bank of India (RBI) has permitted bank branches authorised to deal in foreign exchange to offer, without prior approval, various liability management instruments to Indian corporates so as to enable the latter to hedge their risk on their foreign currency liabilities. Also, no prior approval is required either to unwind hedge transactions or to remit upfront premia and other charges incidental to the hedge transactions. Banks can now offer all types of hedge instruments such as interest rate

swaps, currency swaps, coupon swaps, purchase of interest rate caps and collars, and forward rate agreements to corporates. These have become particularly relevant in the context of a sizeable amount of external commercial borrowings outstanding (placed at \$5.6 billion) and more significantly the fresh ECB guidelines which may imply about \$ 5 to 6 billion of additional borrowings in the coming year, particularly for infrastructure projects. The RBI has taken the precaution of insisting on final approval for the underlying loan transaction and restricting the notional amount of the hedge to the loan outstanding and the period of the hedge to the maturity of the loan.

The RBI will have full details about the hedge transactions (booked as well as cancelled) but the central bank's record in regard to sharing this information so as to make possible evaluation of the results of its operations and derive lessons for the future is suspect. In the first place, the RBI has ceased to put out even the limited amount of data on its purchases and sales of foreign exchange through authorised dealers. The data which used to be released on a monthly basis were rudimentary, without information on different aspects of foreign exchange transactions. Secondly, though the RBI has enough information on the daily turnover of foreign exchange in the Indian forex market, no authentic information is made available to the public. A recent survey has placed the daily turnover in the forex market at between \$1.5 bn and \$2.5 bn Of this, about 60 per cent (\$1bn to \$1.5 bn) is reportedly for spot delivery and the balance for forward deals.

The Bank for International Settlements (BIS) has been co-ordinating a triennial 'central bank survey of foreign exchange market activity' since the mid-1980s. In conjunction with the fourth survey in the spring of 1995 by central banks and monetary authorities in 26 countries, a survey of derivatives market activity was also carried out. The results bring out the mindboggling range and depth of changes that have taken place in the world financial markets, particularly in the second half of the 1980s and the early 1990s.

First, the range of financial instruments has vastly expanded. In 1980 only a few countries had established markets in treasury bills, certificates of deposit (CDs) and commercial paper (CP): by 1991 almost all major countries had such instruments. The accumulation of government debt lent breadth and depth to short- and long-term government securities markets. Replacing traditional bank deposits and bank loans, financial and nonfinancial business tended to rely more on marketable instruments such as CDs, CP, floating rate notes (FRNs), bonds, shares and related instruments. Even traditional bank loans and enterprise receivables got secu-

ritised in some of the countries, particularly in the US to begin with.

Secondly, with the easing of restrictions on foreign exchange transactions, capital flows across borders and cross-border transactions multiplied. As regulatory systems converged and became less restrictive, the distinction between domestic and offshore markets got increasingly blurred, which has also contributed to the generation of large inter-bank transactions.

Finally, there has emerged a massive market for 'derivatives' or contracts derived from the principal or primary issues. The first stage of these derivatives was purchase and repurchase agreements (repos), forward transactions or swaps in the foreign exchange market (a spot purchase and forward sale of one currency against another) and similar kinds of off-balance sheet or below-the-line contingency items. Securitisation of loans, though derivative in character, is an onbalance sheet item. The second phase of derivative products, which has registered remarkable expansion since the latter half of the 1980s, relates to (a) interest rate and currency futures and options, and stock market index futures and options traded on the organised exchanges, and (b) interest rate and currency swaps and other swap-related derivatives traded over-the-counter (OTC). The combination of derivative-underlying instruments (financial swaps, futures and options) and the further derivation of exotic products that are a hybrid of the former has added further dimensions to this market.

Data on foreign exchange market activities, on cross-border transactions and on derivatives trading speak of the unbelievable layers of transactions and their magnitudes The average daily global foreign exchange turnover, net of all double-counting, has galloped from an estimated \$82.5 bn in 1980 to \$270 bn in 1986, to \$640 bn in 1989 to \$880 bn in 1992 and finally to \$1,300 bn in 1995. In other words, the average turnover in the foreign exchange market on a single day in 1995 exceeded the stock of aggregate global foreign exchange reserves held by all official agencies together (\$1,202 bn); in 1980, the official reserves had constituted nearly five times the daily turnover. In India's case, the estimated daily turnover of \$1.5 bn to \$2.5 bn is just about 10 to 15 per cent of the country's foreign exchange reserves.

More significantly, in 1995, against the export value of nearly \$6 trillion, there was a turnover of \$325 trillion of annual global foreign exchange volume (assuming 250 working days in a year), that is, a little over 54 times; the corresponding multiple was about 21 in 1980. According to the details for 1992 (as the 1995 details are not available), over 81 per cent of global foreign exchange transactions were, as per maturity classification, for round-trips of seven days or

foreign exchange trading has been fairly constant as nearly 80 per cent of the daily foreign exchange trading is done by the top seven financial centre countries, with the UK (27 per cent in 1992 and 30 per cent in 1995). the US (16 per cent) and Japan (11 per cent in 1992 and 10 percent in 1995) topping the list. The US dollar continued to dominate, with transactions involving this currency on one side constituting 90 per cent in 1989 and 82 per cent in 1992 and 84 per cent in 1995; the other currency to show a rise from 27 per cent in 1989 to 40 per cent in 1992 and 37 per cent in 1995 was the deutsche mark because of its dominance in European Community transactions.

The survey results make clear that the growth of foreign exchange trading has been overwhelmingly motivated by purposes other than those of servicing the direct financing requirements of real sector activities. First. the share of swap transactions in total global forex trading rose from 38 per cent in 1989 to 48 per cent in 1995. Secondly, nearly three-fourths (72 to 73 per cent) of both spot and swap transactions in 1992 were dealer to dealer rather than dealer to direct-finalcustomer transactions. The central banks were involved in probably less than 10 per cent of global forex transactions in 1992. The OECD has reported that since 1975 the fastest growing component in the expansion of international service trade has been the financial services trade, which has been growing at 13 per cent per year.

The survey for 1995 has collected, apart from the size and various dimensions of foreign exchange operations, details on the derivatives market from central banks and monetary authorities from 26 countries for the first time. The BIS has been reporting, in its annual report and in monthly reports on international banking and financial market developments, regular series of statistics on the size of notional amounts involved in derivative transactions, separately in respect of OTC and organised exchanges although. as the above reveals their coverage has been limited. Nevertheless, these data along with the BIS data on cross-border transactions provide a perspective on the dimensions of primary claims in the form of net international bank credit, Euro-note placements and net international bond financing, juxtaposed against the notional amounts of derivatives.

According to the latest triennial survey, the notional amounts of OTC derivative contracts outstanding, net of double-counting, stood at \$40.71 trillion as at the end of March 1995, which did not cover the data on outright forwards and foreign exchange swaps of survey participants in the UK Including the data for UK (which are available separately), the notional amount of OTC transactions aggregated about \$42.14 trillion, of which

for \$26.65 trillion (63.2 per cent), and currency swaps \$14.58 trillion (34.6 per cent). Compared with these pure financial contracts, those OTC derivatives based on equity and commodity price indices accounted for minuscule amounts, one per cent each (\$599 million and \$317 million, respectively).

Of contracts traded on the recognised exchanges, an even more preponderant part is in the form of interest rate futures and options. Of the total notional amounts of \$16.6 trillion of exchange traded costs, \$15.7 trillion (95 per cent) were interest rate contracts and only \$120 mn were in the form of currency futures and options and \$787 mn in equity and commodity price indices together.

A preponderant part of OTC contracts, ranging from 84 per cent in foreign exchange contracts to 89 per cent in interest rate contracts, was either dealer-to-dealer or with other financial institutions; thus the part of contracts with non-financial customers was only 16 per cent in foreign exchange and 11 per cent in interest rate contracts.

A study on German banks' derivatives transactions shows that savings banks, regional institutions, credit co-operatives and other banking institutions, which cover 53 per cent of the total banking business in Germany, accounted for only 7.7 per cent of the total derivative transactions; in their case derivatives constituted 0.5 per cent to 28.3 per cent of their total business. On the other hand, in the case of big banks, derivatives constituted 182.8 per cent of their volume of business, and in the case of regional and private banks, the corresponding ratios varied from 110 per cent to 121 per cent. In general, the institutions which contribute to the saving process do not need to indulge in large trading in derivatives even in advanced countries.

#### **UTTAR PRADESH**

#### **Uttarakhand Card**

THE announcement of his government's decision to form a separate hill state of Uttarakhand is a strategic move of prime minister H D Deve Gowda to strike at a Bharatiya Janata Party (BJP) stronghold in UP, keeping in view the forthcoming assembly elections in the state. Though other alternatives of granting autonomous hill council or union territory status existed, the prime minister's decision to bestow full-

met the long-standing demand of the Uttarakhand agitationists.

Uttarakhand is one of the regions in UP to have come under the BJP's spell. BJP won 10 out of 19 assembly seats in the region in the 1993 vidhan sabha polls. The Congress, which had previously reigned supreme in the region, was trounced. The announcement of separate statehood for Uttarakhand will not benefit the Congress(Tiwari) or any of the constituents of the United Front which have hardly any presence in the hill region. It is the Congress(1) which, taking advantage of the infighting within the BJP regional unit, won two Lok Sabha seats in the elections earlier this year. These two seats covered six of the 10 assembly seats won by the BJP in the 1993 elections.

Though the Uttarakhand area accounts for only 19 of the 425 seats in the UP assembly. the importance given to the separate state demand by Deve Gowda has perturbed the CPI(M), which fears a revival of the demand for Gorkhaland in West Bengal. On the other hand, Laloo Prasad Yadav who faces the demand for a Jharkhand state in Bihar has not made any discordant noises on the prime minister's announcement. Perhaps he is hoping that a stepping up of political activity by the Jharkhand organisations in support of the separate state demand may help in reducing the influence of the BJP and the Samata Party in the region where the Janata Dal has hardly any stakes.

The importance given to Uttarakhand also needs to be seen in the context of Deva Gowda'a attempts to win over the farming community of western Uttar Pradesh which happens to be another stronghold of BJP in the state. In the 1993 assembly elections, the Hindutva wave had succeeded in weaning away farmers from Mahendra Singh Tikait's Bharativa Kisan Union and in confining Ajit Singh's influence to Baghpat. By teaming up with Tikait, Deve Gowda aims to make inroads among the jat farmers of the region. In a recent rally at Sisauli, the hometown of Tikait in Muzzaffarnagar district, Deve Gowda while sharing the dais with Tikait had announced an increase in subsidy on fertilisers and tractors and a reduction in the power tariff. Tikait too aims to revitalise his organisation which of late has been going through a phase of low activity. Whether these concerted attempts of Deve Gowda to target BJP strongholds in UP will yield any electoral gains for the United Front in the assembly elections remains to be seen.

#### **Special Number**

In view of a Special Number to be published in early September, there will be no weekly issues on August 31, September 7 and 14.

### CURRENT STATISTICS

With the FIIs keeping out and the new margin systems introduced by the exchanges, trading volumes on the major stock exchanges have plummeted since the beginning of August and share price indices have been on a roller-coaster ride. Growth of both exports and imports has slowed down in the first quarter of 1996-97, but the trade deficit has surged to almost \$1 be on account of higher oil imports. Mid-year population estimates show a steady deceleration in the rate of population growth from 2.14 per cent per annum in the 1980s to 1.70 per cent per annum in the 1980s to 1.70 per cent per annum in the 1980s to 1.70 per cent per annum in the 1980s. While the population growth rate in most southern states is well below the national average and is expected to fall further in the next quinquennium, the growth rate in even UP is expected to decelerate to such an extent that it would be lower than the all-India average by the end of the century.

### **Macroeconomic Indicators**

| Wide Tocoonomic III                                         |                |                      | Index 27          |                     |                        |                           |                          | D (2                      | <b>D</b> 1             | The state of                |                                        |                           |
|-------------------------------------------------------------|----------------|----------------------|-------------------|---------------------|------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------------------|----------------------------------------|---------------------------|
| Index Numbers of Wholesale                                  | We             | eights               | July 27,<br>1996  | Ow                  | e Oues                 |                           |                          | Per Cent):                |                        | Point 6 1994-95             | 1002 04                                | 1002.02                   |
| Prices (1981-82 = 100)                                      |                |                      | 1770              | Mont                |                        | 12 Months                 |                          |                           |                        | הצ-1994                     | 1773-74                                | 1992-93                   |
| Prices (1981-82 = 100)                                      |                |                      |                   |                     |                        | I FIEAIOUS                | 1770-7/                  | 1333-30                   | ,<br><del></del>       |                             |                                        |                           |
| All Commodities                                             |                | 100.0                | 310.4             | 1.                  |                        |                           |                          |                           |                        |                             | 10.8                                   | 7.0                       |
| Primary Articles                                            |                | 32.3<br>17.4         | 324.6<br>367.5    | 0.<br>0.            |                        |                           |                          |                           |                        |                             | 11.5<br>4.4                            | 3.0<br>5.4                |
| Food Articles Non-Food Articles                             |                | 10.1                 | 331.8             | Ĭ.                  |                        |                           |                          |                           |                        |                             | 24.9                                   | -1.4                      |
| Fuel, Power, Light and Lubrica                              | nts            | 10.7                 | 322.3             | 9.                  | 2 13.                  |                           |                          |                           |                        |                             | 13.1                                   | 15.2                      |
| Manufactured Products                                       |                | 57.0                 | 300.2             | Q.                  |                        | 9 10.5                    |                          |                           |                        |                             | 9.9                                    | 7.9                       |
| Food Products                                               |                | 10.1<br>27.5         | 287.3<br>338.0    | 0.<br>0.            |                        |                           |                          |                           |                        |                             | 12.3<br>7.0                            | 6.8<br>5.8                |
| Food Index (computed) All Commodities (Average Bas          | (ais           | 21.3                 | 336.0             | U.                  | <i>J</i> /             | J J.4                     | · U.J                    | 7.0                       | , o.                   | 0 10.0                      | 7.0                                    | 3.6                       |
| (April 1-July 27, 1996)                                     | ,              | 100.0                | 305.7             |                     | - 6.                   | 1 10.0                    | 4.8                      | 6.1                       | <b>7</b> .             | 7 10.9                      | 8.3                                    | 10.1                      |
|                                                             |                |                      | Latest            |                     |                        | v                         | ariation (               | Per Cent):                | Point-to-              | Point                       |                                        |                           |
| Cost of Living Indices                                      |                |                      | Month             | Ove                 |                        |                           |                          |                           | 1995-96                | 1994-95                     | 1993-94                                | 1992-93                   |
|                                                             |                |                      |                   | Month               | Latest                 | Previous                  | 1996-97                  | 1995-96                   |                        |                             |                                        |                           |
| 1 1 1 11/ 1 (1050 100)                                      |                |                      | 333.0             | 1.5                 | 9 0                    | 10.5                      | 4.4                      | 4.4                       | 8.9                    | 9.7                         | 9.9                                    | 6.1                       |
| Industrial Workers (1982=100)<br>Urban Non-Man Emp (1984-85 |                |                      | 261.0°            |                     |                        |                           | 7.0                      |                           | 6.7                    | 9.7<br>9.9                  | 8.3                                    | 6.8                       |
| Agri Lab (July 60 to June 61=1                              | 00) @          |                      | 1431.3            |                     |                        |                           | 2.5                      | 1.2                       | 7.4                    | 10.6                        | 11.6                                   | 0.7                       |
| @ Derived: based on li                                      | nking fac      | tor betw             |                   |                     |                        |                           |                          | For 1995-                 |                        | 10.0                        |                                        | <b>V.</b> ,               |
|                                                             |                |                      |                   |                     |                        |                           |                          | Variation                 | <del></del>            |                             |                                        |                           |
|                                                             |                | July 19              |                   |                     | Fie                    | cal Year Se               |                          | v ar iation               |                        |                             |                                        |                           |
| Money and Banking (Rs crore                                 | ) <b>*</b>     | 1996                 |                   | Month               | 1996                   |                           | 1995-95                  | 1995                      | -96                    | 1994-95                     | 1                                      | 993-94                    |
|                                                             | ·,             |                      |                   |                     |                        |                           |                          |                           |                        |                             |                                        |                           |
| Money Supply (M <sub>3</sub> )                              | •              | 625542               |                   | 3 (0.4)             | 23706 (                |                           | 125 (1.6)                | 71034                     |                        | 78617 (17.4                 |                                        | 70 (20.0)                 |
| Currency with Public Deposits with Banks                    |                | 495410               | -1973<br>         | (-1.0)<br>9 (1.2)   | 6667 (<br>15075 (      |                           | 717 (7.7)<br>35 (–0.8)   | 17372<br>53702            |                        | 18806 (22 9<br>58956 (16.0  |                                        | 70 (20.9)<br>25 (18.7)    |
| Net Bank Credit to Govt                                     |                | 278076               |                   | 3 (1.2)             | 20666 (                | 3.1) -3<br>8.0) 209       | 553 (9.2)                | 34994                     |                        | 16325 (7.9                  |                                        | 55 (16.3)                 |
| Bank Credit to Comml Sector                                 |                | 342082               |                   | 1 (1.0)             | 1181 (                 |                           | 38 (2.1)                 | 51246                     |                        | 44991 (18.4                 |                                        | 161 (7.5)                 |
| Net Foreign Exchange Assets                                 |                | 81749                | 266               | 1 (3.4)             | 4592 (                 | 6.0)       -67            | 75 (-0.9)                | 1233                      | (1.6)                  | 23298 (44.3                 |                                        | 4 (110.9)                 |
| Reserve Money                                               |                | 187637               |                   |                     | -6700 (-               |                           | 38 (4.9)                 | 25058                     |                        | 30608 (22.1                 |                                        | 92 (25.2)                 |
| Net RBI Credit to Centre Ad-hoc Treasury Bills              |                | 45470                | 5 -1401<br>) -138 |                     | 14168 (1<br>16025      | 1.9) 210 <i>1</i><br>1783 | 75 (21.3)                | 19855<br>5965             | (20.1)                 | *2130 (2.2<br>1750          |                                        | 260 (0.3)<br>300          |
| Scheduled Commercial Banks                                  |                | 7,7470               | , -150            | •                   | 1002.                  | 1700                      | .5                       | 3703                      |                        | 1750                        | V                                      | 300                       |
| Deposits                                                    |                | 444877               | 7 548             | 1 (1.2)             | 12532 (                | 2.9) -625                 | 57 (-1.6)                | 45486                     | (11.8)                 | 53630 (16.1                 | 1) 521-                                | 44 (18.6)                 |
| Advances                                                    |                | 251804               |                   | 9 (1.0)             | -296 (-                |                           | 18 (0.0)                 | 40540                     |                        | 40638 (23.8                 |                                        | 566 (7.3)                 |
| Non-Food Advances                                           |                | 240422               |                   | 8 (1.4)             | -1887 (-               |                           | 38 (-1.5)                | 43024                     |                        | 37797 (23.4                 |                                        | 875 (5.8)                 |
| Investments  * Based on March 31 figures a                  | fter class     | 172337<br>ure of go  | vetome            | 4 (2.6)<br>nt accor | 8196 (<br>Ints_excer   | 3.0) 2:<br>of for 1995:   | 921 (2.0)<br>•96 (full v | 14887<br>(ear) and 1      | (10.0)<br>996-97 v     | .14172 (10.5<br>here the ba | nking da                               | 41 (26.9)<br>ta relate to |
| March 29, 1996.                                             |                | u.o o. 8.            |                   |                     | ance, excep            |                           | , ( )                    |                           |                        |                             |                                        |                           |
| Index Numbers of Industrial                                 | Weights        | March                | ·                 |                     |                        |                           | Fiscal '                 | Year Aver                 | ages                   |                             |                                        |                           |
| Production (1980-81=100)                                    | ··· c.Biim     | 1996                 | 1995              | 96                  | 1994-95                | 1993-94                   | 1992-9                   |                           |                        | 90-91 19                    | 89-90                                  | 1988-89                   |
|                                                             |                |                      |                   |                     |                        |                           |                          |                           |                        |                             |                                        |                           |
| General Index                                               | 100.0          |                      |                   |                     |                        |                           |                          |                           |                        | 6(8.2) 196.                 |                                        |                           |
| Mining and Quarrying Manufacturing                          | 11.5<br>77.1   |                      | 200.7             | (0.9) 2<br>12 7\ 2  | 48.3(7.3)<br>45.4(0.8) | 231,2(3.4)<br>222 2(5.5)  | 223.7(0.0                | 3)                        | 1.3) 221.<br>181 207   | 2(6.3) 211.<br>8(8.9) 190.  | 7(8.6) 1                               | 99.1(3.7)<br>75.6(8.7)    |
| Electricity                                                 | 11.4           |                      | 340.0             | 13.7) &<br>18 11 3  | 14 6(8.5)              | 290.0(7.4)                | 269.9(5.0                | 2) 200.2(=\<br>3) 257.0(8 | 3.5) 236.              | 8(7.8) 219.7                | (10.9)                                 | 98.2(9.5)                 |
|                                                             |                |                      |                   |                     |                        | 6-97 So Fa                |                          |                           |                        | End of Fisc                 |                                        |                           |
| Capital Market                                              |                | August<br>1996       | 9, Moi<br>5 Ag    |                     |                        | ough Pea                  |                          |                           | 1995-                  |                             |                                        | 1993-94                   |
|                                                             |                |                      |                   |                     |                        |                           |                          |                           |                        |                             |                                        |                           |
| BSE Sensitive Index (1978-79=                               |                | 3498(2               |                   | 2 3423              |                        | 3367 406                  |                          |                           |                        | 3) 3261(-13                 |                                        | 79(65.7)                  |
| National Index (1983-84=100)<br>BSE-200 (1989-90=100)       |                | 1595(1<br>357(0      |                   |                     | (-23.0)<br>(-28.8)     | 1549 183<br>345 41        |                          |                           | 1549(-3.:<br>345 (-6 : | 5) 1606(~1:<br>3) 368(~1:   |                                        | 30(79.2)<br>50(92.3)      |
| NSE (Nov 5, 1995=1000)                                      |                |                      | 38 108            |                     |                        | 1107 119                  |                          |                           | J4J (~U .              | 000                         | J. 2) 4.                               | .0(72.3)                  |
| Skindia GDR Index (Apr 15, 19                               | 994=100        | ) 68(- <u>2</u> 0    | .3) 7             |                     | (-25.1)                |                           | Ŏ 61                     | 91                        | 79(1.3                 | 3)                          | 78                                     |                           |
|                                                             |                |                      | for Fisc          | al Year             | So Far                 |                           |                          |                           |                        |                             |                                        |                           |
|                                                             | 996            | 1996-                |                   | 1995-9              |                        | 95-96                     | 1994-9                   | )5 I                      | 993-94                 | 1992-93                     | 3 19                                   | 91-92                     |
|                                                             |                |                      |                   |                     |                        |                           |                          |                           |                        | 53688 (2                    |                                        |                           |
|                                                             | 075 2<br>594   | 8534 (24<br>8213 (14 | 1.1) 22<br>16) 7  | 990 (30<br>168 (27  | .7) 10040<br>7) 3183   |                           | 82330 (18<br>26233 (18   |                           | 7 (30.4)<br>3 (20.4)   |                             | 3.8) 178                               |                           |
| Imports: Rs crore 98                                        | 819 3          | 1777 (20             | j.7) 26           | 319 (44             | .4) 12164              | 7 (37.1)                  | 88705 (21                | .8) 7280                  | 6 (15.7)               | 63375 (3                    | 2.4) 478                               | 51 (10.8)                 |
| US \$ mn 28                                                 | 807            | 9146 (14             | 4.4) 7            | 992 (37             | .5) 3637               | 0 (28.7) :                | 28251 (21                | .7) 232                   | 12 (6.8)               | 21882 (1)                   | 2.7) 1941                              | 1 (-19.4)                 |
|                                                             | 111            | 6862 (               |                   | 407 (41             |                        |                           | 22538 (29                |                           | 6 (10.6)<br>-3259      | 15782 (1:                   | 2.3) 1404<br>687                       |                           |
| US \$ mn -2                                                 | 744<br>213     |                      | 243<br>933        | -33<br>8            | 29<br>24               | -15182<br>-4539           | 63<br>20                 |                           | -3239<br>-1039         |                             | 087<br>345                             | -3809<br>-1545            |
|                                                             |                | *****                |                   |                     |                        |                           |                          |                           |                        |                             |                                        |                           |
| Foreign Exchange Reserves                                   | Aug 2,<br>1996 | Aug 4<br>1995        | Mar 29,<br>1990   |                     | onth Y                 | car Fis                   | cal Year S               | ation Over                |                        | 1994-95 1                   | 993-94                                 | 1992-93                   |
| (excluding gold)                                            | . , 70         | 1773                 | 177               |                     |                        |                           |                          | 95-96                     | , J- 70                | ·//T:///                    | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, | . / / 2 / / /             |
|                                                             |                |                      |                   |                     |                        |                           |                          |                           | ****                   | 10100                       |                                        | <b>5005</b>               |
| Rs crore                                                    | 64181          | 62108                |                   |                     |                        |                           |                          |                           | -5977<br>3688          |                             | 27430                                  | 5385                      |
| US \$ mn                                                    | 18021          | 19645                | 1712              | 9                   | 267 –                  | 624                       | 893 –                    | 1171 -                    | -3688                  | 5640                        | 8724                                   | 731                       |

|                               |                                                    | 1999 2000                                                            | 2) (13) (14) | 8) 9798166(1.65) 9957175(1.62)<br>7) 9794633(1.64) 9953624(1.62)<br>4) 9642520(1.62) 9796262(1.59) | 765225(1.52) 774612(1.49) 10622(2.54) 10892(2.54) 10892(2.54) 10872(2.54) 10872(2.54) 10872(2.54) 1027446(1.95) 1047382(1.94) 1027446(1.95) 1047382(1.94) 1027446(1.95) 1047382(1.79) 194914(1.83) 198385(1.78) 194914(1.83) 198385(1.78) 194914(1.83) 198385(1.78) 194914(1.93) 19398(1.29) 19398(1.29) 19398(1.29) 19398(1.29) 19398(1.29) 19398(1.29) 19398(1.29) 19398(1.39) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.38) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.39) 19398(1.3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------|----------------------------------------------------|----------------------------------------------------------------------|--------------|----------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                               | iuly 1                                             | 1998                                                                 | (12)         | 9638943(1.68)<br>9636246(1.67)<br>9489210(1.64)                                                    | 751835(1.55) 10360(2.54) 103769(1.89) 1007769(1.89) 1007769(1.89) 13523(2.04) 46949(1.71) 191420(1.88) 59495(1.99) 90266(1.93) 321618(1.32) 761438(1.77) 908608(1.86) 21808(2.42) 8669(3.19) 15254(3.19) 15254(3.19) 15254(3.19) 15254(3.19) 15254(3.19) 1525328(1.82) 1526(2.40) 157784(1.60) 157784(1.60) 177(1.90) 12750(3.55) 12808(2.64) 177(1.90) 177(1.90) 177(1.90) 17808(2.64)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                               | n Hundreds) – J                                    | 1997                                                                 | (11)         | 9479467(1.71)<br>9477910(1.70)<br>9335782(1.68)                                                    | 740369(1.59) 10103(2.54) 2255996(1.96) 988209(2.02) 13252(2.02) 461650(1.71) 187894(1.92) 88333(1.99) 88356(1.34) 748198(1.82) 20540(2.40) 84910(3.19) 11774(3.26) 12922(4.02) 1252254(1.39) 20540(2.40) 1915(2.40) 155594(1.52) 142128(3.46) 155594(1.52) 142128(3.46) 155594(1.52) 142128(3.46) 155594(1.52) 142128(3.65) 142128(3.65) 1641(2.69) 1158(1.25) 11758(3.55) 11758(3.55) 11758(3.55) 11758(3.55)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                               | Mid-Year Population Estimates (in Hundreds) - July | 1996                                                                 | (10)         | 9319713(1.75)<br>9319268(1.74)<br>9181890(1.72)                                                    | 728806(1.63) 9853(2.50) 9853(2.50) 9853(2.50) 12966(2.00) 453842(1.73) 18433(2.00) 86880(2.15) 87297(1.41) 313244(1.35) 734856(1.87) 875475(1.91) 20789(2.37) 14308(3.22) 14308(3.22) 14308(3.22) 14308(3.22) 14308(3.22) 1526184(1.67) 744285(1.58) 11355(1.58) 11355(1.58) 11355(1.58) 11355(1.58)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|                               | id-Year Populat                                    | 5661                                                                 | 6)           | 9159710(1.78)<br>9159738(1.78)<br>9026975(1.76)                                                    | 9613(248)<br>9613(248)<br>949066(2110)<br>12731(174)<br>44614(174)<br>180725(206)<br>56109(190)<br>80506(123)<br>309069(137)<br>721393(192)<br>85048(193)<br>19600(231)<br>1862(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)<br>18603(232)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|                               | W                                                  | 1994                                                                 | 8)           | 8999532(1.81)<br>8999408(1.82)<br>8871119(1.80)                                                    | 705316(1.72)<br>9380(2.47)<br>241045(2.17)<br>925335(2.18)<br>12485(1.16)<br>177074(2.13)<br>83666(1.56)<br>177074(1.13)<br>83666(1.56)<br>177074(1.18)<br>83666(1.16)<br>19842(3.17)<br>19842(3.17)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)<br>1985(3.16)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                               |                                                    | 6661                                                                 | 6            | 8839103(1.85)<br>8838327(1.86)<br>8714362(1.84)                                                    | 93375(1.77) 9154(2.47) 23593(2.21) 9254(1.97) 12244(1.97) 12382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20) 173382(2.20)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|                               |                                                    | 1992                                                                 | 9)           | (2.8<br>(1.8<br>(1.8<br>(1.8)                                                                      | 681308(1.82) 8933(2.48) 8933(2.48) 8933(2.48) 12308(12.23) 12908(12.23) 169650(2.27) 23025(1.90) 79528(1.62) 169650(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1894(1.34) 1995(1.32) 2842(2.20) 2842(2.20) 2842(2.21) 1995(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21) 1996(2.21)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| ates                          | ual<br>oo-                                         | countai<br>rowth 1991<br>Rate<br>381-91<br>(Per                      | (4) (5)      | 2.14 8516613 8678179<br>8516229 8677064<br>8400483 8557280                                         | 2.17 669127<br>2.17 225802<br>2.11 225802<br>2.11 225802<br>2.42 165885<br>1.89 52035<br>1.34 292374<br>2.29 794538<br>1.34 292374<br>2.29 794538<br>2.29 794538<br>2.29 794538<br>2.29 794538<br>2.20 794538<br>2.21 1399571<br>2.21 684703<br>2.21 1399571<br>2.21 684703<br>2.22 435651<br>2.23 2.23 2.23 2.23 2.23 2.23 2.23 2.23                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| n Estim                       | Census Data Annual<br>(March I) Expo-              | (in rundeds) isonial<br>981 1991 Growth<br>Rate<br>1981-9)<br>(Pers) | (E)          | 8463027 2<br>8463028<br>8348599                                                                    | 665080<br>8646 3<br>8646 3<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>1164636 2<br>116636 2<br>116636 3<br>116636 3<br>116636 3<br>116636 3<br>116429 3<br>116429 3<br>116429 3<br>116429 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>11656 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116436 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116420 3<br>116                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| opulatic                      | Cen<br>Cen                                         | 1861                                                                 | (2)          | 6833290<br>6833291<br>6756410                                                                      | 535510<br>6318<br>180413<br>699147<br>10077<br>340858<br>129221<br>sh 42808<br>hmir 59874<br>254537<br>254537<br>254537<br>16789<br>342619<br>342619<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>342619<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889<br>167889 |
| Mid-Year Population Estimates | India/States                                       |                                                                      | €            | India<br>India (A+B)<br>A States                                                                   | Andhra Pradesh   535510     2 Annachal Pradesh   6318     3 Assam   180413     4 Bihar   699147     5 Goa   10077     6 Gujarat   340858     7 Haryana   129221     8 Himachal Pradesh   42808     9 Jammu and Kashmir 59874     10 Karnataka   129221     11 Kerala   129221     12 Madahya Pradesh   524537     13 Maharshura   627828     14 Manipur   524537     15 Magaland   44310     16 Mizoram   44310     17 Nagaland   13358     17 Nagaland   1342619     18 Orissa   167889     19 Punjab   265703     19 Punjab   265703     20 Rajasthan   3164     21 Tripura   20531     22 Tamil Nadu   48408     23 Tripura   20531     24 Uttar Pradesh   108625     25 West Bengal   545807     6 Lakshandigarh   790     790   5 Delhi   62204     6 Lakshadweep   402     700   5 Delhi   62204     700   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     18   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700     700   700   700                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

Estimated figures are provisional ... denotes data are not available separately Figures within brackets are implied annual growth rates, in percentages

The annual estimates from 1992 onwards are based on the Report of the Standing Committee of Experts on Population Projections (October 1989) and are adjusted to the ratio of 1991 Census population to the 1991 projected population of the above Report. This factor was applied to India and each State and Union Territory individually.

The aggregate over the States and Union Territories (A+B) will not all facility with India figure which is estimated directly: the differences and Union Territories (A+B) will not all figures for the state are projected by the above Standing Committee of Experts.

In 1991, Census was not conducted in Assamir; the population figures for the state are projected by the above Standing Committee of Experts.

In 1981, Census was not conducted in Assam; based on the 1971 Census population and the 1991 Census provisional results; the population of Assam for 1981 has been interpolated. €ē Notes:

Source: Office of the Registrar General, Ministry of Home Affairs. Government of India, New Delhi, and their Census publications except for Column 4 which is from Economic Survey, 1995-96 (Table 9.2). **⊕**€€

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#### RAYMOND

#### **Planned Diversification**

HAVING ventured into cement, steel and denim. Raymond, the flagship company of the Vijaypat Singhania group, is no longer known as the textiles company. The focus has shifted from textiles to a wider base. According to Minoo Shroff, executive vice-chairman, high on the priority list now is seeing that these ventures "grow to their logical size".

Raymond closed the year ended March 1996 with a 24 per cent increase in sales turnover which moved up from Rs 683 crore to Rs 854 crore. Other income was up by 22 per cent. Interest costs rose by 60 per cent. Provision for depreciation was up by 23 per cent. Aided by 65 per cent decline in tax provision the company closed the year with a net profit of Rs 96 crore, up by 36 per cent from Rs 71 crore recorded in the previous year. Raymond has maintained dividend payment at 50 per cent.

The production of fabrics improved by 19 per cent to touch 238 lakh metres. The company plans to achieve a production of 255 lakh metres from its three plants at Thane, Chhindwara and Jalgaon. This is to be achieved through product innovation and induction of new technology. The company has invested in shuttleless looms at Thane and Chhindwara. Plans on the anvil include replacing 100 looms in a year's time which would give the company an added 5 million metres of worsted fabrics at an investment cost of Rs 48 crore. Raymond has a 40 per cent market share for its blended and worsted suitings. About 15 per cent of the turnover from the textile division is targeted at the premium end of the market, another 15-29 per cent targeted at the lower end, while the balance 65-70 per cent is aimed at the middle class.

Apart from the plant at Bilaspur, the company has units at Nashik, Thane, Yavatmal, Jhansi and Sasnar. Paralysed by severe power cuts and the perennial wagon shortage, production at the company's plants at Bilaspur was below target during the year, though aided by higher realisation the division performed to satisfaction. Capacity utilisation remained stagnant at around 73 per cent. The acquisition of 125 wagons last year under the 'own your wagon' scheme of the railways and the installation of additional diesel sets of 12 mw capacity is to alleviate the position considerably and cement output is to go up by 20 per cent.

At the steel plant in Nashik which was commissioned in September 1995, Raymond has an installed capacity of 40,000 tonnes per annum (tpa) of cold rolled non-grain oriented steel, 25,000 tpa of grain oriented silicon oriented steel and 1,35,000 tonnes

of cold rolled closely annealed steel – all of which are high value added speciality steel products. Against an estimated production of 23,000 tonnes the steel plant produced only 10,000 tonnes. The plant is expected to operate at 70 per cent capacity in the current year. With the successful implementation of the steel project, plans for a further expansion of the silicon steel capacity are on the anvil.

The cement division is to set up a plant in the south with a capacity of 2.4 million tonnes with Gulbarga in Karnataka having been identified as a potential site. The idea is to have split units at two locations. A plant to take care of the clinkerisation is to be put up in Karnataka whereas the unit that will grind the cement will be based in the north. The construction of these plants is reportedly to be completed within the next two years.

The textiles division is coming out with a new single yarn fabric which is expected to reduce costs and produce lighter fabrics. It is also looking at the prospect of producing high quality shirting material and readymade shirts across the counter, different from the Park Avenue range of garments currently available. The 100 per cent cotton project has its base at Yavatmal. With the initial capacity of 30,000 metres per day and 10 million metres per annum of high quality ringed denim, the company expects to start trial production by September.

The company has entered into an agreement with Marzotto of Italy and with Zenia of Italy to manufacture high quality garments in small batches. Raymond has also entered into a joint venture with Calitri Denim Industries of Italy to manufacture world class denims and jeans in India. The cost of the project is estimated at Rs 140 crore of which Rs 50 crore is to be brought in by the collaborator

#### **ORIENT PAPER AND INDUSTRIES**

#### **Higher Turnover**

Orient Paper and Industries, formerly known as Orient Paper Mills, the flagship company of the GP Birla-CK Birla group, with operations centring around paper and cement, was incorporated in Calcutta in 1936. The company has plants in Madhya Pradesh, Orissa, Andhra Pradesh, West Bengal, Haryana and Uttar Pradesh.

The company closed the year ended March 1996 with a sales turnover of Rs 586 crore, up by 51 per cent from Rs 389 crore recorded in the previous year. Other income was down by 22 per cent. Interest costs rose by 31 per cent. Provision for depreciation was down by 19 per cent while that for tax moved up by a whopping 168 per cent. Orient Paper closed the year with a net profit of Rs 54

crore, up by 110 per cent from Rs 26 crore in the previous year.

For the year under review the production of paper and board stood at 1,28,307 tonnes compared to 1,20,868 tonnes in the previous year. The severe power cut by the Andhra Pradesh State Electricity Board notwithstanding, cement production improved to 10,27,202 tonnes compared to 9,56,844 tonnes in the previous year.

At the Brajrajnagar Mills a new transformer-cum-rectifier for a captive caustic plant and a new coal handling plant have been installed and commissioned. A 350tpd recovery boiler and an additional drum chipper are under installation. At the Amlai paper mills a similar construction is under way. According to reports, a bagasse-based paper project in Solapur to be commissioned by June 1996 with a capacity of 80,000 tonnes per annum of writing and printing paper was abandoned in the absence of a positive commitment for supply of raw material.

The company has received permission from the government of Kenya to set up an export oriented rayon grade pulp mill and the company's Panafrican Paper Mills, a joint venture of Orient Paper with Panafrican Paper Mills, Kenya, will be setting up this greenfield venture which is expected to be commissioned soon.

#### **BAYER**

#### **Business Restructuring**

Bayer with interests in agrochemicals, rubber products and consumer and animal healthcare has been operating in the Indian market since 1958 in technical and financial collaboration with parent company Fabenfabriken Bayer AG of Germany.

In keeping with the accounting period followed by its parent, Bayer has changed its accounting year to the calendar year and has reported a sales turnover of Rs 267 crore for the nine-month period ended December 1995, an annualised increase of 27 per cent over Rs 279 crore recorded for the year ended March 1995. A significant contribution came from other income which stood at Rs 12 crore. Interest costs were up by 77 per cent. Provision for depreciation moved up by 17 per cent. Against a zero tax provision in the previous year the company had to make a provision of Rs 1 crore for the year under review. A dividend of 12 per cent has been recommended by the board of directors.

Agrochemicals manufactured at the Thane factory, the oldest activity, was the major contributor to the turnover followed by rubber, healthcare, consumer care and animal health. The sales of the agrochemicals division showed a significant improvement. The company has a 60 per cent share of the

|     | Financial Indicators                                        | Ray            | mond           | Orient        | -             | Ba                 | yer           |
|-----|-------------------------------------------------------------|----------------|----------------|---------------|---------------|--------------------|---------------|
|     | Financial indicators                                        | March<br>1996  | March<br>1995  | March<br>1996 | March<br>1995 | March<br>1996      | March<br>1995 |
| Inc | come/appropriations                                         | *****          |                |               |               |                    |               |
|     | Net sales                                                   | 85356          | 68319          | 58573         | 38863         | 26700              | 27925         |
| 2   | Value of production                                         | 88397          | 71376          | 58354         | 38133         | 26552              | 28293         |
| 3   | Other Income                                                | 1745           | 1435           | 1445          | 1874          | 1196               | 1257          |
|     | Total income                                                | 90142          | 72811          | 59819         | 40007         | 27748              | 29550         |
| 5   | Raw materials/Stores and                                    |                |                |               |               |                    |               |
| _   | spares consumed                                             | 31443          | 23393          | 24385         | 13868         | 12052              | 12382         |
|     | Other manufacturing expenses                                | 13567          | 12574          | 9409          | 7830          | 314                | 3318          |
|     | Remuneration to employees                                   | 9270           | 7738           | 5089<br>11046 | 4211          | 2172               | 3577          |
|     | Other expenses Operating profit                             | 14048<br>21814 | 11227<br>17879 | 9890          | 8673<br>5425  | 6453<br>3657       | 7984<br>2289  |
|     | Interest                                                    | 5543           | 3460           | 1642          | 1250          | 1999               | 1503          |
|     | Gross profit                                                | 16033          | 14713          | 8253          | 4182          | 2333               | 919           |
|     | Depreciation                                                | 5235           | 4244           | 1165          | 976           | 669                | 758           |
|     | Profit before tax                                           | 10773          | 10452          | 7088          | 3206          | 357                | 161           |
|     | Tax provision                                               | 1175           | 3400           | 1675          | 625           | 57                 | 0             |
|     | Profit after tax                                            | 9598           | 7052           | 5413          | 2581          | 300                | 161           |
|     | Dividends                                                   | 2050           | 1654           | 593           | 519           | 195                | 243           |
|     | Retained profit                                             | 7548           | 5398           | 4820          | 2062          | 105                | -82           |
|     | abilities/assets                                            |                |                |               |               |                    |               |
| 18  | Paid-up capital                                             | 4100           | 4 i 00         | 1484          | 1484          | 1622               | 1622          |
| 19  | Reserves and surplus                                        | 51213          | 43729          | 18744         | 14152         | 4670               | 4564          |
|     | Long term loans                                             | 46240          | 29012          | 9232          | 10576         | 12159              | 9145          |
| 21  | Short term loans                                            | 14074          | 3465           | 4066          | 3898          | 4448               | 4952          |
| 22  | Of which bank horrowings                                    | 6999           | 3165           | 4058          | 2235          | 2900               | 2900          |
| 23  | Gross fixed assets                                          | 94033          | 66149          | 41220         | 36810         | 15341              | 13717         |
| 24  | Accumulated depreciation                                    | 29960          | 24928          | 20301         | 19209         | 5845               | 5067          |
| 25  | Inventories                                                 | 23449          | 16933          | 9189          | 8559          | 6580               | 6341          |
| 26  | Total assets/liabilities                                    | 155402         | 114045         | 46499         | 40606         | 29381              | 26503         |
|     | scellaneous items                                           |                |                |               |               |                    |               |
|     | Excise duty                                                 | 3825           | 3177           | 9851          | 7676          | 2525               | 3188          |
|     | Gross value added                                           | 30993          | 26486          | 15334         | 10009         | 5985               | 6237          |
|     | Total foreign exchange income                               | 1227           | 10172          | 5616          | 1530          | 2884               | 1953          |
|     | Total foreign exchange outgo                                | 16174          | 16838          | 1804          | 333           | 2544               | 2800          |
|     | y financial and performance rati                            | OS             |                |               |               |                    |               |
| 31  | Turnover ratio                                              |                | <b>50.01</b>   | 105.05        |               |                    | 105.35        |
|     | (sales to total assets) (%)                                 | 54.93          | 59.91          | 125.97        | 95.71         | 90.88              | 105.37        |
|     | Sales to total net assets (%)                               | 73.82          | 85.07          | 174.71        | 129.07        | 116.60             | 137.68        |
| 33  | Gross value added to                                        | 22.06          | 40.04          | 27.20         | 27.10         | 20.01              | 45 47         |
| 34  | gross fixed assets (%)                                      | 32.96          | 40.04          | 37.20         | 27.19         | 39.01              | 45.47         |
| .94 | Return on investment<br>(gross profit to total assets) (%)  | 10.22          | 12.90          | 17.75         | 10.30         | 7.94               | 3.47          |
| 26  | Gross profit to sales                                       | 10.32          | 12.90          | 17.73         | 10.50         | 7.74               | 3.47          |
| 33  | (gross margin) (%)                                          | 18.78          | 21.54          | 14.09         | 10.76         | 8.74               | 3 29          |
| 36  | Operating profit to sales (%)                               | 25.56          | 26.17          | 16.88         | 13.96         | 13.70              | 8.20          |
|     | Profit before tax to sales (%)                              | 12 62          | 15.30          | 12.10         | 8.25          | 1.34               | 0.20          |
|     | Tax provision to profit before tax (9                       |                | 32 53          | 23.63         | 19.49         | 15.97              | 0.00          |
|     | Profit after tax to net worth                               | -, 1071        | J# JJ          | 45.U.J        | 19.49         | 4.4.77             | 0.00          |
|     | (return on equity) (%)                                      | 17.35          | 14.74          | 26.76         | 1.51          | 4.77               | 2.60          |
| 40  | Dividend (%)                                                | 50.00          | 50 00          | 40.00         | 35.00         | 12.00              | 15.00         |
|     | Earning per share (Rs)                                      | 234.10         | 172.00         | 36.48         | 17.39         | 18.50              | 9 93          |
|     | Book value per share (Rs)                                   | 1349.10        | 1166.56        | 136.31        | 105.36        | 387.92             | 381.38        |
|     | P/E ratio (based on latest and                              |                |                |               |               | · · · <del>-</del> |               |
|     | corresponding last year's price) Debt-equity ratio          | 0 00           | 1.59           | 0.00          | 8.41          | 0.00               | 0.00          |
|     | (adjusted for revaluation) (%) Short term bank borrowings   | 83.60          | 60.66          | 45 64         | 67.64         | 193.25             | 147.83        |
|     | to inventories (%) Sundry creditors to                      | 29.85          | 18.69          | 44.16         | 26.11         | 44.07              | 45.73         |
|     | sundry debtors (%) Total remuneration to employees          | 62.24          | 86.30          | 97.53         | 87.01         | 51.73              | 48.91         |
|     | to gross value added (%)  Total remuneration to employees   | 29 91          | 29.22          | 33.19         | 42.07         | 36 29              | 57.35         |
| 40  |                                                             | 10.40          | 10.04          | . 77          | 11.54         | 9 10               | 12 44         |
| 40  | to value of production (%) Gross fixed assets formation (%) | 10.49          | 10.84          | \ 72          | 11.04         | 8.18               | 12.64         |
|     | Growth in inventories (%)                                   | 42.15          | _              | 11.98         | -             | 11.84              |               |
| .70 | Otowin in inventories (%)                                   | 38.48          | _              | 7.36          | -             | 3.77               | -             |

Strate Barre (Rs lukh) agrochemicals market. Bayer commissioned a capacity of 800 tpa for metasystox, a pesticide widely used for plant protection, at its factory in Thane in April 1995. From the current year on the company is to source its entire requirement of metasystox for the parent company. In the domestic market the company has a share of 60 per cent.

> In its healthcare division the company is working at new product launches which are being planned in the coming years and registration and development work is progressing as per schedule. Export growth from the division was impressive with the parent company deciding to source its requirement of the bulk drug mebhydrolin napadisylate from India.

> Chemicals was established as a separate business group in January 1993. Two products which are doing well are polyurethane (used as insulating material for the refrigerator industry, car seats, etc) and engineering thermoplasts (used as mixer tops, washing machines doors, etc). The company has an existing collaboration with Herdillia Chemicals for the manufacture of heat transfer fluids used in synthetic fibre, polymer and petrochemical industries.

> The diagnostics business of Bayer has been acquired by Bayer Diagnostics, formerly known as Miles India for a sum of Rs 3 crore. BDL in which Bayer has a 51 per cent stake makes chemical and immunochemical test systems. It also markets all diagnostics products of Bayer AG.

Manufacture of synthetic rubber in the country was one area which was being considered by the company but this had to be put aside on account of a shortage of raw materials After an unsuccessful alliance with an Indian company for sourcing raw materials Bayer is exploring the possibility of setting up a joint venture with Reliance Industries or IPCL to manufacture and market synthetic rubber in the country.

Bayer (India) and Bayer AG have decided to enter into a series of co-marketing and co-licensing arrangements with Indian companies in the areas of pharmaceuticals, consumer care, leather chemicals, plastic and polyurcthane. Bayer AG is planning to invest Rs 400 crore over the next four years in the country.

The company has been according high priority to scientific waste management and environment protection. In 1981 it set up the country's tower biology plant to treat liquid waste in a biological way. Later in 1987, to complement the plant it set up a rotary kiln with a capacity of 6 tpd to convert all kinds of waste into renewable energy sources, for use by the company in its various manufacturing processes. According to company reports, tower biology and incinerator were functioning optimally. Bayer and Hoechst are merging their textile dyeing activities by the formation of a joint venture called Dystar textilfarben GmbH.

## **Indian Power Policy, Enron and the BoP**

Kannan Srinivasan

The Enron deal has given investors an unrealistic expectation of the returns they can receive under the government's power policy. Glimpses provided by documents of how the government decided on Enron show it to have been fully aware of the damage this decision would cause. The Amended Power Purchase Agreement negotiated by the committee appointed by the Shiv Sena-BJP government is even worse for the interests of Maharashtra than the Congress original of 1994. The balance of payments consequences of fuel imports for naphtha and fuel oil-based power plants will be ruinous.

THERE is considerable uncertainty as to what exactly the government has specified will be the returns for the new fast track power projects It has been generally presumed that a return on equity of 31 per cent would be provided at a plant load factor (PLF) of 90 per cent. This is because the government notification says that this would amount to a return on equity of 16 per cent at a plant load factor of 68 5 per cent - 6 000 hours/kW/year Forevery I percent increase of PLI an additional incentive of 0.7 per cent of the return on equity (ROE) would be paid at has been taken to mean that this increases by 0.7 per cent of the total equity x 21 5 = 15 05 per cent which added to 16 per cent produces 31 05 per cent

But the actual text of the Gazette of India notification - Part II Section 3 Sub-section 2 of January 19 1994 - states that For generation of above 6 000 hours/kW/year the additional incentive payable shall not exceed 0.7 per cent of return on equity for each percentage point increase of Plant I oad Factor above the normative level of 6 000 hours/kW/year That means not 0.7 per cent of the equity but 0.7 per cent of the return on equity -0 7 per cent of 16 per cent - which is substantially less. This could mean that Enron's Dabhol Power Company investment and all the new fast track projects could earn returns substantially lower than they have projected

#### DISTORTION?

Thereafter a table is furnished comparing the 'Notification Tariff' with the 'DPC Tariff' and claiming that the DPC tariff would be much cheaper Annexure 1 to this letter specifies the 'Additional Incentive Charges' at "0 7 per cent return on equity for each 1 per cent availability over 68 5 per cent, 1 e, 15 05 per cent (for a guaranteed 90 per cent availability)" Note that while the notification SO 36(E) has specified "0 7 per

cent of return on equity" this says '0.7 per cent return on equity—and therefore arrives at 15.05 per cent over and above the 16 per cent return. Could this perhaps be a perversion of the original intent?

Moreover the text of the notification speaks of costs in relation to the generating unit. Not all ancillaries of any supposed investment by Enron or any international investor in Indian power. This would mean that all appurtenant construction — such as the schools airport jetty port any other such works and general social uplift in which Enronis supposedly investing—cannot avail of these returns.

Notification SO 251 (E) of the Department of Power issued on March 31 1992 specifies what the two pirt tariff for the sale of electricity from thermal power generating stations (including gas based stations) should comprise This includes the recovery of annual fixed charges consisting of interest on loan capital \*depreciation operation and maintenance expenses (excluding fuel) taxes on income reckoned as expenses return on equity and interest on working capital at a normative level of generation and energy (variable) charges covering fuel cost recoverable for each unit (kilowatt hours) of energy supplied. This is based on the norms of operation - which include the station heat rate and the plant load factor which are both specified for open cycle and combined cycle gas based stations as well as for coal based stations

What is important is that this entire structure of tailfs — which provides for recovery of costs incurred — is specific to the actual power station itself. It is not meant to provide for the recovery of various ancillary investments. The term that is used throughout is either station or unit or project, as in the date of commercial operation of individual units shall be reckoned as follows, or 'in respect of infirm power, i e sale of electricity prior to commercial

operation of the unit" Clearly the purpose is to reimburse the actual expenditure on the power plant alone – not pay for incidental expenditure

The notification makes the distinction of speaking of the Generating Company where that applies – as distinct from the particular unit or project which can avail of full recovery for its fixed and variable charges and maintenance expenses. Clearly all the expenses of the generating company – such as whatever Dabhol Power Company or its parent. Firon may have spent educating Indians. cannot be reimbursed.

This is why it provides such generous terms to ensure that there is full recovery of these investments. The actual capital expenditure incurred on completion of the project shall be the criterion for the fixation of tariff. Where the actual expenditure exceeds the approved project cost the excesses as approved by the Authority shall be deemed to be the actual capital expenditure for the purpose of determining the tariff.

#### HOW ENRON DI AI WAS DON'T

Secret government documents show that officials were aware of the basic problems in the agreements they concluded with Enron's Indian business. Dabhol Power Company (QPC) They knew there were difficulties associated with the submission of a dispute between the Maharashtra State Electricity Board (MSFB) and DPC both Indian companies to an overseas arbitration and with the government's provision of a sovereign guarantee for this project.

They knew the cost of power they claimed for DPC was false for it did not take into account the depreciation of the Indian rupee or the increase in the price of fuel. The escalation in the tariff makes DPC power very expensive and will raise prices for all consumers in Maharashtra.

It was clear at the outset that DPC would demand very major outflows of foreign exchange and that the company would earn windfall profits out of line withinfrastructure projects in India or elsewhere in the world. Other power suppliers who hoped to piggyback on the precedents created by this project may have to wait indefinitely for their clearances. Not a single power purchase agreement has been cleated by the Central Electricity Authority under the new power policy announced in 1991.

The Foreign Investment Promotion Board (FIPB) presided over by A N Varma then principal sccretary to the prine minister met to discuss the Enron proposal on October 10 1992 Rebecca Mark chief executive of Enron Power Development Corporation

Barclays Bank and Adrian Montagu of Linklaters and Paines made the company's presentation. Cabinet secretary S Rajgopal, power secretary R Vasudevan, secretary, department of economic affairs, Montek Singh Ahluwalia, and additional secretary in the cabinet secretariat V K Shunglu, were among government officials present, but no government law officer or advisor. "The Principal Secretary to the Prime Minister... clarified that in any case there would be no guarantees for the loans being raised from other financial institutions. Enron... asked whether the government of India would be prepared to back up the guarantee of the state government in case the financial institutions insist upon it. Mr Varma firmly rejected the proposal and stated that the government of India's guarantee in such a case is not possible... the question of central government giving further guarantee would raise issues of a constitutional nature... the question of return on the equity was discussed. The cabinet secretary pointed out that this payment will not be in dollars and Enron must take the risk of payment in rupees and then getting it converted in dollar at the then prevailing rate. No government guarantee on the payment of equity could be given.'

#### GOVERNMENT GUARANTEES MSEB AND EXCHANGE

In fact, despite this categorical statement the government of Maharashtra guaranteed MSEB's payment to DPC. The government of India provided a counter guarantee. Two things were subsequently assured to DPC. First, that MSEB would make these payments. Secondly, and more importantly, that this equity would be remitted to Enron and other foreign shareholders by DPC in India. So under the latter, both the payment of the equity and the availability of foreign exchange were assured.

Yet the Constitution of India specifically makes provision for government guarantees to overseas parties for loans. But it does not envisage the government guaranteeing the remittance of equity. As a consequence of the government's volte-face, at a meeting in the room of union government power secretary R Vasudevan on November 8, 1993 these issues were turther discussed. There was general awareness about the preferential treatment being given to Enron - as against that provided to Indian firms. "3. Ministry of finance representative wanted to know whether this sort of guarantee has been given to our CPSUs like NTPC." It also became clear that this was not the guarantee of a loan, but the guarantee of exchange availability for a remittance by an Indian company to its overseas promoter - which has not been so far provided to any other company. "They also wanted to know the extent of the amount

TABLE 1: UPPER CASE NAPHTHA COMBUNITION BY POWER PLANTS

| Danier Des divisor                | 1997-98 | 1998:99 | 1000 0000 | 2000 01 | 8001.00 |
|-----------------------------------|---------|---------|-----------|---------|---------|
| Power Producer                    | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
| NTPC Anta Raj                     | 20      | 20      | 20        | 20      | 20      |
| NTPC Auriya Uttar Pradesh,        | 20      | 20      | 20        | 20      | 20      |
| Haryna (@75MWX6)                  | 224     | 336     | 448       | 560     | 560     |
| Duncans Uttar Pradesh             | 60      | 100     | 100       | 100     | 100     |
| IPP Rajasthan (75)                | 0       | 300     | 540       | 675     | 675     |
| RPG Dhoplur Raj                   | 0       | 500     | 880       | 1100    | 1100    |
| GFC Varanasi Uttar Pradesh        | 0       | 140     | 140       | 140     | 140     |
| Ginni Filament Uttar Pradesh      | 0       | 140     | 140       | 140     | 140     |
| DVC Maithon West Bengal           | 10      | 10      | 10        | 10      | 10      |
| IB Valley Orissa                  | 0       | 150     | 300       | 300     | 300     |
| Jibiran Manipur                   | 0       | 0       | 50        | 50      | 50      |
| AEC Gujarat                       | 200     | 310     | 310       | 310     | 310     |
| Essar Power Gujarat               | 550     | 550     | 550       | 550     | 550     |
| GTEC Bharuch Gujarat              | 200     | 200     | 200       | 200     | 200     |
| NTPC Kawas Gujarat                | 250     | 280     | 280       | 280     | 280     |
| Essar Bhander Madhya Pradesh      | 240     | 400     | 400       | 400     | 400     |
| Raymond Steel Maharashtra         | 30      | 30      | 30        | 30      | 30      |
| NTPC Gandhar Gujarat              | 0       | 50      | 100       | 200     | 200     |
| Baroda Rayon Gujarat              | 86      | 86      | 86        | 86      | 86      |
| Core Healthcare Gujarat           | 43      | 43      | 43        | 43      | 43      |
| Indo Rama Gujarat                 | 69      | 69      | 69        | 69      | 69      |
| Sanghi Cement Gujarat             | 60      | 60      | 60        | 60      | 60      |
| Search Chem Gujarat               | 75      | 75      | 75        | 75      | 75      |
| S Kumar Synfab Madhya Pradesh     | 40      | 40      | 40        | 40      | 40      |
| Godrej Soaps Maharashtra          | 8       | 8       | 8         | 8       | 8       |
| Kedia, Jhabua (GA) Madhya Pradesh | ı 0     | 250     | 380       | 380     | 380     |
| Alpine, Rajgarh Madhya Pradesh    | 0       | 250     | 500       | 500     | 5(10)   |
| STI Guna TPS Madhya Pradesh       | 0       | 250     | 500       | 500     | 500     |
| Subhash, Khandwa Madhya Pradesh   | 0       | 180     | 240       | 240     | 240     |
| ZACL Power Goa                    | 0       | 75      | 150       | 150     | 150     |
| Enron Dabhol Maharashtra          | 0       | 500     | 1000      | 1000    | 1000    |
| RIL Patalganga Maharashtra        | 0       | 300     | 750       | 750     | 750     |
| TEC Bhivpuri Maharashtra          | 0       | 150     | 300       | 300     | 300     |
| Nippon Denro Pen Maharashtra      | 0       | 150     | 300       | 300     | 300     |
| Kalyanı Steel Pen Maharashtra     | 0       | 150     | 300       | 300     | 300     |
| TNEB Tamil Nadu                   | 50      | 50      | 50        | 50      | 50      |
| APSEB, V'Swaram Andhra Pradesh    | 35      | 35      | 35        | 35      | 35      |
| NTIC Hyderabad Andhra Pradesh     | 50      | 440     | 750       | 750     | 750     |
| Spectrum Andhra Pradesh           | 25      | 25      | 25        | 25      | 25      |
| GVK Industries Andhra Pradesh     | 90      | 90      | 90        | 90      | 90      |
| NTPC K' Kulam Kerala              | 0       | 100     | 350       | 450     | 450     |
| DMPC Pıllai Peruna Tamil Nadu     | 0       | 200     | 300       | 420     | 420     |
| Kannur Power Kerala               | 0       | 180     | 600       | 750     | 750     |
| RPG, K'Gode Kerala                | 0       | 540     | 720       | 900     | 900     |
| Kumar Energy Kerala               | 0       | 250     | 420       | 522     | 522     |
| APSEB (@ 30 MW) Andhra Pradesi    | -       | 200     | 260       | 330     | 330     |
| Shivapriya Inds Andhra Pradesh    | 75      | 123     | 123       | 123     | 123     |
| KSEB (@ 40 MW) Karnataka          | 100     | 250     | 420       | 420     | 420     |
| Nagarjuna Construct Andhra Prades |         | 120     | 200       | 200     | 200     |
| Kei, Bijapur Karnataka            | v       | 135     | 225       | 225     | 225     |
| Whitefield, Karnataka             | 0       | 150     | 240       | 300     | 300     |
| KSEB Thumbin-Kare, Karnataka      | 0       | 108     | 180       | 180     | 180     |
| Palakkad Kerala                   | 0       | 600     | 900       | 1200    | 1200    |
| Ensearch Kerala                   | 0       | 0       | 400       | 400     | 400     |
|                                   | 0       | _       | 700       |         | 700     |
| BPL M'Swar Kerala                 |         | 400     | /(1/1     | 700     | /(///   |

to be guiffanteed - whether it will be limited to the amount of loan or the entire payment to be made by MSEB as appears to be the case." In the same meeting, finance ministry officials also questioned the guarantee of the repatriation of the return on equity: "Finance also sought clarification on the second part of the guarantee relating to... guarantee of foreign exchange availability and repatriation... the promoters as per lender's requirement would be seeking a formal guarantee from GOI regarding foreign exchange in order to meet their foreign currency liabilities."

#### LOBBYING THE ELECTRICITY AUTHORITY

The Central Electricity Authority (CEA) is the public authority in India charged with evaluating power projects - on the basis of the demand for them, the appropriateness of the technology, and the scheme of returns assured to any power company. At every other forum, charm, obfuscation and lobbying prevailed. But the CEA deals with technical issues - where Enron failed to provide satisfaction. As Rebecca P Mark, chairman of Enron Development Corporation, demonstrates in this fax of August 26, 1993 to the then chief minister Sharad Pawar of Maharashtra where this project is located, this firm believes that lobbying - not honest presentation of fact - is what works in India. "A key issue is clearance by CEA. Our people, together with MSEB, have met extensively with CEA this week to answer their questions about the project. The remaining concern seems to reside with Mr Beg, Member Planning for Thermal Projects. He continues to hold up project approval based upon the question of demand for power in Maharashtra. No one from the ministry of power in Delhi has given direction to Mr Beg to move forward on this issue."

The CEA wrote on September 20, 1993 that: "in order to enable the firm to seek and obtain financial assistance, 'in principle' clearance is being communicated to M/s ENRON". This was provided despite serious reservations expressed by the CEA in this very letter: The power from the project may not be fully absorbed in the Maharashtra system. Hence, agreements for purchase of surplus power by other interested states are to be finalised by government of Maharashtra/MSEB who had entered into MOU with M/s ENRON. The studies carried out by CEA indicate that the project is not the least cost option. Tariff calculations are under preparation in CEA".

The CEA only provided Enron's project a conditional clearance on the basis of the MSEB averment that the Enron tariff would fit within the guidelines announced by the government: "However, MSEB has intimated

that the tariff offered by M/s Enron is lower than that calculated on the basis of two part tariff notified by government of India. With this background Dabol [sic] TPS is found to be acceptable 'in principle'."

Enron's DPC investment in India seemed to show the way for foreign and domestic investors in power. Yet in their desire to carve out an exception to suit this company, government officials have ensured that no policy can be framed for the industry as a whole.

Now the MSEB in its letter of September 30, 1994 to the energy secretary of the government of Maharashtra says: "This is to state that Maharashtra State Electricity Board had already examined the tariff structure of the Dabhol Power Company and accordingly intimated the Central Electricity Authority vide MSEB's letter # GH/ND/ARJ/ENRON/252 dated September 17, 1993 (copy enclosed for reference) that the tariff offered by M/s Enron is lower than that calculated on the basis of two part tariff notified by Government of India."

#### INDIAN PARTIES, FOREIGN LAW

"4. Shri R N Poddar of law ministry... mentioned that the Indemnity Clause is too wide-ranging and needs to be deleted. On the applicability of English Law, the general view was that since it is an agreement between Indian parties, the governing law should be Indian Law."

In reply to questions raised by the finance secretary and the secretary (exp), it was clarified that "all payments under the PPA are proposed to be covered under the counter guarantee for the entire term of the validity of the PPA. Therefore, the guarantee is not limited only to the amount and period of loan".

A Confidential Note No 740/06/C/269/94-ES dated July 15, 1994 written by Dinkar Khullar, director in the prime minister's office, minutes that: "Principal secretary took a meeting at 4.00 PM on Tuesday, July 12, 1994, to discuss the counter guarantee Agreement to be signed for the Dabhol Power Project. Finance secretary, power secretary, law secretary, special secretary, power and chief secretary. Maharashtra were among those present.

"I. Arbitration Clause: M/s Enron had agreed to Indian Law prevailing as the substantive law for the Agreement. However, for Arbitration they wished to have British Law (but there is no British Law, only English and Scottish Law) with the venue being London. It was decided that GOI should retain conciliation as the first step and go along with the Maharashtra government formulation on arbitration while exploring the possibility of Singapore as a venue instead of London."

A government note of February 1995, discusses what was sought to be achieved in modifying the power purchase agreement: "the arbitration clause has been updated to take account of the Supreme Court ruling in the case of Singer vs NTPC... an agreement to arbitrate is to be governed by a law other than Indian law if the arbitration is to be an international arbitration for the purposes of the Convention and the Act, although the law governing the contract itself may remain as Indian law... the arbitration award would be readily enforceable in India without the risk of a general review of the ments of the case by the Indian courts and the delays consequent upon such a review."

Before this amendment what would have happened was that the award by English arbitrators would not have been treated as a foreign award under the terms of the Act — and therefore could not be enforced in India. So the agreement of December 8, 1993 was amended as recently as on February 2, 1995 to specify that though the law of the agreement could be Indian, the arbitration would be under English law. It would therefore be treated as a foreign award in India and can in this respect be enforced.

N Ramji, joint secretary, department of power, government of India, observed at one early meeting that: "He made it clear that the government of India would not be in a position to extend any guarantee for these loans. He then directed deputy secretary (Power) Mr Brar to give his observations. These were as follows: (1) The total cash outflow of foreign exchange would be over 1.4 billion dollars. (2) The loan is being repaid in 10 years and thereafter the capacity charge needs to come down. (3) As per his calculations, the ROE was 50 per cent."

#### TARIFF UNDERSTATED

Both the government of Maharashtra and Enron claimed that the tariff payable by the company will be Rs 2.4/kwH. Yet it has long been clear that this would only be true under completely unrealistic projections of the value of the rupee in relation to the dollar; and the price of the imported feed stock, be it naphtha or natural gas. Moreover, this would only be true at the very outset since there is an automatic escalation of price built into the tariff. The MSEB letter to UK Mukhopadhyay, secretary (energy), government of Maharashtra, of July 8, 1993 shows full awareness of the fact that the tariff would escalate dramatically.

Its first scenario assumes Rs 41.2/\$ in 1998, rising to Rs 45.2 in 2010. It further assumes the escalation of capacity charge at 4 per cent per annum, of oil price cif at \$ 4.51/MBTU in 1996, and gas price cif at \$ 3.8/MBTU in 1998 and escalation on oil and

gas price at 5.5 per cent per annum. Under these circumstances, the tariff would work out to Rs 3.22 in 1998 rising to Rs 5.52 in 2010. The second scenario projects an exchange rate of Rs 50.5/\$ in 1998 and Rs 113.71/\$ in 2010. It therefore projects a tariff rising from Rs 3.95/kwH in 1998 to Rs 13.89 in 2010. The third scenario projects the rupee at Rs 41.2/\$ in 1998 and Rs 45.2 in 2010. Consequently, it projects the tariff rising from Rs 3.03 to Rs 5.21. The fourth scenario assumes Rs 41.2/\$ in 1998 to Rs 45.2 in 2010. As a consequence it projects Rs 2.77/kwH in 1998 and Rs 4.74 in 2010. The fifth scenario assumes Rs 41.2/\$ in 1998 and Rs 45.2 in 2010. It therefore projects Rs 3.3/kwH in 1998 rising to Rs 5.64/kwH in 2010. The last scenario assumes Rs 50.5 as the exchange rate for the US\$ in 1998 and Rs 113.71 in 2010. It therefore, projects a tariff of Rs 4.04/kwH in 1998 rising to Rs 14.19/kwH in 2010.

The fact that the MSEB, the government of India and the government of Maharashtra considered this range of options shows clearly that they realised the truly high cost of Enron's power – and then went along with it.

The earlier suit of the state of Maharashtra filed against Enron drawn up by Nitin Pradhan and Prashant Bhushan and settled by senior counsel F S Nariman, said: "It has now come out that the whole object of the First Defendant was to gain maximum advantage to itself by the said Project at the cost of the Indian public. It was inter alia decided by the said Enron to divest 20 per cent to 30 per cent equity holding in First Defendant to one New Orleans based company called Enlergy Court at a high premium straightaway which would result in the said Enron making a substantial profit."

Yet, a subsequent amendment of the original circular of the ministry of power, SO 251 (E) dated March 30, 1992, was made on January 13, 1995. That amendment stated that: "premium raised by the Generating Company while issuing share capital and investment of internal resources created out of free reserve of existing company, if any, for the funding of the project, shall also be reckoned as paid up capital for the purpose of computing the return on equity, provided such premium amount and internal resources are actually utilised for meeting the capital expenditure of the power generation project and forms part of the approved financial package as set out in the techno-economic clearance accorded by the Authority." Clearly that would not be the intention of Enron should it have farmed out this equity - since the nature of the agreement is that all costs are covered and returns assured in the tariff, including extraordinary profits.

#### AMENDED ITA

The amended power purchase agreement (PPA) which the MSEB has just concluded with Enron Development Corporation's Dabhol Power Company raises interesting

The original PPA provided that DPC would be paid by the capacity made available to the Board – whether or not that power was consumed. But the norm has been payment for the plant load factor (PLF) – for the prover actually generated. A fundamental stror had been made in negotiating an agreement with DPC for a baseload plant. Since it would be fuelled by naphtha and eventually by imported natural gas, DPC would be the most expensive supplier of power in this state to the grid. All other depreciated plants based on either hydroelectric power or coal would sell electricity at far lower prices.

DPC should instead have been a peaking power station which MSEB could turn to

TABLE 2: FUEL OIL-BASED POWER PLANTS - UPPER CASE

| Power Producer                                  | 1997-98    | 1998-99    | 1999-2000  | 2000-01    | 2001-02    |
|-------------------------------------------------|------------|------------|------------|------------|------------|
| TPS Obra Uttar Pradesh                          | 35         | 35         | 35         | 35         | 35         |
| UPSEB Harduaganj, Uttar Pradesh                 | 18         | 18         | 18         | 18         | 18         |
| BTPS Badarpur, Haryana                          | 6          | 6          | 6          | 6          | 6          |
| GNTP Bhatinda, Punjab                           | 16         | 16         | 16         | 16         | 16         |
| TPS Paricha, Uttar Pradesh                      | 8          | 8          | 8          | 8          | 8          |
| TPS Singrauli                                   | 16         | 16         | 16         | 16         | 16         |
| TPS Rihand, Punjab                              | 7          | 7          | 7          | 7          | 7          |
| TPS Ropar, Punjab                               | 27         | 27         | 27         | 27         | 27         |
| HSEB Faridabad, Haryana                         | 4          | 4          | 4          | 4          | 4          |
| TPS Panipat, Haryana                            | 55         | 55         | 55         | 55         | 55         |
| RSEB Kota, Rajasthan                            | 19         | 19         | 19         | 19         | 19         |
| NTPC Unchahar, Uttar Pradesh                    | 5          | 5          | 10         | 10         | 10         |
| DESU, Delhi                                     | 53         | 53         | 53         | 53         | 53         |
| NTPC Dadri, Uttar Pradesh                       | 17         | 17         | 17         | 17         | .17        |
| KTPS Kota, Rajasthan                            | 29         | 29         | 29         | 29         | 29         |
| HWP Rawatbata, Rajasthan                        | 60         | 60         | 60         | 60         | 60         |
| Control and Switch Gear, Haryana                | 0          | 0          | 140        | 140        | 140        |
| India Power Project, Uttar Pradesh              | 0          | 140        | 140        | 140        | 140        |
| HSEB Yamunanagar, Haryana                       | 0          | 0          | 0          | 0          | 50         |
| RPG, Noida, Uttar Pradesh                       | 0          | 160        | 160        | 160        | 160        |
| RSEB Suratgarh, Rajasthan                       | 0          | 0          | 10         | 10         | 10         |
| Magnum, Gurgaon, Haryana                        | 0          | . 0        | 30         | 30         | 30         |
| DCW Kundli, Haryana                             | 180        | 180        | 180        | 180        | 180        |
| DCW Mohingarh, Haryana                          | 180        | 180        | 180        | 180        | 180        |
| DCW, Faridabad, Haryana                         | 180        | 180        | 180        | 180<br>180 | 180<br>180 |
| DCW Jodhpur, Rajnethan                          | 180        | 180        | 180<br>180 | 180        | 180        |
| DCW, Ambala, Haryana                            | 180        | 180<br>180 | 180        | 180        | 180        |
| DCW, Gurgaon, Haryana                           | 180        | 180        | 180        | 180        | 180        |
| DCW Abu Road, Haryana                           | 180<br>150 | 150        | 150        | 150        | 150        |
| Lupin Laboratory, Rajasthan                     |            | 160        | 160        | 160        | 160        |
| Ginni Filaments, Luki, Uttar Pradesl            | 0          | 240        | 240        | 240        | 240        |
| Phoenix Overseas, Haryana                       | 160        | 160        | 160        | 160        | 160        |
| RPG, Rajasthan                                  | 160        | 160        | 160        | 160        | 160        |
| RPG, Haryana<br>Subhash Projects, Uttar Pradesh | 0          | 240        | 240        | 240        | 240        |
| Indo Gulf, Roja, Uttar Pradesh                  | ŏ          | 0          | 0          | 0          | 0          |
| CTPS, CPR, Assam                                | 32         | 32         | 32         | 32         | 32         |
| ASEB, CPR, Assam                                | 85         | 85         | 85         | 85         | 85         |
| BTPS Salakati, Assam                            | 8          | 8          | 8          | 8          | 8          |
| BTPS Barauni, Bihar                             | 20         | 20         | 20         | 20         | 20         |
| NTPC, Farakka, West Bengal                      | 37         | 37         | 37         | 37         | 37         |
| NTPC Kahalgaon, Assam                           | 40         | 40         | 40         | 40         | 40         |
| DTPS Durgapur, Bihar                            | 7          | 7          | 7          | 7          | 7          |
| PTPS, Patratu, West Bengal                      | 10         | 10         | 10         | 10         | 10         |
| MTPC Kanti, Orissa                              | 19         | 19         | 19         | 19         | 19         |
| NTPC Kaniha, Orissa                             | 16         | 16         | 16         | 16         | 16         |
| TTPS Talcher, Orissa                            | 24         | 24         | 24         | 24         | 24         |
| DVC Mejia, Bankura                              | 12         | 14         | 14         | 14         | 14         |
| IIPS Expan (NTPC) Talchar, Orissa               | 18         | 18         | 18         | 18         | 18         |
| APC Transpower, Assam                           | 0          | 12         | 12         | 12         | 12         |
| Kaligan Power Corporation, Dhubu                | ri         |            |            |            |            |
| Orissa                                          | 0          | 10         | 10         | 10         | 10         |
| Bomlai Thermal, Bimlai, Orissa                  | 0          | 0          | 10         | 10         | 10         |
| CEPA Hirma, Orissa                              | 0          | 0          | 36         | 36         | 36         |
| Lapang Thermal Station, Orissa                  | 0          | 0          | 0          | 12         | 12         |
| LB Valley Naraj Thermal Power, O                | rissa 0    | 12         | 12         | 12         | 12         |
| WBSEB, Bakreshwar, West Bengal                  |            | 12         | 12         | 12         | 12         |
|                                                 |            |            |            |            |            |

(Cont.

TABLE 2: (CONIA)

| Power Producer                                                   | 1997-98    | 1998-99     | 1999-2000  | 2000-01     | 2001-02     |
|------------------------------------------------------------------|------------|-------------|------------|-------------|-------------|
| 3EB Dhuwaran, Gujarat                                            | 760        | 760         | 760        | 760         | 760         |
| GBB, Ukai, Gujarat                                               | 70         | 70          | 70         | 70          | 70          |
| GEB, Gandhinagar, Gujarat                                        | 24<br>70   | 24<br>70    | 24<br>70   | 24<br>70    | 24          |
| GEB Wanakbori, Gujarat AECO, Ahmedabad, Gujarat                  | 15         | 15          | 15         | 15          | 70<br>15    |
| NTPC, Waidhan Gujarat                                            | 12         | 12          | 12         | 12          | 12          |
| MPBB Saranı, Madhya Pradesh                                      | 80         | 80          | 80         | 80          | 80          |
| MPEB Dhari, Madhya Pradesh                                       | 18         | 18          | 18         | 18          | 18          |
| MPEB Korba, Madhya Pradesh                                       | 20         | 20          | 20         | 20          | 20          |
| NTPC, Korba, Madhya Pradesh<br>MSEB, Koradi, Maharashtra         | 8<br>25    | 8<br>25     | 8<br>25    | 8<br>25     | 8<br>25     |
| MSEB, CPR, Maharashtra                                           | 40         | 40          | 40         | 40          | 40          |
| MSEB, Kaperkheda, Maharashtra                                    | 10         | 10          | 10         | 10          | 10          |
| Tata, Maharashtra                                                | 1050       | 1050        | 1050       | 1050        | 1050        |
| MSEB, Nasik, Maharashtra                                         | 18         | 18          | 18         | 18          | 18          |
| MSEB, Bhusaval, Maharashtra                                      | 16<br>3    | 16<br>3     | 16<br>3    | 16<br>3     | 16<br>3     |
| MSEB, Paras, Maharashtra<br>MPEB Chachai, Madhya Pradesh         | 16         | 16          | 16         | 16          | 16          |
| MSEB Parli, Maharashtra                                          | 23         | 23          | 23         | 23          | 23          |
| Giobal Board, Madhya Pradesh                                     | 110        | 220         | 220        | 220         | 220         |
| DCW Power, Mandide, Madhya Prad                                  | esh 0      | 60          | 120        | 240         | 240         |
| SP Power, Pithampur, Madhya Prades                               | sh O       | 240         | 240        | 240         | 240         |
| GVK, Ratlam, Madhya Pradesh                                      | 0          | 110         | 220        | 220         | 220         |
| National Steel Industries,                                       | 10         | 20          | 20         | 20          | 20          |
| Indore, Madhya Pradesh<br>Hira Ferro Alloy, Raipur, Madhya Pra   |            | 20          | 30         | 33          | 33          |
| Rama News Print, Gujarat                                         | 36         | 36          | 36         | 36          | 36          |
| Ruchi Soya, Madhya Pradesh                                       | 0          | 40          | 40         | 40          | 40          |
| Gujarat Flouro Chem, Gujarat                                     | 200        | 200         | 200        | 200         | 200         |
| Woolworth, Raipur, Madhya Pradesh                                | 20         | 20          | 20         | 20          | 20          |
| Tips Tuticorin, Tamii Nadu                                       | 30         | 30          | 30         | 30          | 30          |
| MTPP Menurdam, Tamil Nadu                                        | 5<br>59    | 5<br>59     | 5<br>59    | 5<br>59     | .5<br>59    |
| NLC Neyveli, Tamil Nadu<br>HWP Manuguru, Andhra Pradesh          | 25         | 25          | 25         | 25          | 25          |
| KTPS Polancha, Karnataka                                         | 18         | 18          | 18         | 18          | 18          |
| R TPS, Raichur, Karnataka                                        | 10         | 10          | 10         | 10          | 10          |
| KEB Yallahanka, Karnataka                                        | 135        | 135         | 135        | 135         | 135         |
| VTPS Ibrahimpur Kerala                                           | 25         | 25          | 25         | 25          | 25          |
| RTPS Kalkamalia, Kerala                                          | 18         | 18          | 18         | 18          | 18          |
| Rayalaseema TPS, Andhra Pradesh                                  | 12<br>80   | 12<br>80    | 12<br>80   | 12<br>80    | 12<br>80    |
| NMTPS Madras, Tamil Nadu<br>NTPC Ramagundam, Andhra Pradesi      |            | 7           | 7          | 7           | 7           |
| ETPS Ennore, Kerala                                              | " <i>'</i> | 6           | 6          | 6           | 6           |
| MTPS Madras, Tamil Nadu                                          | Ô          | Ō           | Ö          | 0           | 0           |
| GMR Vasavı, Tamıl Nadu                                           | 370        | 370         | 370        | 370         | 370         |
| ESSAR Pellitisation AP                                           | 60         | 60          | 60         | 60          | 60          |
| CRL, Kerala                                                      | 0          | 0           | 0          | 450         | 800         |
| Cogentrix, Kamataka                                              | 0<br>170   | 48<br>170   | 48<br>170  | 48<br>170   | 48<br>170   |
| KSEB Bhramapuram, Kerala<br>KIOCL, Karnataka                     | 180        | 180         | 180        | 180         | 180         |
| Green View Power, Vzr, Andhra Prae                               |            | 36          | 36         | 36          | 36          |
| KSEB Kozhikode, Kerala                                           | 180        | 180         | 180        | 180         | 180         |
| RPG Kasargode, Kerala                                            | 90         | 90          | 90         | 90          | 90          |
| Trishakti Energy, TN                                             | 10         | 10          | 10         | 10          | 10          |
| Subhash Project, Karnataka                                       | 0          | 60          | 60         | 60          | 60          |
| Jindal Ferro Alloy, Vzr, Andhra Pri<br>Imperial Power, Karnataka | acesn 21   | 21<br>60    | 21<br>60   | 21<br>60    | 21<br>60    |
| KiOCL, Kudremukh, Karnataka                                      | 180        | 180         | 180        | 180         | 180         |
| KSEB, Kasargod, Kerala                                           | 90         | 90          | 90         | 90          | 90          |
| Surya Chakra Power Corpn, Vzr,                                   |            |             |            |             |             |
| Andhra Pradesh                                                   | 0          | 200         | 200        | 200         | 200         |
| DLF Power, Vzr. Andhra Pradesh                                   | 0          | 80          | 80         | 80          | 80          |
| Astha T and I, Vzr, Andhra Pradesi                               |            | 45          | 45<br>45   | 45<br>45    | 45<br>45    |
| Future Power, Vzr, Andhra Pradesi<br>Aban Lloyd, Kerala          | h ()       | 45<br>175   | 45<br>175  | 45<br>175   | 45<br>175   |
| Kesoram Cement, Vzr, Andhra Pra                                  |            | 20          | 20         | 20          | 20          |
| Western India, Kerala                                            | 25         | 25          | 25         | 25          | 25          |
| Sri Royal Seema, Bel, Karnataka                                  | 0          | 48          | 48         | 48          | 48          |
| SPIC Elec Power, Tamil Nadu                                      | 0          | 0           | 15         | 15          | 15          |
| WL Services, Kozhikode, Kerala<br>Total                          | 0          | 251<br>9372 | 25<br>9976 | 25<br>10563 | 25<br>11023 |
|                                                                  | 7052       |             |            |             |             |

during periods of high demand, such as the daytime during the week when it would need to purchase power from every available source. At night and periods when factories and offices would be closed and even domestic consumption would fall sharply, the State Electricity Board should rationally rely upon cheaper providers of power - 'baseload demand'. Only at peak times when power would be necessary at any price - since the alternative would be to not supply consumers electricity - should the Board buy power from an expensive peak load station.

MSEB committed itself to paying for the mere availability of 625 MW - 90 per cent of DPC's available capacity - even if did not consume that power. So a major distortion creeps into the entire administration of the grid. MSEB must first use DPC in preference to cheaper suppliers of electricity. So the average cost of MSEB power will rise dramatically. This is passed on to the ultimate consumers.

The new Shiv Sena-BJP state government came to office and repudiated that PPA. But it subsequently negotiated an amended power purchase agreement. Three significant changes were made First, it kept intact the original commitment for the purchase of 625MW baseload power from Phase I, at the original tariff. Second, DPC agreed to supply an additional 70MW of power as part of the baseload capacity of the plant. Third, it committed itself to a 'Phase II' of this project, permitting DPC to set up a vastly expanded capacity and committing itself to the purchase of that power on a backloaded dollar denominated tariff expressed in 'real rupees' and 'nominal rupees' similar to the one signed by the earlier government. Only once the new plant was set up would the new tariff - an average of Phase I and Phase II tariffs - come into effect.

#### WHAT SHOULD HAVE BEEN DONE?

A lower price for power should have been negotiated for the first phase of the plant. Phase I should have been renegotiated as a peaking power station. And a significantly lower price should have been negotiated for Phase II. No agreement had yet been reached on that phase. Phase II should have been renegotiated as a peaking power station. The skifting of 70MW of capacity in the first phase of the project from the peakload to the baseload has simply increased the high cost baseload burden on the MSEB. This is by no means free power. The cost of this 70MW is simply passed through in the tariff.

DPC will not be required to make major investments to modify the plant. An engineer involved with these negotiations points out that an interesting amendment to the PPA may permit it to increase capacity at virtually

no capital investment - but lower efficiency and therefore higher operating cost - which will have to be borne by MSEB not DPC.

MSEB will now have to make a, higher net payment, although at a lower unit rate. Under Schedule 7, 'Capacity Test Procedures', Section 2, the original definition of 'base load' was "the operation of the Frame 9FA combustion turbines at rated exhaust temperature on the vendor's exhaust gas temperature curve for the given inlet air temperature." This has been amended in the new agreement to be defined as "the operation of the Frame 9FA combustion turbines at rated exhaust temperature on the vendor's exhaust gas temperature curve for the given inlet air temperature plus, after Entry into Commercial Service of Phase II, duct firing of the heat recovery steam generators' (emphasis added).

The original design for Phase I was 209FA (signifying two separate 9FA gas turbines and one steam turbine totalling 635MW for baseload) and 1 FR#6 gas turbine with duct firing providing 70MW for peaking. For Phase II, two additional similar blocks of 209FA of 635MW each totalling 1270 each were envisaged for baseload; and an additional 70MW of peaking power through duct firing.

Under the revision, the same expert points out, DPC will provide for Phase-I an uprated version of 9FA gas turbines to provide a capacity of 670MW instead of 635MW (though actual capacity may be 679MW) from the blocks of 209FA; and two more similar blocks for Phase-II, resulting in 670MW+670MW+670MW = 2010+105 (35+35+35 from duct firing which has been shifted from peak load to base) = 2115MW (ref: Schedule, Annexure 1.1).

The actual capacity can be 679x3=2037+105=2142MW. DPC will add 8MW of duct firing to provide 2150MW. As a consequence, for a limited investment fully recovered from the tariff – and higher operating costs because of the shift of some of the capacities from peak load to base load – DPC is able to show additional capacity.

#### CAPITAL COST NOT FIXED

Because the capital cost has not been fixed – as it is in the case of the other negotiated independent power producers (IPP) – there is no achievement in an additional amount of power production for the same project. An additional 70MW in the case of one of the IPPs would be a significant bonus to the SEB because there would be no increase in the capital cost – and yet would be an increase in the capacity. No additional capital costs are recoverable by the IPP from the SEB; only variable costs such as additional fuel required. But in DPC's case the capital cost has not been fixed and therefore, both the

fixed capital cost, and all variable costs are simply passed through in the tariff payable by the SEB.

The Rupee Debt Service Charges were brought down; so the original definition in the agreement of the rupee capital recovery (RCR) from the date of entry into commercial service of Phase I until the end of the year of entry into commercial service of Phase I was modified. The original formula read: RCRecs = RDS1/ecs/(6,25,000 \* n) where 'n' is the inclusive number of hours between the date of entry into commercial service of Phase I and the last day of the year of entry into commercial service of Phase I.

This equation was modified by increasing the denominator and bringing down therefore the rupee capital recovery value as a component of the tariff. The amended equation reads: RCRecs = RDS1/ecs/(6,70,000 \* n). Yet this marginal reduction achieved in the renegotiation in the Rupee Debt Service charges may well be offset by the increase in revenues to DPC because of a significantly increased volume in sale of power.

#### 'ENERGY PAYMENTS'

But a reduction has been negotiated in various fees payable to DPC. Schedule 10 of the power purchase agreement is 'Energy Payments'. This deals with calculations of fuel price, delivered energy payments, take or pay adjustments, O and M payments. Part IV of this deals with fees payable to DPC by MSEB: testing fees and special operation fee, fuel operations fee and commissioning fuel fee. Now these have all been reduced. The amended contract says: "each of the fees set out above are 1997 prices and shall be subject to indexation in each year thereafter by reference to the following formula". This formula it sets out, so that these fees keep increasing as time goes out. Under Testing Fee and Capital Operations Fees is said: "the following fees shall be payable by MSEB and included in the Energy Payments in respect of the month in which the relevant test or operations is carried out." The Capacity Test amounted to \$ 50,000. Now this has been brought down to \$ 47,500.

"Hot Starts required because of an event or circumstance of Political Force Majeure or reasons attributable to MSEB including Despatch Instructions" have been lowered. The new renegotiated fee is stated in brackets:

| Fuel/Generating Unit | Natural Gas | Distillate |  |  |
|----------------------|-------------|------------|--|--|
| Frame 9FA            |             |            |  |  |
| Gas Turbine          | \$ 9,990    | \$ 10,429  |  |  |
|                      | (9,490)     | (9,907)    |  |  |
| Steam Turbine        | \$ 4,956    | \$ 5,015   |  |  |
|                      | (4,708)     | (4,764)    |  |  |
| Frame 6 Gas Turbine  | : Zero      | Zero       |  |  |

Likewise, "Cold Starts required because of an event or circumstance of Political Force Majeure or reasons attributable to MSEB including Despatch Instructions" have been lowered (the new renegotiated fee is stated in brackets):

| Fuel/ Generating<br>Unit | Natural Gas | Distillate |  |  |
|--------------------------|-------------|------------|--|--|
| Frame 9FA Gas            |             |            |  |  |
| Turbine                  | \$ 14,261   | \$ 15,307  |  |  |
|                          | (13,548)    | (14,541)   |  |  |
| Steam Turbine            | \$ 11,629   | \$ 12,126  |  |  |
|                          | (11,047)    | (11,519)   |  |  |
| Frame 6 Gas Turbine      | Zero        | Zero       |  |  |

The basic question is whether these fees should have been concocted as an item for special payment; and charged to the tariff in the first place? The negotiating team must justify their very validity.

#### COMPETITIVE BIDDING

It was well known that no competitive process had been instituted for Phase I of DPC for the procurement of plant and equipment. The Re-negotiation Committee failed to ensure competitive tendering for Phase I of the project; but announced that competitive tendering would prevail in Phase II. Where was the 're-negotiation' in this? Yet what seemed a very modest achievement turns out not even to be so. The Agreement says: "The arrangements for acquisition of Major Equipment to be used in the construction of Phase II shall be made on the basis of a competitive tendering process..."

And what is this process? "...DPC and MSEB shall jointly determine the identity of the successful bidder as follows. DPC shall make a provisional determination of the successful bidder and shall notify MSEB in writing of the identity of such bidder, together with the basis on which the determination was made and any relevant supporting documentation. If MSEB has not raised any objection to such determination, together with its reasons for such objections, within eight business days of receipt of DPC's provisional determination, DPC be entitled to serve a further notice on MSEB requiring it to concur in such determination. If MSEB fails to raise an objection to the determination, together with reasons as mentioned above, within two further business days from receipt of such further notice, the successful bidder determined by DPC shall be deemed to have been jointly determined."

Clearly MSEB has only a right to *object*. But DPC has effective control of the process of evaluation.

A power producer may have private arrangements with suppliers of equipment and machinery to ensure they are awarded contracts for its projects which are simply an element of the tariff.

The solution may be to negotiate the capital cost at the outset; and to stipulate competitive bidding for contracts. The apprehension was especially acute in the case of DPC. Enron has made the contractors Bechtel and General Electric significant equity holders. This ensures that they have a stake and are in a position to lobby for the most attractive terms to themselves. The Renegotiating Committee set itself the task of ensuring that goods and services would be locally sourced. But DPC has not been compelled to source locally. Nor is there a significant penalty to compel it to do so. Instead there is a mere recommendation; and a bonus to DPC should it do so. This may not compare with the extraneous advantages to DPC shareholders and the promoters in their separate capacity of awarding the plant and equipment contracts to themselves.

The revised clause reads: "6.1(d) DPC shall use all reasonable endeavours to source in India consumables and other goods and services required for the operation and maintenance of the Power Station with a target of sourcing 30 per cent in value of such goods and services in India by the third anniversary of Entry into Commercial Service of Phase I and increasing such percentage by 10 per cent per year thereafter up to a maximum of 80 per cent. Upon the third anniversary of Entry into Commercial Service of Phase I and at two-yearly intervals thereafter the parties shall carry out a joint review of the result of such endeavours. If and to the extent that, on the basis of such review, the parties determine that DPC has been able to increase the ratio of India to foreign-sourced goods and services, (i) in the case of goods and services for which DPC is reimbursed by way of the Fixed O and M Charges referred to in Schedule 9, above the ratio of the Rupee Fixed O and M Charges to the Real Rupee Fixed O and M Charges, or (ii)in the case of goods and services for which DPC is reimbursed by way of the Variable O and M Payment referred to in Schedule 10, above the ratio of \$ VOMC to RVOMC there shall be a fair and reasonable adjustment to the relevant charge to reflect such increased ratio to be agreed between the parties and in default of agreement determined by the Expert." No obligation to limit the project cost. Only best efforts.

The government of India's guidelines for independent power projects permit only 1 per cent of project cost as insurance for the first year of commercial operation. Yet according to Schedule 9, part IV of the PPA, the insurance for Phase I is fixed in dollar terms at 1997 prices. But it is subject to US inflation escalation. Insurance will be calculated according to the actual date of

laid down in the guidelines. This dollardenominated premium raises the question of whether DPC intended to insure this project in India or abroad. The Indian Insurance Act proscribes insuring overseas by an Indian company save in case of overseas projects, the import of plant and machinery or marine insurance.

#### BOP CONSEQUENCE OF FUEL IMPORTS

Petroleum demand is set to increase sharply. The draft report of the IX Plan Group on Demand Projections for the Petroleum Sector has estimated that it could go up from 81 million tonnes in 1996-97 to as much as 146 million by 2001. Nearly half this increase will come from oil-based power plants set up under the new policy. Although international oil majors see this as good news, they may not have considered India's ability to pay. Oil imports could well precipitate the next balance of payments crisis – and a sharp decline in the rate of growth.

Petroleum products today account for 20 per cent - \$ 7.3 billion - of India's \$ 36.37 billion of imports. In 1996-97 the oil import bill is expected to reach \$ 9.5 billion, according to the Oil Co-ordination Committee (OCC) statement in a note sent to the finance ministry for its budget exercises. This is expected to rise by 300 per cent over the next five years to \$ 20 billion. By 2001 the value of petroleum imports could even go up to \$ 30 billion if insufficient refining capacity is available and petroleum must be imported not as crude but as products. India's total imports, oil and non-oil, could go up to \$ 80 billion if the present trend is maintained.

The Draft Report of the Oil Co-ordination Committee's Sub Group of the Planning Commission's Demand Projections for the Petroleum Sector has estimated that the demand for petrolcum products will rise in the years from 1996-97 to 2001-02 from 80.88 million to 119.857 million tonnes. On the other hand, this looks far too conservative. A more realistic projection would take into account those power projects which have been proposed and which have already applied to the ministry of petroleum and natural gas for permission to import naphtha. In this upper case (as we shall call it hereafter to distinguish it from the base case) considered but subsequently rejected by the Planning Commission as being too alarming - products have been projected to increase from 83.457 million tonnes, which it is assumed will be consumed in 1996-97, to 146.818 million tonnes in 2001-02. The increases in the demand for naphtha, diesel. fuel oil, motor spirits and liquefied petroleum gas (LPG) are significantly responsible.

projected total volume of imports of petroleum products in 2001-02 and is expected to grow at 5.5 per cent annually from 12.035m tonnes in 1996-97. Naphtha/ natural gas liquids demand is expected to grow at 7.8 per cent annually from 5041 m tonnes this year to 29.890m tonnes in 2001-02 to comprise 20.35 per cent of total petroleum products consumed by volume. Naphtha and fuel oil together comprise a little over 35 per cent by volume of total petroleum products demand. The new power plants have accelerated the consumption of naphtha and fuel oil following the government's decision to encourage generation from hydrocarbon fuels.

India is increasingly dependent on hydrocarbon products, though it has vast reserves of coal.

Power plants will account for 28.973 mn tonnes of naphtha and fuel oil, contributing substantially to the increase. In the case of naphtha, the base case projects 11.207 million tonnes for 2001-02, while the upper case projects 29.890 million tonnes and therefore a much higher growth rate. To give an idea of when this will happen, the upper case projects a sudden jump between 1997-98 and 1998-99, from 9.318 mn tonnes to 17.924 mn tonnes, and an increase to 25.708 mn tonnes in the following year. There is an increase of 18.68 mn tonnes over the base case. Nearly all of that, 17.95 mn tonnes, is accounted for by the impact of the proposed naphtha requirement for new power plants. In fuel oil, the lower case assumes an increase from 12.035 mn tonnes to 15.654 mn tonnes. But the upper case projects that this will go up instead to 21.803 mn tonnes by 2001-02. Again power is the largest component in the upper case of demand for fuel oil -11.023 mn tonnes out of 21.803 mn tonnes or more than half - compared to 5.413 mn tonnes out of 15.654 mn tonnes, about a third, in the lower case.

The higher case takes into account naphtha based projects such as the IPP demand for 6,75,000 tonnes of naphtha annually in Rajasthan, or RPG Dholpur's demand for 1.1 mn tonnes of naphtha, or Alpine's demand for 5,00,000 tonnes at Rajgarh, or Enron Dabhol's requirement of 1 mn tonnes of naphtha, RIL Patalganga's 7,50,000 tonnes or Ensearch's requirement of 4,00,000 tonnes in Kerala. Ib Valley in Orissa will consume 3,00,000 tonnes annually, AEC in Gujarat, 3,10,000 tonnes, Kedia in Jhabua in Madhya Pradesh, 3,80,000 tonnes, STI Guna Thermal Power Station in Madhya Pradesh will require 5.00,000 tonnes annually, Subhash at Khandwa in Madhya Pradesh will require 2,40,000 tonnes, TEC at Bhivpuri in Maharashtra will require 3,00,000 tonnes, Nippon Denro at Pen in Maharashtra will require 3,00,000 tonnes, Kalyani Steel in Pen Maharashtra will require 3,00,000 tonnes, NTPC at Hyderabad in Andhra Pradesh will require 7 50,000 tonnes, Kannur Power in Kerala will require 7,50,000 tonnes, RPG in Kerala will require 9,00,000 tonnes, Kumar Energy in Kerala will require 5,22,000 tonnes, Karnataka State Electricity Board's new project will require 4,20,000 tonnes, Whitefield in Karnataka will require 3,00,000 tonnes Palakkad in Kerala will use 1,200,000 tonnes, and BPL at M'swar in Kerala will require 7 00,000 tonnes (Table 1)

Even the base case assumes that the important naphtha based power projects will be set up. These include the Essar Bhander project in Madhya Pradesh which should account for 4,00 000 tonnes of naphtha annually, NTPC at Kawas in Gujarat which will consume 2,80,000 tonnes, Essar Power in Gujarat which will consume 5,50,000 tonnes, NTPC Gandhar at Gujarat which will consume 2,00 000 tonnes GTEC at Bharuch in Gujarat which will consume 2,00,000 tonnes, DMPC in Tamil Nadu, 4,20,000 tonnes and NTPC at Kayamkulam in Kerala 4,50,000 tonnes

Fuel oil-based power projects include GEB Dhuwaran in Gujarat (7,60 000 tonnes) Tata Power, Maharashtra (1,050 mt) DCW Power, Madhya Pradesh (2 40 000 tonnes) and CRL, Kerala (8.00.000 tonnes) and Aban Lloyd, Kerala (1,75,000 tonnes) UP State Electricity Board at Pratapur (1 60,000 tonnes), UPSEB at Anpara (1 00,000 tonnes) DCW at Kundu in Haryana (1,80 000 tonnes), DCW at Mohingarh in Haryana (1,80,000 tonnes), DCW at Faridabad in Haryana (1,80,000 tonnes), at Jodhpur in Rajasthan (1,80,000 tonnes), in Ambala, Haryana (1,80,000 tonnes), in Gurgaon Haryana (1,80,000 tonnes), in Abu Road in Rajasthan (1,80,000 tonnes), Lupin in Rajasthan (1,50,000 tonnes) Ginni Filaments at Luki in UP (1 60,000 tonnes), Phoenix Overseas in Haiyana (2,40 000 tonnes) RPG in Rajasthan (1,60,000 tonnes) RPG in Hary ana (1,60,000 to nnes) Subhash Projects in UP (2,50,000 tonnes), Global Board in Madhya Pradesh (2,20 000 tonnes), DCW Power in Mandide in Madhya Pradesh (2,50,000 tonnes), SP Power in Madhya Pradesh (2,40,000 tonnes) and GVK at Ratlam in Madhya Pradesh (2,40,000 tonnes)

Kerosene is widely used as a domestic fuel At 12,192m tonnes it accounts for 8 30 per cent by volume (projected) of total petroleum products consumed in 2001 02, growing at 4.7 per cent annually from 10,517 in 1996-97. Yet this fuel of the poor is not expected to be either an high growth product nor will it make such an impact on the balance of payments. The subsidies paid in kerosene distribution have been declining, from Rs 37,730 million 1993. 94 to Rs 37,400 million in 1994. 95. They are expected to be

frozen under the new petroleum policy, as the government attempts to 'target the truly needy' under the public distribution system of ration shops. This is really an exercise in futility. As even government studies bear out, the poor simply pay more for kerosene because they have to and spend less on other essentials. The Planning Commission has noted the trend that 'all POL products are continuously becoming less price elastic more like essential commodities and an item of utmost necessity. With respect to per capital consumption. MS is a more elastic petroleum product followed by HSD and SKO (domestic kerosene). Relative price

elasticity of SKO is seen decreasing continuously from 0 196 in 1984-85 to 0 103 in 1994-95 income elasticity of SKO (loglog estimate of per capita SKO consumption vs its real prices indices and private final consumption) is 1 36 low price elasticity of SKO seems to be due to fact that SKO is being consumed in small quantities by a large number of consumers for whom the product is a necessity. Thus pricing of petroleum products may not remain an effective policy tool for reduction of their net consumption by substitution with other forms of energy or efficient utilisation."

# Indian Institute of Public Administration New Delhi

# ESSAY COMPETITION ON THE OCCASION OF WORLD FOOD SUMMIT 1996

It gives us great pleasure to announce an all-India Essay competition (sponsored by the Ministry of Food, Government of India) on the occasion of the World Food Summit on the following topics

- (1) Food Security India's Quest for Self-Reliance in Food
- (2) Fight Against Hunger
- (3) Good Security in a Borderless World

Original essay on any one of the above topics should be based on personal study/research/experience of the competitors and should be written in English. The entries (of about 5000 to 7000 words and neatly typed in double space on one side of the paper only) should be submitted in triplicate under a **Nom de Plume**. Full name and address of the competitor should be given on a separate sheet and enclosed in a sealed envelope bearing on the outside the **Nom de Plume**. All essays should be sent to Professor Kamal Nayan Kabra, Indian Institute of Public Administration, Indraprashtha Estate. New Delhi-110 002 by registered post so as to reach us by October 4, 1996. The envelope should be marked "ESSAY COMPETITION — WORLD FOOD SUMMIT 1996"

The value of one First Prize is Rs 10,000/-, Two Second Prizes of Rs 5000/- each and Four Third Prizes of Rs 2500/- each. The essay vill be adjudged by a body of judges selected by the IIPA The award of the judges shall be final and no correspondence on this matter will be entertained. The Institute reserves the right not to make any award if none of the essays submitted reaches the necessary standard.

# Bonded Agricultural Labour in India of 1996

# Case of Hallia Block in UP

Kripa Shankar

For the first three decades after independence, the country's rulers refused even to acknowledge the phenomenon of debt-bonded labourers. Then in 1976, after the proclamation of emergency, the government viewed the passing of the Bonded Labour System (Abolition) Act as synonymous with the freeing of all bonded labourers and cancelling of their debts. The brazen hypocrisy of these postures is exposed by a small survey of five villages in Hallia block of Mirzapur district in UP.

HALLIA block in Mirzapur district of UP borders MP in the south and is very sparsely populated. A century back it was thick forest dotted by kol tribe hutments. The kols were the masters of all that they saw and subsisted on forest produce and on cultivation of inferior grains, mainly kodo.

In the post-independence period two dams were constructed in this block but significantly the irrigation water went to other areas which did not have undulating land. In the wake of the construction of two dams a large number of outsiders descended in this area. They found the land good and by paying a pittance to the Lekhpal acquired a good amount of land. Pressure of population also led farmers and others to move to this area where land was plently and could be acquired easily. There being no land records the kols were alienated from their ancestral habitat and land. The forest was also being denuded and later on what remained of it was declared a reserve forest. A sanctuary was also established and thus the access of kols to forest and its produce was severely limited. In due course of time many were forced to work as bonded labourers of the landlords who had acquired large chunks of

The block is far-flung, being one of the largest in UP. A large part of it is without any road and cut off from the rest of the district. The southern part of the block comprising some 30 villages bordering MP is completely cut off and is locally called 'korawal' area possibly because of its inaccessibility.

We had undertaken some voluntary work in this area and it was during our visits that we were told about the prevalence of debt-bondedness among kols in this area in an acute form. It was only because of our contacts with the local tribals that we not only came to know about the phenomenon but utilised their services in collecting the necessary information from the bonded labourers which otherwise would have been

impossible because the presence of an outside investigator would not have been allowed by the powerful landlords who still rule this area almost in the same manner as they used to in the past. In fact they would have chased and assaulted such outside investigators. Even our resident investigators met the labourers after nightfall and a few among them were hesitant to talk lest the landlord might know about it.

We chose five villages, viz, Karaudia, Singhwania, Gaurava, Beogana and Jhagarha as we had local contacts to collect the information. There were in all 29 bonded labourers in these five villages. It may be mentioned that as these villages are located at a distance of 30-35 kms from the block headquarter and 80 kms from the district headquarter with no roads, the government machinery is practically absent. The village Lekhpal is all powerful but he has to obey the landlords. Any programme meant to help the poor is manipulated in their favour. Thus when land distribution of village land known as Gram Samaj land was initiated in the 1970s, the beneficiaries were not the landless kols but outside relatives of these landlords who greased the palm of the Lekhpal and got the village land in their name. As there was a directive to distribute land to kols also, in a few cases such land was shown to have been distributed to them in the official record but nowhere was any possession given to them. The area being very sparsely populated has a vast chunk of Gram Samaj land which can be distributed to all the landless labourers and still much land will be left with the Gram Samaj. The landlords have prevailed upon the Lekhpal not to take any step in this regard. Similarly, there is vast ceiling surplus land in the villages but we were told that the land was actually still under the possession of the landlords. No official has ever visited the area and the landlords have seen to it that the name of any bonded labourer is not included even in the list of proposed beneficiaries for any of the anti-poverty schemes.

On account of the entente cordiale with the local revenue functionary and the village development officer, no bonded labourer has been selected for any assistance under the Integrated Rural Development Programme. We found that the solitary case where one such person had been assisted under IRDP for a pumpset actually was a case where the landlord had acquired the pump in the name of the bonded labourer who was asked to put his thumb impression on the application form.

Under the Jawahar Rozgar Yojana, we were told that nothing had been done in the study area. Even if some work would have been undertaken the bonded labourers could not have gone there to work. We also did not come across any house constructed for the poor under Indira Avas or Nirbal Avas schemes. Although the Hallia block is under the Revamped Public Distribution System under which the card-holder gets food supply at a price lower by Re I per kg than in other blocks, yet we found that no grain was ever supplied through these shops. Occasionally some kerosene and sugar are distributed. During the period of survey a majority of bonded labourers availed of kerosene but only one-fourth could get sugar.

One enters into the bonded relationship when some cash is required, say for marriage or shradh (death ceremony), etc, and there is no other alternative to get it save by becoming a bonded labour. Nothing is in black and white. No receipt is demanded or given. The landlord is supposed to note down the amount that he has given. No interest will be charged on the money locally called 'agta' as the man will work in lieu of interest. At that time some foodgrain locally called 'buhi' is given which is not to be repaid. He will be paid wages in kind which traditionally has been '2 paila' if given in shape of paddy and '3 paila' if given in shape of kodo. A paila is a small basket which can contain roughly 0.7 kg of grain. The wages in kind are mostly given in the shape of kodo which is an inferior grain and is a rain-fed crop. Apart from this daily wage, every such bonded labourer is given a 'kolia' which may be about 5 biswa or 0.06 ha of land for his personal cultivation The labourer will operate this land with the plough and bullock of the landlord. If he has no seeds the landlord will advance it on 'sawai' basis, that is, he will take back 25 per cent more after the crop is harvested. Now the landlords use chemical fertilisers in paddy and wheat cultivation and irrigate the field with pumpsets. We found that some bonded labourers had sown wheat and paddy on theri kolia and applied fertilisers. In that case they will have to pay the landlord the cost of irrigation or tertiliser. The entire produce on the kolia will belong to the labourer. The labourer is also given 'rashi' for the harvested produce which is usually one-twentieth of the threshed grain. At the time of harvesting the crop, he is allowed to take a small bundle of the harvested crop each day. After threshing he will take the left over. The spouse who also works is separately paid 1.5 kg per day, ie, the same wage as is given to the male. These workers work for all the 365 days without respite. Their life is one unending monotony.

A system of 'purchase' is also in vogue when a landlord would purchase a bonded labourer by paying the due amount to his old master. He will now be indebted to the new master and his debt will be equivalent to the amount paid by his new master. In our survey we came across one such case.

In the past tradition it used to be a patronclient relationship as the labourer had nowhere to go nor was any change to occur during his life-time. The labourer was treated as part of the tamily in the sense that on every important occasion like marriage, death ceremony or birth ceremony he would partake the same food and some clothing or utensil might also be given to the couple. When such an occasion came in the house of the labourer, the landlord would help him in kind. The landlords also allowed these workers to do the mending of roofings of other persons in the lean summer season which entitled them to higher wages. Despite all the exploitation (sexual exploitation of the womenfolk was common) there was some element of humaneness as the landlords knew that the man was completely dependent on him and could never protest nor go away.

But things have now changed. The landlords are aware that the government has made the bonded labour system illegal and under law all their debt stands cancelled. They also know that by distributing Gram Samaj land, a process of their empowerment has been initiated. IRDP and other antipoverty programmes are all designed towards their upliftment.

Zamındari abolition did not mean any change for the bonded labourers but the developmental process has made some openings even in this backward region for the rural poor. They can migrate to cities and other places Stone quarrying has recently come up in this area where the landless get employment opportunities. Carpet-weaving has also spread to this part generating some employment to the poor. Taking advantage of these opportunities many bonded labourers got themselves freed after repaying the entire debt. When such debt is repaid the landlords charge exorbitant compound rate of interest and inflate the debt so arbitrarily that no bonded labourer is ever in a position to get himself freed. That is why the son had to work as such after the death of the bonded father. Now as someone in the household may migrate or do some other work the

saving is utilised to free the bonded labourer after paying back the amount. In one surveyed village, Beogana, alone we were told that in the past some eight bonded labourers got themselves freed by paying back the exorbitant amount as calculated by the landlords. This was beyond the realm of possibility only a generation back. Now the landlords have developed a hostile attitude towards the bonded labourers for they realise that others may also get themselves freed and as their progeny is getting free education. they cannot make their sons bonded as used to happen in the past. The older bonded labourers testified to this change in attitude and a few recalled with nostalgia the old days when landlords treated them in a more humane way.

Out of 29 bonded labourers, 21 or 72 per cent reported that they were bonded from childhood. Their forefathers had taken some loan and after their death the children were made to work as such. They had little idea as to what their forefathers had taken but invariably they themselves had also borrowed either cash or grain. The average amount that the bonded labourers since childhood had borrowed was around Rs 700 and the amount of grain averaged slightly more than 100 kg per such grain-borrowing labourer. Six or 21 per cent had reported that they had borrowed the amount 10 to 20 years back while the remaining 2 (7 per cent) had borrowed 5 to 10 years back. For all the bonded labourers the average debt was Rs 485 in cash and 32 kgs in terms of grain. This is what they had taken but what the landlords had noted down was not known to anyone. They do not care to ascertain from the landlords as to what they owe for they know that they will not be in a position to repay; so what is the use of asking about it?

Marriage was reported to be the main cause of indebtedness. It accounted for 69 per cent of the cases followed by household consumption (7 per cent). Purchase of bullock for the household and medical expenses accounted for the rest.

In the distant past when this system was formalised it was originally stipulated that at the time of every Jeth Purnima (full moon day in June) the landlord would intimate the labourer the amount that the latter owed and he was free to leave if he paid back the amount along with the interest at the rate of 60 per cent per annum. We were told that in the past the interest rate was 36 per cent but now the landlords calculate it at 60 per cent per innum. For the next year the interest amount would be added to the principal and interest at 60 per cent on the total amount would be charged if the labourer decides to leave. At this high compound rate of interest the question of repaying the entire amount simply did not arise in the past and the labourer resigned himself to his fate.

The fandlords generally provide some space and out up a thatched hut where the family lives. We found that 14 or almost half of them were living in this manner. The kolia, i e, the piece of land that they got, was found to be used intensively. Barley or wheat was grown in rabi and kodo, arhar, etc, in the kharif season. Some seasonal vegetables would also be grown to supplement their cereal diet. The landlords also allowed some of them to work in the summer season for some days. The children also assisted in the work and grazing of cattle of the landlords was looked after by them. In that case the children are either fed by the landlords or some small payment is made.

Supposing that the couple got 4 kgs of grain everyday as daily wages or annually 1.2 quintal and their plot of land yielded 1.5 quintals of cereals at the most, their annual income would, at current prices, come to Rs 1,200 or Rs 100 per month at the most after including the grain that they got in the shape of rashi which is given now only as a token. How they survive is anybody's guess. We had asked them as to what was their staple food and specifically what they had eaten the previous night. Thirteen persons reported that they had taken bread with salt. Three had taken bread or rice with 'kadhi', a gruel not prepared out of gram dal which is the ingredient but turmeric was added to barley flour to give it the shape of 'kadhi'. Six had taken bread with potato or some other vegetable. One had taken bread with buttermilk given by the landlord while another had taken 'bhat' made of kodo. Five had taken bread with arhar dal. It was late June when the enquiry was made and these persons could consume arhar dal only because they had grown the crop in their kolia. Pulses were nearly absent from their diet for the rest of the year. Butter-milk known as 'mattha' is the only milk product which they consume occasionally and that too when it is given by the landlord. Bread stuffed with boiled gram dal on which some oil is spread is the only delicacy on festive occasions or it may be rice boiled in a little milk to which some sugar or jaggery is added.

Woollen clothes were absent in every household. Only eight persons had woollen rugs but these were mostly tattered. None had a quilt. They cover their bodies in winter nights with a 'kathari' made out of torn clothes to make it thick as a pad after stitching. Mats made out of kodo or paddy straw is not only used as bedding but is placed over the body in cold winter nights. This by itself may not be sufficient. Firewood is burnt near the entrance of the hutment or in the middle. People sleep round this fire. They frequently change sides to keep the sides warm. It is half sleep and half waking.

Living such a wretched existence they toil from morn till night from childhood till death. Insulted and humiliated at every step they drag on Tyranny and oppression is not unknown in the countryside. But when it goes beyond endurance, the oppressed leave the village for some unknown destination never to return. This has been the practice since ages. But this option is closed for them for they are indebted and the police will arrest them if they run away. The landlords have an understanding among themselves not to employ any person who has run away. On the other hand he will inform the landlord from where he has run away who will then come along with his men, thrash him

mercilessly and drag him again to his house for torturing From then onwards his life will be hell

For the first three decades since independence the very phenomenon of debt-bonded labourers was practically denied and when, after the proclamation of emergency, Bonded Labour System (Abolition) Act was passed in 1976, the rulers have made their countrymen believe that once the act came into existence, all bonded labourers became instantly free as their debts stood cancelled Could there be greater hypocrisy?

# State Level Scheduled Caste Corporations in India

#### **Promise and Performance**

#### R K Mishra

An assessment of the scheduled caste corporations in the country reveals that in spite of having a wide range of activities to perform, the corporations continue to function as an extended aim of state governments to disburse financial assistance.

THE Scheduled Caste (SC) Corporations are a part of the welfare enterprises set up by the various state governments. These enterprises are the latest breed of state level public enterprises (SLPEs) in the country Though there is no all India act governing the setting up and functioning of these enterprises most of the SC corporations have been established by the state governments on their own initiative Recently the central government has set up an apex level corporation to finance programmes for the welfare of the masses in this category. It is expected that this apex level institution will more or less work in the same way as the apex financial institutions in the area of industrial and agricultural credit, viz the Industrial Development Bank of India (IDBI) and the National Agricultural Bank for Rural Development (NABARD) While we discuss the working of these corporations in detail later, we have to bear in mind the fact that the SCs torm a sizeable component of the Indian population The SCs, STs (scheduled tribes) and BCs (backward classes) all put together constitute about 50 per cent of the population of the country. It is no secret that the economic conditions of the SCs is vulnerable and though the tather of the nation, Mahaima Gandhi, acknowledged this fact way back in the early 1930s in his weekly Haryan, no material transformation has taken place in their lifestyle as the programmes for their uplittment have had a heavy dose of political tint. To provide an economic thrust

to the programme the SC corporations came into being in the 1970s and 1980s. Since these corporations have been in existence for more than a decade it is worthwhile to have an assessment of their performance and find out the extent to which they have fulfilled the expectations.

#### OBJECTIVES AND ACTIVITIES

The broad objectives of the SC corporations are

- 1 To help the SCs to cross the poverty line through a gradual and sustained effort
- 2 To transform the economic structure of the incomes and expenses incurred by the SCs through the entrepreheunal mode
- 3 To work for the social uplitment of the SCs through their educational upsurge and
- 4 To mobilise institutional credit for the socio-economic transformation of the SCs by functioning as catalysts, promoters and guarantors

A review of the above objectives indicates that the first three objectives are a corollary to the fourth one. If the SC corporations execute their role of economic transformation fully, the other three objectives get automatically achieved as a spin-off

The activity portfolio of the SC corporations is not uniform. However a survey of their broad activities points out that major activities are

- 1 To identify prospective borrowers,
- 2 To motivate the so-identified borrowers,

- 3 To undertake gainful activities
- 4 To provide them necessary guidance and supply essential inputs for taking up various viable projects
- 5 To prepare a portfolio of schemes to be kept ready in the project shelf to enable selection of schemes which suit their needs
- 6 To help the SCs to till in the application forms for availing the various benefits and provide assistance to them to supply the necessary details
- 7 Fo co-ordinate the proposals of loans with the banks and pursue the follow-up action for sanction of loans
- 8 To provide margin money for securing institutional credit for bankable schemes,
- 9 To provide interest subsidy to the SC borrowers
- 10 To supervise post-sanctioned operations and guide the SCs to overcome difficulties
- 11 To provide escort services to enable the beneficiaries to get assistance from various development and promotional agencies operating in the districts
- 12 To operate the differential rate of interest scheme in unbanked and non-command areas
- 13 To provide direct finance to the most downtrodden amongst the SCs
- 14 To provide tinancial assistance to the educated unemployed persons and
- 15 To plan, promote and assist in efforts to identify programmes of agricultural development animal husbandry marketing processing supply and storage of agricultural products small scale village and cottage industries trade, business or any other activities which enable the members of the SCs to earn a better living

A review of the portfolio of the activities points out that there are three types of SC corporations in the country. There are SC corporations which have limited their activities only to the financial schemes which can improve the economic prospects of the SCs in the country. These corporations mostly deal with the banks co operative societies government and development/ non development organisations. These corporations bring the beneficiaries and the catalysts together in the task of the welfare of the SCs in the country The Andhra Pradesh SC Co operative Finance Corporation is a case in point. In the second category, we have corporations which believe in the improvement of the economic conditions of the SCs through their interface with the small and large industries, as also through the modernisation of agriculture. The SC corporations in Haryana and Punjab belong to this category. In the third category are the SC corporations which undertake multifarious activities for the economic transformation of the SCs. These activities pertain to their educational and cultural upsurge, their interface with agriculture and industry, and their access to the Indian financial system. The prominent example of the SCs in the third category is the Karnataka SC Corporation. As an exception to these three types of corporations is the case of the Tamil Nadu Adi Dravida Housing Corporation which has concentrated on providing housing units to the SCs in the state believing that this one change will lead to a number of other changes in the chain.

A study of the activity portfolio of the various SC corporations points out that there are some corporations which have a limited mandate and have never attempted to go beyond that. On the other hand, there are some SC corporations which have a large activity portfolio. Such corporations have also gone on adding to their activity portfolio. On the whole, a large number of corporations have not gone beyond the initial mandate specified for them and, to that extent, they have remained away from innovations.

# SOURCES OF FUNDS AND MANAGEMENT STRUCTURE

Corporations mostly get their financial wherewithal from the government agencies and public financial institutions. The share capital comes from the government, and loans are made available by the Life Insurance Corporation of India (LIC), commercial banks, state and central governments, zilla parishads, panchayat samitis and similar financing agencies. These corporations in most of the states have a chairman at the helm, followed by a vice-chairman-cummanaging director/managing director, and an executive director in some cases. The hierarchy at that level ends with the general manager-credit and general manageradministration. At the middle level, there is almost an absence of senior managers. The general managers in most of the cases are assisted by executives holding the designation of managers. The managers below them do not have junior executives. They are supported by office assistants, and in some cases by assistant managers. Almost in all the cases, qualified accounting and finance personnel do not exist and the generalists handle this function. There are no executives handling corporate policy and public relations. These corporations do not co-ordinate well with the similar corporations known as the BC corporations, corporations for handicapped, women development corporations, corporations for minorities, etc. They do not have effective co-ordination even with the district administration. This lack of co-ordination results in higher costs, delays and dissatisfaction to the beneficiaries. The managerial lot represents, by and large, a bunch of non-motivated personnel which

has thwarted innovations, a continuous interaction with the beneficiaries and redesigning of the SC corporations.

#### FINANCIAL PERFORMANCE

A review of the financial performance of these corporations can be undertaken as regards the growth and nature of paid-up capital, loans, fixed assets, total turnover/ business done, operating expenses and profit after taxes.

Paid-up Capital: The paid-up capital in the various SC corporations is marked with the general trend of increase at the rate of 10 per cent per annum. Almost all the paidup capital has come from the government. The SC corporations closely following this average are found in Andhra Pradesh, Haryana, Karnataka and Rajasthan. In some states, the paid-up capital of the SC corporations has risen much faster than the average growth of 10 per cent. These states include Himachal Pradesh, Kerala, Maharashtra, Tamil Nadu, Uttar Pradesh and the union territory of Chandigarh. One of the reasons why the SC corporations in some states have had a higher rate of growth in their paid-up capital relates to the philosophy of the ruling party in power. There is no doubt that states like Kerala. Maharashtra, Tamil Nadu and Uttar Pradesh have taken a definite position and interest in ameliorating the economic conditions of the SCs. A closely related factor leading to the growth in the share capital has been the societal concern in these states about the well-being of the SC masses. The case of Chandigarh SC Corporation is somewhat different as the definition of poverty in Punjab differs when compared to many other states in the country. Further, the per capita income of Punjab/the union territory of Chandigarh is also much higher than the average per capita income of the country. There is another interesting trend found in the growth of share capital of the SC corporations. A study of the Tamil Nadu Adi Dravida Corporation reveals that share capital has shot up sharply in such years in which elections have taken place. This is supported by the fact that the rate of growth of share capital followed a diverse pattern in the year immediately following the election. This has been consistently done by all the parties, viz, the AIADMK, the DMK and the Congress(I). Importantly, most states have depended only on the equity support. A question crops up as to why these corporations should not diversify their equity base.

Loans: This was an unexploited resource. Excepting Andhra Pradesh, Haryana and the union territory of Chandigarh, the loan element in the capital structure was insignificant in the case of other states such as Assam, Kerala, Karnataka and Rajasthan. In the case of Andhra Pradesh, the loan

component had a tendency to increase. The debt-equity ratio was 1:2 in the case of the Andhra Pradesh SC Co-operative Finance Corporation. This ratio was 3:1 in the case of the Haryana SC Corporation, 4:1 in the case of the Chandigarh SC Financial and Development Corporation. In the case of the Uttar Pradesh SC Finance and Development Corporation, this ratio was 10:1 in 1991-92. The absence of the loan component, or its insignificant presence, points out the scope for the adding up to the capital investment. One of the reasons of no or low loan component was the heavy predominance of social objectives justifying the nature of the activities of these corporations. However, this should not have undermined the commercial nature of their working as absence of profits. even in the case of enterprises having preponderance of social objectives over the commercial objectives, poses a far greater danger to such corporations since the presence of such a phenomenon does not allow them to freely expand their scope of operation.

Fixed Assets: Most corporations were characterised by absence of any significant stock of fixed assets which shows that they acted more as trading or financial organisations. The ratio of turnover to fixed assets was 100:1 in the case of Andhra Pradesh, 100:2.5 in the case of Assam, 100:1 in the case of Haryana, 100:1 in the case of Karnataka, 100:3 in the case of Kerala (State Development Corporation for SCs and STs), 100:1 in the case of Kerala (State Development Corporation for Christian Converts from SCs and BCs), and 100:3 in the case of Maharashtra. The position of the union territory of Chandigarh, Tamil Nadu and Uttar Pradesh was equally pitiable. Rajasthan was an exception as it had a ratio floating around 100:7. The presence of a negligible level of fixed assets shows that these corporations did not undertake any non-financial activities in a significant way and remained more or less an extended arm of the state government for disbursing funds to the SCs.

Total Turnover: An increasing turnover reflects growth in the overall financial activity. The capital invested in the SC corporations was seldom used well. In Kerala the total turnover was just 6 per cent of the capital investment; in Rajasthan it was 20 per cent, and in Tamil Nadu, it was a mere 1 per cent. Haryana had its turnover in the range of 20 per cent of the total sales. These figures point out clearly a lack of thinking about using the investment effectively. As pointed out earlier, these corporations have objectives but lack strategy, and hence there is no question of realisation of the fact that a greater utilisation of resources can benefit both the society and their managements.

Operating Expenses: The operating expenses should always be less than sales.

However, a study of the functioning of these corporations reveals that this dictum was true only in the case of Rajasthan, Kerala, the union territory of Chandigarh and Uttar Pradesh. The SC corporations in Assam and Haryana (excepting 1985-86) had always incurred operating expenses more than their revenue realisation. The case of Karnataka, Rajasthan and Tamil Nadu was no different, although they had a mixed performance. Since in most of the cases, operating expenses were more than the turnover, the profit after tax, return on investment, and return on equity, were subsequently negative in the case of all the corporations taken as a whole, and in the case of most of the individual SC corporations.

#### MANAGEMENT PROBLEMS

These corporations face a number of management problems. Their top management is weak, politicised and enjoys short tenures. The middle management is not professional and a weak link in the chain. In most cases, rung of middle management executives is absent. The junior management is not recruited from the market and is mostly composed of employees promoted from below, i.e., the clerical cadre. They are not exposed to training and management development programmes.

The performance of these enterprises is measured in terms of targets. This sort of approach has allowed the creation of bogus records and unfair practices. Statistics are cooked up to satisfy the requirements imposed by the policy-makers and administrators. There is a lack of clear authority and responsibility regarding one's role. The financial targets have taken precedence over critical functions such as entrepreneurial development, and monitoring and evaluation. Only the Karnataka SC and ST Development Corporation has been an exception It has set up a number of ancillary industries with the help of both the public and private sector, continuously conducted management development and training programmes for promoting entrepreneurship, set up a medical and engineering college, and provided housing to the clientele. This lack of balance in the distribution of working among the development and non-development tasks has hampered the functioning of these enterprises. Further, the SC corporations, just like other SLPEs, have turned out to be top heavy and have developed a bias in favour of their corporate offices. Their functioning of financial activities has been extremely weak. In many a case, a disjointed, unprofessional group handles finance, personnel, projects and administrative functions. Another problem is the presence of personnel on deputation in these corporations. They do not have a cadre of their own and the SC corporations

have become a berth to provide jobs and deputation facilities to the government employees who are least interested in getting involved in the day-to-day activities of the corporations. The annual accounts and reports of these corporations have remained in arrears and the quality of reporting/ disclosure has been poor. In one corporation, the balance sheet data were for the year 1983-84, whereas the text related to the activities of the corporation for the year 1972-73. An intensive analysis of the data further revealed that the two sides of the balance sheet were forcibly matched. This escaped the attention not only of the internal auditor but also of the commercial auditor and the audit staff of the auditor general of that state. Even the Registrar of Companies/ Company Law Board did not rectify this mistake on their own.

#### CONCLUSION

The functioning of the SC corporations and the data on their financial performance show that though they have been addressing themselves to an important socio-economic problem, the success attained by them has been marginal. They have not done anything tangible, except to work as an extended arm of the respective state governments to disburse financial assistance. Though they have a wide array of activities to perform, they keep themselves limited to disbursement of finance. For instance, most of the SC corporations have concentrated on schemes relating to the sanctioning of margin money, and providing cash assistance to artisans. Some innovative schemes like training for self-employment in motor driving, setting up ancillaries, starting business houses, commencing financial services, etc, have not been touched at all. It is necessary that all the SC corporations in the country come together and annually discuss their attainments and shortfalls. The targets set by them should be reflected not only in financial

terms but also in physical terms. In their review meetings they must examine the extent of professionalisation added to their work content on a year-to-year basis.

Their management structure has been weak. They depend entirely on the equity support from the government and never try to diversify the equity base. The loan component in the capital structure is insignificant, which meant an absence of risk by the managements of these corporations. The use of the capital stock was abysmally low. The operating expenses in most of the cases exceeded their revenue generation levels. Perhaps all this happens due to a weak managerial structure, rampant corruption and heavy politicisation of these corporations. The Karnataka model can turn the corner of these enterprises in both financial and physical terms.

A study completed for the Tenth Finance Commission by the Institute of Public Enterprise (IPE) in 1993, on 'Financial Contribution and Requirements of SLPEs' by R K Mishra et al has projected the financial performance of the SC corporations from 1995-96 to 1999-2000 The projections point out that the present performance will land these corporations in losses, as measured in terms of the return on investment and return on equity. There will be a positive growth in the paid-up capital but loans and advances will grow insignificantly. The prospects of the growth of fixed assets also do not appear to be bright. Except the Rajasthan SC Development Corporation, all other corporations need to go in for restructuring which will require these corporations to think afresh about their sources of finance, capital restructuring, portfolio of activities, pricing and costing policies, management information system and the problem of balancing between the social and economic objectives. If this is not done, these corporations would become cripple, and cease to serve any economic purpose

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# Statement of the Chairman Mr. Nani A. Palkhivala 60th Annual General Meeting

at the Birla Matushri Sabhagar, 19, Sir Vithaldas Thackersey Marg, Mumbai 400 020, on Wednesday, August 28, 1996, at 3.45 p.m.



In the Diamond Jubilee year of the Associated Cement Companies Limited, it is worth recalling that your Company is professionally managed and has been professionally managed for the best part of the sixty years that it has been in existence. No wonder it has a distinct identity as a nation-builder.

Even in America the Morgans the Rockefellers and the Carnegies have been replaced by professional managers. Today the well established pansion funds increasingly control the supply and allocation of money in developed countries. These funds own in the USA half of the capital of the country's largest businesses. The pension funds are run by a new breed of capitalists—the faceless and anonymous employees who run the pension funds and the investment analysts and portfolio managers. As Peter Drucker observed, we are living in a new era which is both non-socialist and post capitalist.

in the next century, India should endeavour to introduce fruitful egalitarianism in place of sterile socialism. But in that direction we still have a long way to go India still waits for the type of revolutionary turnaround effected by the Labour Party of Britain under John Smith, its great leader and one of the finest gentlemen of our times, who passed away more than a year ago John Smith said that he was relaunching the Labour Party as the party of the citizens and that he intended to chart a future in which the traditional associations of the Party with state ownership, high taxation and trade union power would be buried for ever in a reference to the Labour Party's old attachment to public ownership of the commanding heights of the economy, John Smith said that the new commanding heights were education and training. He categorically said that there would be no commitment to renationalization in the next manifesto of the Labour Party and that the most important priority would be to invest in people, to provide opportunities and skills that were the building blocks for individuals and national prosperity

India purported to become a Socialist Republic by a constitutional amendment in 1976. The nation anxiously waits for the dawn of a new era when our politicians will, like John Smith and the present British Labour leader, Tony Blair, openly dissociate themselves from ideological socialism and expouse social justice which is ethical socialism.

# ement industry

Cement production has registered a growth of about ten per cent during 1995 96. The industry saw capacity expansion of about thirteen per cent over 1994 95 from 77 79 mt to 87 45 mt. Severe power cuts in Karnataka MP and AP led to a major setback in cemerit production in these States. Cement exports at 1.5 mt saw a drop of about

eight per cent from the previous year. This reduction could be attributed to stiff international competition and lack of domestic infrastructural facilities.

The industry continued to suffer on account of infrastructural bottlenecks. Scarcity of railway wagons in MP and Bihar, and restrictions continued to hamper movement of other vital inputs like coal and the transport of cement to consuming centres. Due to shortage of coal availability under the government linkage quota, the cement industry was forced to buy coal from the open market at very high cost.

After the coal prices deregulation announced by the government this year the two major producers. Coal India and Singareni Collieries, announced steep hikes in coal prices adversely affecting the cement industry. The recent hikes are as high as fifty per cent in certain categories.

#### our Company

C ment production and sales recorded a healthy growth this year because of ta rourable factors like industrial growth and the general economic growth. But for the power shortages which restricted production sales would have been higher.

Your Company has been making efforts to improve productivity and modernize the manufacturing processes Besides installation of new capacities substantial investments are being made in setting up captive power plants to reduce our dependence on State Electricity Boards

I am happy to report that despite the power shortages your Company has achieved satisfactory growth in production during the year with the help of captive power plants. The total sales volume at about 9 4 mt helped your Company in retaining its top position in the industry. Your Company has recorded capacity utilization rate of about 93 per cent as against the industry average of 81 per cent.

# 7 ement exports

Though the shortage of railway wagons adversely affected cement exports to Bangladesh your Company's export performance was marginally better than in 1994 95 on account of an increase of 36 per cent in its exports to Nepal and the opening of a new market – Sri Lanka

# Pefractories business

During the year your Company's Refractories Business has grown steadily. It has emerged as the largest supplier of refractories in the country, with total despatches

of over 108,000 tonnes of materials during the year line sales turnover, also has scaled a new height to Rs. 151.4 crore during the year — an increase of 36.75 per cent over the previous year. In order to meet the growing demand for your Company's refractory products, a new plant has been set up at the Butibon industrial complex near Nagpur.

The pre-eminent position of your Company's refractory business has been due to several strategic initiatives undertaken — chiefly in re-energizing and revitalizing this activity. And because of the focused nature of its thrust to make world-class refractory products your Company has succeeded in attracting some of the world's best refractory producers into technology partnerships with ACC. And the quality parameters of the products made match similar world-class products inasmuch as they are also exported to markets in Europe the Far East and the Americas.

# esearch and Consultancy Directorate (RCD)

Your Company's autonomous division RCD has become a highly successful business group. It had chalked out a growth plan of 60 per cent in the year under review More than 60 per cent of the Refractory Business turnover has been achieved through comprehensive R&D work on refractory materials carried out at RCD.

# verseas project

In recognition of your Company's sterling performance the Yanbu Cement Company has awarded to your Company a fresh contract for the operation and maintenance of its new two million tonne per annum plant

## xpansion/Modernization

Having successfully completed the one million tonne per annum clinkering unit at Kymore in May 1995 the modernization and expansion of the cement grinding packing and loading plants at Kymore were completed in March 1996. The cement grinding capacity of Kymore now stands increased to 1.2 million tonnes per annum In addition steps have been taken to instal another 1.2 million tonnes per annum clinkering unit at Kymore Once this new project is completed. Kymore would have a modern energy-efficient clinkering capacity of 2.2 million tonnes per annum. As a further step to increasing cement capacity your management has planned to set up a modern split grinding plant at Gaurigan; in UP to produce the highest quality PPC with flyash being sourced from the NTPC unit at Unchahar

Your Company is making substantial investment in the captive power generating capacities it is envisaged that captive power plants with capacities of 25 mw each at Jamul and Kymore in MP, will be completed by November 1997. With the completion of these projects, the captive power available would be sufficient to meet 80 per cent of your Company's power requirements.

# ngmeering business

Your Company's engineering business which already has a solid base, is beginning to assert itself more significantly. A new division has been set up - under our

subsidiary company ACC Nihon Castings Ltd (ANCL) in collaboration with Nihon Cement Company Japan – which is designed to provide project consultancy and management services to the cement industry in India and also bverseas. The division s first assignment is the setting up of the new unit at Wadi and providing project management services for the new unit at Kymore.

# ew venture

Your Company, together with TELCO, has undertaken a joint venture — Bridgestone ACC India Limited, with Bridgestone Corporation, Japan, a world leader in the tyre business — for manufacturing steel belted radial tyres for passenger cars and light vans. A state-of-the-art two-million capacity plant, using the renowned Bridgestone technology, is being set up at Kheda industrial growth centre near Indore, MP Commercial production is slated to begin from April 1998.

# oncluding remarks

In the changing world scenario India is looking beyond the obvious. It stands on the threshold of an epoch-making era - an era of growth of achievement of rapid progress. Since it took its first steps in August 1947 as a free country, the nation has taken large strides and after liberalization and globalization have taken root. India is rushing ahead to meet the challenges of the twenty first century. And your Company ACC. India is premier cement company, has grown alongside fulfilling its responsibility of building the nation. After over six decades of yeoman service particularly to the cement industry, your Company's focus is fixed firmly on the future. As the nation prepares for quantum development, your Company is gearing up to shoulder a giant responsibility.

I am confident that under the very able and perceptive stewardship of Dr Subrata Ganguly and Mr. T.M.M. Namblar and their team, supported by a loyal and competent workforce, your Company will continue to hold its premier position in the unfolding future

On behalf of the management and on my own behalf I take this opportunity to express my appreciation and gratitude to all members of the ACC family for their contribution and dedication which has helped your Company to march ahead in pursuit of growth and excellence. On the auspicious occasion of your Company's Diamond Jubilee I extend to you and all members of your family my warm felicitations and good wishes.

Mumbai August 6 1996

#### **Building the Nation**



#### Water Crisis in Port Blair

#### Kailash

Large scale, sudden influx of immigrants and unplanned industrial growth have rapidly depleted fresh water sources on the islands in Bay of Bengal.

ISLANDS in the Bay of Bengal are facing shortage of fresh water almost every summer. Despite abundant sea water and more than 3,000 mm rainfall, many islands do not have suitable sites to store fresh water. This is one of the major factors to migrate to other islands which also carry a better prospect for economic activities.

Almost all the islands have an undulating topography with steep slopes at coastal sides. The streams of third to sixth order are found to be of high run-off coefficient and discharge almost entire rain water immediately after the rain is stopped. The upper geological structure is highly porous and the water which percolates into sub-soil layers is brackish and unhygienic.

The availability of water, its demand and supply have always been affected by rapidly growing population in different islands. Till the end of second world war, the population of the territory remained stable. No other than convict community was allowed to settle here. Soon after the end of the Penal Settlement in 1945, the islands experienced large-scale immigration from Indian subcontinent which continued into the 1960s. Perhaps, the most important event in the history of Bay Islands was the beginning of colonisation plan in 1952 under which forests were cleared on a large scale to cultivate land for refugees from east Pakistan and Punjab. Following the widespread influx, there has been a nine-fold increase in the total population of the islands between 1951 to 1991 (31 to 278 thousands) while more than 12-fold growth was perceived in Andamans (19 to 241 thousands).

Rainfall, harvesting and water retaining capacity of soil have been severely affected due to increased pressure on land. In Andamans, there were only 61 villages in 1951. This number increased to 137 in 1961 to 356 in 1991. It is to be noted that all these villages came up after clearing the forest. Increased population pressure led to encroachment and deforestation in connivance with local administration. The estimated area under encroachment till 1986 was more than 3,200 hectares which was later regularised by Island Development Authority (IDA). There were 63 villages in the encroached forest area of Andamans till 1991. Hundreds of encroachment cases are with the forest department awaiting clearance. The forest department generally regularises encroachment as there is no severe objection to this practice. It is reported that some political leaders and big businessmen are indirectly involved in illicit encroachment to acquire land for coconut and arecanut plantation, a prosperous business in the islands.

The continuous shrinking of forest has reduced the surface water availability. The actual rainfall which was 3,365 mm in 1988 has come down to 2,593 mm in 1990. Similarly, the number of rainy days got reduced to 163 in 1990 from 199 in 1988. In fact, the summer of 1990 proved to be the starting point of fresh crisis of domestic water in and around Port Blair. The level of sub-surface water is decreasing gradually. Soil erosion has steepened the slopes leading to quick drainage of rain water into nearby sea. There were several schemes for construction of ponds and reservoirs during colonisation period. A number of low-lying areas were converted into small reservoirs. However, it was found that these reservoirs which flooded in each rainy season went dry in the summer, due to filtering of water through porous sub-layers.

This year, for the fifth time in a row, the Round Basti, Aberdeen, South Point, Atlanta Point and many other areas received water supply for less than 20 minutes. The municipal board supplied water—unhygienic and of low quality—three alternative days in a week between May and July to ensure the adequate supply to other part of the capital. Many households have installed their own stand points. Conditions in slum localities of Dairy Form, Haddo Phoenix Bay, School Line, etc, are miserable as there is, as usual, acute shortage of drinking water. Abdomen problems have become chronic among the people and the water exudes reddish colour during boiling.

Demand for water multiplied due to largescale influx from mainland. During 1951-91, population increased by more than 862 per cent. At present about 85,000 people are residing in the capital with high density of 6,011 persons per sq km. The Dilthaman tank, and later Jawahar Sarovar with storage capacity of 45 million gallons, remained the main sources of water supply for domestic uses till the beginning of 1970s. Scarcity of water was first felt in mid-1960s. Desalination of sea water was considered as an alternative to rain water. Consequently, construction of Dhanikhari Nalla project was undertaken in 1970 which started the water supply in 1973. Its reservoir has a storing capacity of 375 million gallons. It can sustain for 250 dry days at a rate of 1.50 million gallons of water per day.

Decades back, the longest spell of dry summer was or 215 days. Now it has increased to 230-240 days. The main reason is supposed to be the climatic changes due to large-scale deforestation in many parts of the islands. The delayed and scanty rainfall is the direct outcome of human interference in fragile

inland-ocean ecosystem. In 1990, situation aggravated so much that local administration was planning to dispatch mainland officials of Port Blair back to their homes. Generally, rainfall starts in the first week of May but in 1991, it started on July 22 and withdrew as early as second week of September, causing severe shortage of water in the summer of 1992.

At the same time, industrialisation, shipping, health services, defence establishment, hotel industry, etc. have diversified demand on water. At present there are 363 industrial units in Andamans. Out of it 315 units are concentrated in south Andaman, especially in Port Blair. Asia's biggest saw mill is located here. Efforts to collect and store water have been long neglected. The National Commission on Urbanisation (NCU) has recommended 225 lpcd water for capital towns. On the contrary, the supply in many localities of Port Blair is less than 30 lpcd during summer and less than 71 lpcd in other seasons.

Water and power crisis have become in recent years major problems in the development of the islands. It requires long-term perspective planning to contain effectively further influx, deforestation and encroachment and make efforts for the diversification of economic activities like industrialisation and tourism to other islands. Recently, the lieutenant governor took initiative to start the construction of 'Indra Nalla' and 'Gupta Nalla' water supply schemes to supply extra water to the people. But these are not a permanent solution to the problem as these streams are of fourth to sixth order and water level comes down every summer.

As an alternative, sea water can be utilised for drinking and other domestic uses if advance technology to process it, is made available. There are several known methods of desalination. First is the solar stills. This is most suitable for islands with small population. The solar stills consist of a glass chamber in which the sea water is heated by the sur rays and made to boil. The vapours are converted to fresh water after getting condensed. Sea water can be processed through flash distillation. The heated saline water flows through a series of chambers which are maintained at different atmospheric pressures. The water evaporates in each section of the chambers and the vapours get condensed over a bunch of tubes. The distillation of fresh water thus produced at each stage, is gathered either separately or collectively to be used as fresh water.

The third method of desalination is electrodialysis process. This technique employs iron-selective membranes for the desalination of brackish water which is available in plenty in the Andamans. It is more economical up to 5,000 ppm. The fourth method is by reverse osmosis, a widely used desalination technique. Under this process, the micro osmotic membranes reject salts and allow only water to pass through when the sea water is put under high pressure. One lakh litre of fresh water per day can be processed for drinking purpose by this technique.

# **Gendering Justice**

Kalpana Kannabiran Vasanth Kannabiran

What the Rupan Bajaj verdict has accomplished, in an important sense, is the subversion of the patriarchal traditions of the Indian state and a jupture of the boundaries between the political sphere and society, between the home and the world, between the workplace and the street, between classes, forcing us to re-examine our realities and the categories through which we comprehend these realities.

THE recent judgment in the Rupan Deol Bajaj-KPS Gill case is a landmark judgment for more reasons than one. It sentences a national hero to rigorous imprisonment. Further, that the FIR was quashed by the Punjab and Haryana High Court and it needed a Supreme Court order to force the trial in the Chief Judicial Magistrate's court. A Supreme Court order and eight long years. Obviously a judgment that will generate a lot of hysteria all around.

The easily recognisable one is one of feminists gloating and rubbing their hands in glee while they mentally count the number of reputed men they can get sentenced in quick succession. You can almost see the skin scraping off their hands and the heads rolling into baskets at their feet while they grin wickedly, cackling and hooting in unholy glee, muttering curses on their unfortunate class of victims. The other not-so-well recognised or named variety of hysteria is the male variety. It consists of balanced praise of the fact that no one is above the law That no matter how highly placed, the long arm of the law will reach and sentence the offender impartially. Then the hysteria starts. It would be crossing all limits of propriety if a hero of this stature actually has to go to jail. Bajaj should not make statements about working women in general Feminists should not gloat or score brownie points. Self-control is preached. Otherwise no man of reputation is safe. Nothing will remain sacred. The pillars of our very society will crumble, the nation will become a laughing-stock, etc. And that is also in a sense justified.

It is perhaps time to reflect on the trajectory of public discourse on this case especially over the last week. This exercise will force us to re-examine our own assumptions and discomforts on the women's question generally and the implications of this case for our individual private lives. One of the primary reasons for discomfort, in our view, is that this case is somehow too close to the lives of the middle classes, and the signals the verdict sends out are also primarily for that class of people. While all these years it has been possible to espouse the cause of

women who have been raped or abused while at the same time distancing oneself from the cause one was espousing, we have suddenly moved to a situation where a man, a hero at that, is up on trial for something that in mainstream discourse is a joke, frivolous behaviour, certainly not offensive.

For those of us who have been active campaigning on issues of human rights and women's rights, the public discourse on this specific case is an eye-opener. All at once it has become clear to us why we have had so much difficulty securing convictions in rape trials or in being able to initiate punitive. action in cases of sexual harassment across caste and class. The explanation all these years has revolved around a sometimes inactive, mostly biased judiciary and state apparatus that has consistently undermined and subverted women's interests and the interests of marginalised groups. Here is a case where the judiciary has actually taken a stand upholding women's rights, yet the predominant response in the English press is about how the judicial system can afford to be unbrased or neutral in the face of Gil's excellent record as a remarkable public servant. Enough is enough and a simple apology graciously accepted should end the matter once and for all. And speculation on how ugly the feminist response to this verdict will be gloating and hysterical (editorial, The Indian Express. August 7, and Swapan Dasgupta, 'Enter Sexual Harassment. Awaiting the Feminist Inquisition' The Indian Express August 10). And this reaction from an enlightened section of the press-

It might be useful to recapitulate briefly the facts of the case for those who might not know. On July 18, 1988, at an official dinner party hosted by the then home secretary cum-tinancial commissioner of the Punjab, S. L. Kapoor, K. P. S. Gill, the then director general of police, Punjab, was accused of sexually harassing a woman in the presence of other senior officers of the government. The woman who made the allegation was Rupan Deol Bajaj, a senior IAS officer of the Punjab cadre. The very next day after the complaint was made, Rupan Bajaj and her husband B. R. Bajaj, also

a senior IAS officer of the Punjab cadre made a complaint to senior officials in government ibout Gill's conduct. On July 20, two day statter the above incident, Ribeiro put up a note to the then governor, Siddhartha Shankar Ray that action be taken against Gill. In this note, Ribeiro had stated that Gill was in the habit of getting drunk and mispehaving with women. Siddhartha. Shankar Ray then asked Gill to apologise to Bajaj. But clearly, neither the governor nor any of the other senior functionaries in government at that time pressed the matter any further, in large measure because of Gill's outstanding contribution to the elimination of terrorism in the Punjab, especially in Operation Black Thunder. (Further, this note was made confidential and sought to be suppressed in court). Not deterred by the unsympathetic response she pot from the government, Rupan Bajaj went ahead and lodged a police complaint, and a little while later a private complaint. Predictably the Punjab and Haryana Court quashed both the FIR and the private complaint. After battling it out for six years, tinally the Supreme Court of India on October 12, 1995 directed the chief judicial magistrate of Chandigath to instrate proceedings against Gill. This tuling came when Gill was still in service. Easth months after the proceedings were initiated the effet judicial magistrate Darshan Singh announced his verdict. Gill was convicted under Section 354 IPC (our aging of modesty) and Section 509 IPC Juse of force or infimidation or making sexual gestures to insult a woman]. The punishment. Three months regorous imprisonment and a fine of Rs 500 under Section 354, and two months simple imprisonment and a fine of Rs 200 under Section 509, both sentences to run concurrently, which meant that Gill would spend a total of three months in prison, unless he went in appeal. It is worth noting at this point that both sentences are consistent with the seriousness of the offence under the relevant sections

Yet there is a general sense of shock at the severity of the sentence. A national hero to undergo rigorous imprisonment? Things are getting out or hand. Bajaj should learn her place and call it a day. Neither she nor the feminists should gloat over a vicarious victory. The issue at stake here is not Gill's reputation as a national hero whose aberrations must be sympathetically glossed over, or Bajaj's power and privilege that have tuelled her vindictiveness. The question we need to ask ourselves today is, what is the measure used to assess the seriousness of an offence involving violence against women, or the legitimacy of the allegation of violence? Who sets this measure? In Rupan's case this becomes contested terrain because both the accused and the petitioner are functionaries within the same establishment. Public discourse on this issue has so far been totally trapped within individualistic personalised frameworks, where everybody is very deeply affected by the verdict, some deeply disturbed, but nobody is actually able to move out of the specifics of the case ('be fair to Gill'), to the general questions the entire issue raises. Where there has been a concern with the general, the concern is that of the middle and upper class man (exceptions like Tayleen Singh notwithstanding) who identifies himself, in his vulnerability and his temptation, totally with Gill, as opposed to the 'pathological bottom pinchers in public buses', the 'riff raff', the nameless, faceless man on the street. This identification and this opposition essentially has to do with class.

In this article we hope to unpack the assumptions behind the current articulations on the Gill-Bajaj case and examine the implications of this verdict, as also the implications of the responses to the verdict that have come so far. The main purpose behind this exercise is to recapitulate the two-and-a-half decade long debate on the question of women's rights generally and the whole question of sexual harassment.

In addressing the issue of sexual harassment, we are also foregrounding the issue of women's civil and human rights. We are asserting women's right to work, their right to an environment that is free of aggression and violence. Free of sexual harassment. For a long time there was no name to this practice. It was just women talking about dirty old men or drunken lechers. It was the feminist movement that gave it a name. Called it sexual harassment. And by the simple act of naming it, resurrected the violence hidden in the game of eve-teasing. A game that it is assumed men and women equally enjoy. A game where the rules are decided and laid down by men. Be a sport. Smile and show you like it. And so it was until it suddenly became evident that women didn't think so.

It is a recognised reality that women at work can never quite escape being defined as sexual objects. Gender is never absent. Either for their colleagues or others. Sexual access, ranging from small intimacies right through to actual intercourse is often assumed to be a part of the working relationship, whether the woman wants it or not. It was around 1975 when feminist organisations in the US organised speak-outs on sexual harassment at work that a flood of testimonials poured in telling of thousands of women who fled their jobs because of sexual demands and many thousands who lose promotions, raises and other benefits. The stress women suffer due to sexual harassment causes innumerable skin diseases, breathing and circulatory disturbances, chronic cystitis, gastric ulcers and depression.

Characteristically when urban women actually complain of sexual harassment it is the victim rather than the harasser who is seen as the problem. As in rape. Her perception and her sanity is at once questioned and there are hints of paranoia and hysteria One needs, when looking at sexual harassment, to see that it is not just unpleasant drunken or aberrant behaviour, but an act which is in keeping with the way society organises relationships between men and women. Which explains why Bajaj calls it breaking a conspiracy of silence.

It might be useful at this point to understand this debate by extending the framework of duality Elshtain poses between morality and power (J B Elshtain, 'Moral Woman and Immoral Man: A Consideration of the Public-Private Split and its Political Ramifications'. Politics and Society, 4(1974), pp 453-61). This duality is one way of articulating the separation between the private and the public in civil society. The dominant consciousness in a liberal patriarchal system is typified by a contrast between and hierarchisation of the political sphere - the state, i.e., the sphere of power, force and violence, and the society, ie, the private realm the sphere of voluntarism, freedom and spontaneous regulation. This opposition between morality and power counterpoises love and altruism, the natural attributes of womanhood against physical force and aggression, the natural attributes of manliness (the attributes of a national hero), which are seen exemplified in the military force of the state.

There is, however, a further complexity to this duality. In the opposition between and society or the sphere of morality and the political sphere or the sphere of power, morality is essentially passive, where women use or are expected to use "finely tuned, discreet social mechanisms for coping with importunate intrusions on the individual (read female] body" (Swapan Dasgupta, The Indian Express, August 10). The active enforcement of morality, the protection of national honour for instance is a male prerogative and belongs to the realm of the political. It is this active morality that gives the political realm its legitimacy - a legitimacy that is governed by the ends justify the means doctrine. It is also this morality which defines the political as the supreme, before which all other interests are subservient, all other issues irrelevant, and human life totally dispensable, especially the interests, issues and lives that make up the body of society, the private realm.

It is the implications of this duality that spell out for us yet another dimension of the feminist slogan "the personal is the political". It is precisely this bending of the 'social' interest, the subjugation of social morality to the interests of the nation, the political morality that is being articulated in the write-

ups on the Gill-Bajaj case. Take for instance the following statements: "the sentence of three months' rigorous imprisonment ...although well within his discretion and powers under the relevant section of the Indian Penal Code looks somewhat harsh considering that Gill had an outstanding record as a supercop. If today Punjab is rid of militancy which had taken a heavy toll of human lives in the state a great deal of the credit goes to Gill" (editorial, *The Hindu*, August 9).

"It somehow makes the law of the land look grotesquely odd and incongruous that a man who has done signal service to the country by ridding a state of the dread and oppression of terrorism should have to spend five months in jail for a minute's exuberance provoked by the charms of an attractive working woman" (editorial, Deccan Chronicle, August 8).

"KPS Gill's conviction by a Chandigarh court prompts a moral dilemma. India's most celebrated policeman, the man who contributed most in crushing terrorism in Punjah, and one of the country's most authentic living heroes, has been held guilty of using 'criminal force' and "intruding upon the privacy of a woman... There was no political dimension in Rupan Deol Bajaj's charge...It was a plain and simple charge of sexual harassment...Under the circumstances. should Gill's enormous national contribution be allowed to gloss over a personal misdemeanour? Conversely, should Gill's record in Punjab be allowed to be subsumed by a flood of righteous indignation...No Indian who is aware of his role in defeating secessionism in Punjab can be happy at Gill's misfortune...Unfortunately it is not his humiliation alone; the country too feels a little small today." (editorial, The Indian Express, August 7).

Then we have the arguments that foreground Gill's contribution to the nation, and reassert his place as a national hero. An extension of this argument is that any attack on Gill that goes to the extent of h.s imprisonment is a gross violation of the dignity and integrity of the nation and will in fact throw up the Indian nation in poor light in the international context.

While positing a duality between the political sphere and society, between morality (the good of the nation, national honour) and self interest (pressing charges of sexual harassment), and the supremacy of the former over the latter, what the authors in this debate are also doing is identifying morality with patriotism and placing it in opposition to self-interest that is identified with feminism (read anti-patriotism). And this is the core of the problem of separating the personal from the political, or separating realms of conduct. How does one separate Gill the police officer, saviour of Punjab, supercop

national hero, crusher of terrorism, the image of virility and power from the man who uses that virility and power to grab the nearest available part of a woman's anatomy. It does not matter whether it is a breast or a bottom? And what does he expect when he does that? That she should melt into his arms, thrilled that a hero has actually laid his hand upon her. If a woman complains instead, it must be some old enmity. Or the IAS-IPS rivalry. If she tries to file a case, it is scotched. If she persists and the case is tried and against all odds the man is to be punished, then there is a great disturbance. It is against the established order of things. How can a national hero be described in terms that Dasgupta or Tayleen Singh use to describe commuters in the public transport system who exhibit the same behaviour without the power to back it, i e, 'pathological bottom pincher', 'ritf-raff', 'sexual pervert'

This separation of spheres will lead inevitably to the trap of prioritising the larger interests over the smaller interests. And this will perforce spill beyond 'gender concerns' like sexual harassment. The spill-over for us is most evident in the phenomenon of state repression that we are so familiar with and the modalities of 'eliminating terrorism' where the lives of the people are made subservient to the good of the nation, not by the patriotic awakening of the masses but by the use of political (military) force. In this framework, the question of civil liberties and the struggle for civil liberties, like teminism, falls within the realm of selfinterest, of anti-patriotism. The Gill-Rupan Bajaj verdict and the debates surrounding it exemplify this kind of duality. This has to do with the gendering of the state. Do we as Indian women then assume that the Indian state is one that will willingly subsume women's human rights to the larger interests of the nation? That tired and weary soldiers, heroes and policemen have a right to misbehave occasionally and manhandle and abuse women with words and gestures with sexual overtones which must be shrugged off as a joke or suffered in silence.

In an attempt to side-step this juxtaposition of the larger interests versus individual interests in this case and foreground Bajaj's experience of violence, and the fact that sexual harassment did occur. Seema Mustapha argues assuming the validity of the separation of spheres, while asserting that Gill's positive contribution in one sphere cannot detract from his misdemeanours in another (Seema Mustapha, 'There is more to Gill than his public face', The Asian Age. August 10). While this is true and well-taken as an immediate response, the separation is in fact an ideological trap within which it is impossible to transcend the slippage from one to the other, a slippage that is inevitable and determined by the dominant interests.

Invariably, in discussing issues of gender. one focuses on the family without looking at how the state institutionalises gender. It engages in ideological activity on issues of gender ranging from birth control to the sexual division of labour. There is also the fact that person-to-person violence which is sought to be explained away as individual deviance is in fact an enforcement of the social order. That authority or legitimate power links with masculinity as the fulcrum of the power structure in gender relations. And it is the direct threat to this definition of masculinity that is the source of disturbance. The structural fact that there is a global dominance of men over women provides the basis for defining a form of hegemonic masculinity. A hegemonic masculinity as in the image of a national hero which is then constructed in relation to the subordinated masculmities (the terrorists and criminals controlled through violence and force with the ideological justification of maintaining law and order) and women. The connection between hegemonic masculinity and patriarchal violence is close. Feminity on the contrary is constructed around a compliance to the dominance of men or around a resistance to it. And since compliance is central to the pattern of feminity it is organised as an adaptation to power and authority emphasising nurturance and empathy (see

R W Connell, Gender and Power: Society, the Person and Sexual Politics, Polity Press, Cambridge, 1993). Mark, Bajaj should 'graciously' accept a simple apology and let the whole matter drop. (What has in a sense changed the outcome is the fact that Rupan Bajaj is firmly married, in authority, and has the support of her husband. The limitations of this victory are that it would have been inconceivable for a single woman not so firmly embedded within the institution of marriage that is so assiduously supported and protected by the state). The disturbance therefore is one that has to do with the questioning of these hegemonies and the tilting of the axes of power and authority.

To strike at this image of hegemonic masculinity can open the doors to questioning the definitions of heroism and courage, power and privilege and open the floodgates to chaos where the principles of kinder, kirke and kuche are swept out. What women have accomplished through the Rupan Bajaj verdict is, in an important sense the subversion of the patriarchal traditions of the Indian state and a rupture of the boundaries between the political sphere and society, between the home and the world, between the workplace and the street, between classes, forcing us to re-examine our realities and the categories through which we comprehend these realities.

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# **Growing Regional Income Disparities** in Russia

R G Gidadhubli

Yeltsin's free market economic policies have thrown Russian economy out of gear, resulting in increased unemployment, destitution and crime in the resource-scarce regions of the country.

AS Russia went to polls in June 1996 to elect a new president, Boris Yeltsin staked his claim for a second term. Since a few months before the elections, he has been trying his best to improve his chances by his initiatives concerning domestic and foreign policies -decree on land ownership in March, visit to China in April, summit meeting with Clinton and the G-7 so on. While his popularity rate has slightly improved, albeit still lagging behind his rival communist candidate Gennadi Zyuganov, continued civil war in Chechnya has been a hurdle for Yeltsin. Another stumbling block that Yeltsin faces in his election campaign is his 'contribution' to the polarisation of Russian society into 'new rich' and 'new poor'. The new rich capitalist class of entreprenders, traders, managerial groups who hold packet of shares in privatised industrial units and the mafia, who have become rich overnight by Yeltsin's privatisation and liberalisation programmes will certainly support him in the election. But this is a relatively small section of the society. Yeltsin's policies have impoverished a large section of the society, be it industrial workers, white collar employees, agricultural farm workers, scientific and technical personnel. Thus, there is a vertical division of the society into rich and poor based on income levels reflected through diverse standards of living of the people

There is yet another dimension to the division of the Russian society, and that is regional. In a short span of 2-3 years, a few regions have emerged which can be considered as better off while many have become worse off. This is evident from the recent publication of the ministry of economics of the Russian government. At the end of 1995, Goskomstat (state committee on statistics) released statistical data on the per capita income levels in Russia for the 88 administrative divisions comprising oblasts and autonomous republics grouped into 11 macro-economic regions. This data for the years 1993, 1994 and first half of 1995 reveal certain astonishing trends of widening disparties in the income levels both among regions and within each region. A major anomaly lies in the fact that disparities have increased in 1995 even as the country was expecting hopeful signs of economic stabilisation and decline in inflation rates. Out of the total of 88 administrative divisions (also called 'raions' in Russian), the number of 'poor regions', i.e., those below national average per capita income, increased from 39 in 1993 to 52 in 1995, while the number of 'rich' regions with higher than average income has declined from 25 to 17 in the same period. Some basic data may help in understanding the issue. The average per capita income in Russia increased from 16,900 roubles in 1993 to 97,900 roubles in 1995, However, this nearly six-fold increase in income at current prices compares poorly with over 20-fold increase in general price levels during this period. What is interesting to observe is that income in a few raions increased by 8-10 times as in Yamalo-Nenets in Siberia, Moscow city, etc reaching up to 4,86,000 roubles while for a few regions it has stagnated at a low level of 10,000-20,000 roubles thus causing disparity of about 25-50 times among different areas in the country.

It is worthwhile to understand the causes for income disparities and their consequences. It is necessary to state at the outset that the question is not that few raions have prospered at the cost of many others. But the contention is that the majority of the raions are unable to develop in the on-going process of economic transition. However, the fact of disparity cannot be denied and this fact becomes even more glaring in the case of Ingush and Dagestan rations in Caucasus, Altai in west Siberia, Buryat in east Siberia which are not only the poorest with the lowest per capita incomes in Russia, and that even their nominal income levels have declined over the last 2-3 years. In general. Caucasus with 10 raions has been the worst sufferer and there is no information about Chechnya where civil war is going on. Caucasus is a densely populated area with a relatively high rate of population growth and has limited resource potentialities which may partly explain low per capita income. In contrast, oil and gas rich-Yamalo-Nenets raion in west Siberia has flourished recording armost 10-told increase in per capita income in three years, far surpassing the income levels of Moscow or St Petersburg. There are a few other raions such as oil rich Mansiki in west Siberia, diamond rich Yakutia in the Far East which have also recorded 6-8-fold increase in average income levels. In short, a few ratons which are richly endowed with resources such as oil-gas, precious minerals, ferrous and non-terrous minerals have flourished by virtue of their ability to export their products and earning hard currency, while others which could not realise their products even in the home markets have suffered.

Apart from differences in resource potentials, regional variations in incomes are the reflection of the effect of politico-economic reform policies unleashed in Russia by Yeltsin. As a part of the policy measures to do away with socialist economy, Yeltsin has ended overnight all policy instruments of central planning, state control, state ownership and regulation of prices, subsidy to sectors and regions, social security of employment and minimum wages, state distribution and supplies. Instead with a view to establish functioning market economy and capitalism in Russia and to make his path of reforms irreversible. Yeltsin initiated the process of decentralisation, tederalisation, free market prices, and privatisation as the sheet anchors of his politico-economic policies. But the impact of these measures has been uneven over the regions and sectors of economy partly due to problems of economic restructuring and readjustment of Russia after Soviet disintegration.

For instance, during the Sovietera, Ivanovo oblast in the central region in the European part monopolised and specialised in textile industry and supplied fabrics all over the country and abroad. It depended entirely on Uzbek cotton in the Soviet period. During the last 3-4 years cotton supply is affected since Uzbekistan prefers to export cotton to the west for earning hard currency, thus breaking old links. Hence, textile mills in Ivanovo are badly affected resulting in high rate of unemployment and Ivanovo is one of the poor raion in Russia with 53,000 rouble per capita income which is about half of the country's average in 1995. Similarly, there are several oblasts which have only one or two huge industrial complexes producing defence equipments. It is true that this was a deliberate policy in the past, But with the end of the cold war, demand for defence items has sharply declined and these units have been finding difficult in converting to civilian production. Hence, in many oblasts and raions, production has gone down and even specialised skilled workers

in these units are unable to relocate themselves nor find alternative jobs

In the past the Soviet planners had set up huge capacity industrial plants in Ural, Siberia, Volga region for producing tractors, automobile tyres, refrigerators or parts thereof, and meeting needs of the country and in the process getting advantages of economies of scale. With the Soviet disinte gration, links are broken and market for many units is affected which has forced them to cut down production affecting the employment of workers and hence their income.

It is important to note that administrative divisions which are most affected are those which have concentration of engineering industries factories producing consumer durables and other consumer goods and agro processing units. These are central Volgaraion central black soil raion north western raion which are mainly in the European part of Russia. Demand for many of these industries producing consumer durables has zone down due to their mability to compete with liberally imported goods There are 30/40 per cent industrial units in these ruons whose technologies are out dated and their products do not find market even in Russia. In the case of predominantly cricultural raions such as Krasnodar in Cincasus. Altai in west Siberia, many of them are affected due to be avy cut in state subsidy and high prices for inputs such as a rigultarial machineries, oil and lubricants firtiliser etc. and which are rising much taster than prices for their output resulting in adverse terms of trade for agricultural sector Nizuchuk former minister for agriculture has alleged that Yeltsin's policies have impoverished the primary commodity producers in Russia

What has added to the disparities is that under the prevailing conditions of decentralisation and federalisation, administrators in some better off oblasts in Siberia and Far-East and even St Petersburg city administration do not pass on the taxes collected to the federal budget and often openly defy the tederal government rules. Hence the worse off oblasts are left in the lurch Therefore, balancing national and regional interests has become a delicate and difficult task for promoting market reforms in Russia This a new problem and a reality that Yeltsin faces since regional income disparities of this magnitude never existed in the Soviet era. Due to these growing disparities, many regions such as Caucasus Buryat, etc. in Russia are facing social problems of destitution poverty beggary and crime rates of severe proportions. As a consequence, such destitutes flee to large cities for survival by begging. There is also an ethnic dimension

to this problem since many of them from Chechnya, Dagestan, Tatarstan, etc, belong to Islam Moscow at present is a classic example of this phenomenon. These problems have increased during the last 3-4 years due to Yeltsin's policies of shock therapy which have shaken the Russian society, the solution of which may take several decades.

There seems to be some realisation of these social issues on the part of policy makers, particularly with reference to 'depressed and crisis regions in Russia The Russian gov riment has proposed some measures during 1995-1997, such as initiating special federal programmes of socio-economic development preferential credit and tax concession facilities to enter prises in crisis and depressed regions, creating additional funds for retraining of workers for new job opportunities and so on. But the declaration of these policy measures appears to be at best a lip service to tackling the problems facing Russia. At any rate in the short run, the ability of the Russian government seems very much limited under the tight financial conditions prevailing in the country.

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# Gay and Lesbian Movement in India

#### Sherry Joseph

The emerging gay and lesbian movement offers not just alternate identities but prospects for social reconstruction. In spite of its marginality, the movement rejects the monolith and the mass. It is a reminder that if forced conformity is to be resisted it must be by representing human lives as multiple selfhood as several, communities as voluntary and various

SEXUAL practices clearly are a private matter, they become politicised when groups or institutions try to stamp them out. If gays and lesbians' claimed only the right to perform certain sexual acts however they would not have been able to create a movement. Their claim rests on their sexual identity, which is a sufficient basis for a movement It was since the late 18th century that organised groups developed a systematic theoretical critique of social life and tried to embody that critique in mass political movements designated to overthiow the existing order of economic ownership and political control. Since then marxist socialist, feminist national liberation civil rights dalits ecological and gav and lesbian movements have been born. The question of integrating these creative but diffuse and potentially divisive forces into the political mainstream has been part of the agency of the Left during the list decades [Week 1981] Issues of identity are nov at the centre of modern politics

Homosexuality has an ancient history extending back to the earliest historical records and including most cultures for which we have information [ABVA 1991] Khan 1994] Hindu festivils and sects which celebrate homosexual acts, the description of sodomy in Kama Sutra the court customs of Babar, references to women loving women in the Mahabharata and the Ramayana and the description of Tantric initiation rites which evoked the idea of universal bisexua lity in human personality are discussed widely (Subodh Mukherjee in Trikone Vol 51 1990) The behaviour has been existent in our cultures for centuries however the framework to understand and interpret these experiences as gav and leshi in identities developed only later in white societies [Shah 1993 17]

Thus gay identity or the condition of being a homosexual i distinct from the phenomenon of same sex behaviour. The term homosexual coined in 1869 by K. M. Kertbeny, a German doctor who opposed German sodomy laws but not popularised.

until the 1880's was adopted by people who wanted to make sense of their own experiences which were not adequately explained by labelling them unnatural or immoral. The Judaeo Christian values and beliefs held that non-procreative sexual acts were a sin against nature and consequently frowned upon in the culture. This value system shaped the legal binding on sodomy as a criminal offence as seen in the Indian Penal Code (IPC).

The rise of medicine and psychology as powerful authorities and arbiters of morality defined and controlled the deviant and diseased behaviours. This control led to the condemnation of many tringe or nontraditional sexual practices, with homo sexuality in the forefront Psychiatry for instince included homosexuality in the diagnostic manual and sanctioned inter ventions and treatments. Being identified as mentally all meant that homosexuals could be stripped off their civil and human rights which the heterosexual population enjoyed Under the pressure of gay and lesbrin lobbying in December 15, 1973, the board of crustees of the Americ n Psych atric Association voted to remove homosexuality from the categorie of mental illness. Onc. view about the eason for this normalisation was that the psychiatric concepts of homo sexuality did not jest upon scientific studies but were derived from Christian asceticism [Dynes 1990 796] However, homosexuality was replaced with a new citegory, ego dystonic homosexuality denoting those homose xual individuals who were distressed by their orientations and winted to become heterosexuals. This compromise category did not last for long and finally all references to homosexuality were removed from the official nomenclature [Ronald and Bryan 1994

The causes of homosexuality like the auses of heterosexuality are unknown Whatever be the causative factors homosexuality is regarded as an essence, a fixed and unchanging aspect of the identity of gays and lesbians. There are two ways of

seeing homosexuality essentialism and social constructionist. For the essentialists the category homosexual is universal and trans historical. Some argue on genetic determinants believing they were born as homosexuals. Others simply believe that homosexuals have existed always and everywhere Social constructionist theory points out that individuals interpret their personal experiences through the framework provided by the social world from the viewpoint of the social constructionists identity is a construct reflecting the conceptual structure of the surrounding social world 4 ssentialism stresses the sameness of the people throughout history who have loved their own sex and social constructionism emphisises the differences. Essen tralism sharply differentiates homosexuals from heterosexuals, while social constructionist de emphasise the différences

Some believe that the debate between those who emphasise the recent appearance of the homosexual as a distinct type of person and those who believe in a core homosexual self is a fruitless rehashing of the oldn iture versus nurture question. Others think the debate between social constructionist and essentialism can be transcended [Epstein 1987. Roscoc 1988]. However, a detailed discussion of this issue falls beyond the purview of our discussion.

#### IDENTE Y POLITICS

Identity is about belonging about what you have in common with some people and what differentiates you from others. At its most basic at gives one a sense of personal location the stable core to one's complex involvement with others. In modern world these notions have become especially complex and confusing Each one of us lives with a variety of potentially contradictory identities which battle within us for allegi ance is man a woman upper class or dalit straight or gay able bodied or disabled. The list is potentially infinite and so are our possible belongings. Which of them we focus on or bring to the fore and identify with, depends on a host of time and space factors

To understand the Indian gay and lesbian identity we have to look back to the identity politics in a wider perspective. The racist and cultural marginalisation of gay and lesbian immigrants from the Indian subcontinent in Britain and the US demanded an agenda within a racist climate different from the agenda imposed by white gays and lesbians (Editor's response to a letter by LN in Shekti Khobar, December 1990-January 1991). The impact of colonial history and concepts of orientalism upon world-views and perceptions has played a central role in

how non-white people have been defined, how they are perceived and how white-non-white relations evolved socially and on personal levels. Silenced in both south Asian patriarchal societies and the white gay communities in America and Europe, the south Asian gays and lesbians have had to invent themes, often with new terms of identification.

The debate overidentity based on sexuality starts from the point that the construction of sexuality is often ahistorical and the only sexuality that is seen as relevant is that of penetrate heterosexuality [Khan 1994:10]. This led to a quest for evidence of homosexuality in a historic perspective. Discarding the Eurocentric classification of sexuality into dichotomous categories of homosexual and heterosexual, new discourses of sexuality around a variety of experiences and desires started emerging. Thus the term alternate sexualities came into vogue. Using 'alternate' as an adjective and 'sexualities' in plural, it tries to describe those behaviours and meanings associated with those behaviours other than non-penetrative heterosexuality. This was basically an attempt to decolonise the general notion and establish the existence of various expressions of sexualities surrounding scriptures, arts, life histories, etc.

From the sexual health perspective, another term 'Men Who Have Sex with Men (MSM)', a depoliticised euphemism for gay men evolved. However, there has been some controversy attached to the use of the term MSM especially when the term is used in whole or in part to refer gay men [Duffin 1992; Pollak 1992]. Sexuality is not a key part of the sense of sexual identities of MSM and MSM is different from gay men on the basis of idiosyncratic and relatively arbitrary markers, for instance by not kissing men they had sex with.

The search for new acceptable paradigms for self-description led to the emergence of south Asian gay and lesbian groups/ publications in America and Europe after the mid-1980s like Trikone (US), Kush Khayal (Canada), Shakti Khabar (UK), Shamakami (US) and Dost (UK). The Indian counterparts had their debut simultaneously through Gay Scene (Calcutta), Freedom (Gulbarga), Bombay Dost (Bombay), Fun Club (Calcutta), Aarambh (New Delhi), Sakhi (Delhi), Kush Club (Bombay), Good As You (Bangalore), Men India Movement (Cochin), Counsel Club/Prayartak (Calcutta). Sisters (Madras), Red Rose (Delhi), Udan (Bombay), Saathi (Delhi) and Gay Information Centre (Secunderabad). Some of the groups/publications have appropriated Indian languages to express the term homosexuality in a culturally relevant way while others have tried to define it in different ways. For instance, Dost in Hindi means 'friend', Khush in Urdu means 'ecstatic pleasure' and Pravartak in Bengali means promover of a cause'. Fun Club probably derived its name from a sobriquet of Calcutta, 'The City of Joy'; Good As You (GAY) seems to appropriate the identity from the slogan 'Gay is Good'. Friends India as the name suggests provides a forum for friendship between men who like and love men.

It is worth mentioning here that the world's first south Asian newsletter on homosexuality was named Ananika, which means 'nameless' in Sanskrit (Arvind Kumar in Trikone, Vol 10(4), 1990) <sup>2</sup> It can be seen that from the state of namelessness the south Asians, in particular Indian gays and lesbians, have appropriated and subverted languages which have been integral to the invention of an identity.

The ambiguity of language reflects another important fact about the politics of the identity of gay and lesbian movement; it is maledominated. Lesbians have participated in the movement since the beginning (Amita Kar and Bombay Lesbians in Bombay Dost, Vol 1, 5/6, 1992), but they often had the secondary role that characterises their position in the mainstream society. This imbalance has deep cultural and historical roots and it points to the dilemma lesbians face when they identify with the movement. Some believe that lesbianism cannot be understood alongside mate homosexuality because the two are entirely different, partly because women are oppressed and men are part of the dominant culture (S Kulkarni and P Jagannathan in Shakti Khabar, Issue 10. October-November 1990). Thus the very notion of the co-sexual nature of the movement can be challenged. On the other hand, excluding women from an analysis would create a false impression of the movement. Though sometimes uneasily aligned, gays and lesbians share common goals and interests as well as common enemies. Because lesbianism is rooted in both the women's movement and the gay movement, lesbian issues must be examined from both perspectives.

Lesbianism is considered an integral part of the woman's movement for liberation. Flavia Agnes, an activist of the Forum against Oppression of Women, Bombay, remarks: "Many women in the movement turn to lesbianism or bisexuality as a conscious political choice, for they cannot reconcile their radical understanding of themselves and of women in general with the inequality, exploitation, lack of respect and understanding and often blatant physical force that characterise typical heterosexual relationships, whether in marriage or out of it". This point is in agreement with Shah's view (1993:115-16) on the development of lesbian identity which describes the gradual shift from political consciousness to sexual identification.

Four years after Flavia's remark, leshians experience a different situat today. The Sakhi Collective (1994:7) wri "We (Sakhi)...have not received one let of acknowledgement or support from a Indian feminist organisation. Statements this effect (e.g., 'There are no leshians i India') have been made by Madhu Kishwa of Manushi and Urvashi Butalia of Kali for Women. Sakhi has never been invited to any feminist events." However, a serious rethinking was recently done which urges gay men to help their counterparts to confront the society [Khan 1995b:51].

Today, there are three exclusive lesbian groups, Sakhi Lesbian Resource Centre and Research and Networking Institute in Delhi, Stree Sangama in Bombay and Sisters in Madras. Even though three other groups claim to be gay and lesbian groups, the visibility of women in their activities is minimal. None of the publications have a lesbian on their editorial board and the columns are male-dominated. It is also known that the lesbians who were members of the editorial board of *Bombay Dost* in 1990, no longer serve in that capacity.

#### POLITICS OF LIBERATION

A starting point of gay and lesbian liberation politics is the assumption that they are a true minority. They are like a religious minority, although a religious minority differs from sexual minority in that it is conferred at blith and passed on through the family. Also, those who take on a gay or leshian identity already have various other identities - caste, gender, nationality - which claim their allegiance [Epstein 1987:35]. Can a group many of whose members are invisible be a minority? Often, the minority status seems wrongly applied to the most visible gays as they do not belong to a minority group in the conventional sense of the term. However, with the yardsticks of discrimination, social acceptance and constitutional guarantee to freedom and liberty one can consider gays and lesbians as a minority. On the other hand, some scholars are of the opinion that gays are a self-defined minority.

Discrimination, tolerance, acceptance and equality can be seen as a continuum. They can be discussed under the framework of four concepts: homophobia, heterosexism, heterocentrism and compulsory heterosexuality. Homophobia refers to the irrational fear or hatred of homosexuals or homosexuality. Homophobia results partly from rigid ideas about gender. A man who appears womanly by conventional norms or a woman who appears manly threaten the sharp gender separation which most people take for granted. Research has shown that gay men are just as masculine as conventional men and that lesbians are just as feminine as

straight women [Storm 1980]. One of the reasons why the work of Arvind Kala on Indian Gays was criticised and rejected by the gay community was that it contained such stereotyping remarks about masculinity/ femininity (Ashok Row Kavi in Sunday Times, August 5, 1992 and Parwarz in Pravartak, September 1993)

Homophobia also leads to violent attacks on gay people. Gay bashing by pehce and heterosexuals have been reported. An obvious example of homophobia in 1994 is the outrage expressed by the National Federation of Indian Women (NEIW), a women's organisation affiliated to the Communist Party of India (CPI) against the South Asian Gay Conference in Mumbai Describing the conference as an "invasion of India by decadent western cultures and a direct fall out of our [India's] signing the GATT agreement" it urged the prime invister "not to follow Bill Clinton' immoral approach to sexual perversions in the US' and to immediately cancel the permission to hold the conference. According to NHW. the purpose of the conference is to "promote and legitimise homose cirality" which would "surely start a move of sexual permissionness." among urban youth who have become vulnerable to the volgarity of western cutton. brought to them through the media of his November 9, 1994). A warming letter via also issued by the Shry Sena legislator Promod Nalelkar to the organisers of the conference (Tol. November 1994)

The AIDS pandemic has made home phobia a more serious problem, fortidly, AIDS was known as Gay Related Immuno Deficiency Syndrome (GRID5) when it was first identified among gays in Amorica. The exclusive connection between AIDS and homosexuality has not been completely removed from the policy of the National AIDS Control Organisation a its class: fication of transmission of airc as made on the basis of homosexual contact heterosexual contact, etc. Though MSM, a nonhomophobic term, was developed it is yet to be adopted by the Indian government

The second concept under discussion in connection with the politics of gay and lesbian liberation is heterosexism, the prejudice or discrimination against gay people. Analogous to racism and sexism, the concept of heterosexism validates and strengthens the dominant group's claim to superiority and privilege. One of the ways to counter the inferiority status of gays is to bring intothe limelight eminent gay personalises who were open about their sexuality. The Nanda. magazine carried a cover tory on the journalist Ashok Row Kasa who is olienconsidered in gavericle, to be the father of the gay movement in Ir by I is biding Express featured an interview with the renowned gay painter Bhupen Knick will you though 'outing', which means forcing public figures out of the closet or someone revealing their homosexuality to the public, is a tactic adopted to battle heterosexism in western countries the practice is not common in India. Nevertheless, one south Asian gay and lesbian magazine published a glimpse of a well known south Indian politician's same sex relationship, titling the article 'First Foomies' (see Rajani Kumar, 'Jayalalitha and Sasikala, Tamil Nadu's First Roomies', Trikone, Vol 10(4), 1995). The description of Section 377 of IPC, 'Of Unnatural Offeners', clubbing together sodomy between man and woman/man and bestrality is atridently heterosexist.

A conventional definition of family that covers only the traditional family can also be considered heterosexist. With the approval of gay marriages in Denmark and Sweden. the concept of family seems to need a redefinition. Intra gender marriage, as old as 150 years, existed among the Kutchis in Guiarat (Raakesh in Bombay Dost, Vol 22, 1995) Legal recognition of gay marriages is a demand put forth by the Indian gay community [ABVA 1991 and Aarambh Brochure] For the first time a conference held in Bombay in May 1996 on Uniform thyil Code also discussed issues related to same see marriage, adoption, etc.

Besides outright prejudice against gays and lesbrans, a more subtle form of bias can be identified in the form of heterocentrism and compulsory heterosexuality. Heterocentrism is the often unconscious attitude that heterosexuality is the norm by which all human experience is measured. Heterocentrism seems to evolve out of the Eurocentric definition of sexuality There has been since the 19th century in western culture, a whole new discourse dividing the homosexual and heterosexual into sharply antagonistic binaries. Procreative heterosexuality becomes the normative process. The dichotomised, hierarchical and opposition structures of what were deemed masculine and feminine helped frame these new concepts of homosexuality and heterosexuality. The division between sexual behaviour responding procreative instincts and sexual behaviour responding to pleasure/lust instincts also formed the nucleus of the debate about what was deemed 'normal' or 'abnormal' and 'perverse' [Khan 1995al.

The notion of compulsory heterosexuality implies that people must be pressurised and coerced into heterosexual behaviour Marriage determines the person's eligibility to be considered an adult. Singlehood, more for women, is not socially acceptable except on religious grounds and marriage becomes a norm, followed by procreation. Without marriage, a person is considered irresponsible, incomplete and unsettled [Khan 1995b;

#### NATIONAL FOUNDATION **Media Fellowships** 1996-97

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30]. In a situation where both singlehood and homosexual marriages are not possible, a marriage of convenience is the option. Kala (1992:189) refers to an attempt by a gay man to marry a lesbian to avoid the pressure for conventional marriage from the family and also some case histories of married gay men.

The last but a crucial point in the discussion on the politics of liberation is the gay and lesbian assertion on their rights - "to be treated equally, fairly, and equitably as citizens of India, that respect should be given to who we are, what we are; the right to choose, the right to be unmarried and the right to our own sexual orientation" [Khan 1995b:60]. The demand for freedom and equality of gays and lesbians in India was first put forth in an organised manner in the end of 1991. The Charter of Demands which contains 19 elements was published in the last chapter of the report Less than Gay. The significant elements include: Repeal of all discriminatory legislation including Section 377 of IPC and relevant sections of Army, Navy and Air Force Act; enactment of Civil Rights legislation; amend the Constitution to include equality before law on the basis of sex and sexual orientation, establish a commission to deal with human rights violations; amend the Special Marriage Act to allow same-sex marriages, etc. [ABVA 1991:92-931

Almost a year later, a demonstration was held in New Delhi to protest against police atrocities against homosexuals. Carrying placards with slogans like 'Gay is normal'. 'Down with Sec 377', 'Kya yeh apradh kiya hai? Aurat hain, aurat selu to pyar kıya hat', 'Homosexuality is neither a crime nor a disease', 'Arrest AIDS not gays', the protesters gave articulation to central gay concerns. Another poster which read 'Gays of the World unite, you have nothing to lose but your chains', might perhaps have caused Karl Marx to turn in his grave (The Indian Express, August 12, 1992). Songs sung during the protest like 'Woh hamara geet rokana chahati ham/Khamoshi todo waqt aa gavan' (They want to stifle our song/The time has come to break the silence) show the spirit of the movement. This was followed by moving a petition in the Petitions Committee of the parliament which is still

In 1994, a controversy arose surrounding reports of homosexual activities in the male wards of the Tihar Jail, New Delhi, following a medical team's visit. While the survey report of the World Health Organisation in 55 prisons in 31 countries said that there was a higher rate of HIV transmission among prisoners than among the general population (Asian Age, December 27, 1995), the Tihar jail authorities' response was to deny any homosexual activity in the prison. Seeing

this as a right occasion, a Public Interest Litigation (ABVA vs Union of India and Others) was filed in the Delhi High Court in April 1994. The petition urges that Sec 377 must be struck down as being unconstitutional on the grounds of: right of privacy is part and parcel of the fundamental right of life and liberty under Article 21 of the Constitution and is recognised by the 1948 International Convention on Human Rights, it is a violation of Article 14 of the Constitution as it discriminates against persons on the basis of their sexual orientation, and because having been drafted in 1833, Sec 377 passed by the British in all its colonies including India, is archaic and

Advocate Janak Raj Jai filed a reverse petition seeking a ban on the move to supply condoms to the Tihar inmates on the grounds that it would be a violation of Sec 377 of IPC. He is on record as having opined that the 'immoral' act of homosexuality is not half as widespread in the jail as is projected, that moral instruction, rather than condoms, is the crying need of the hour (Mojumdai Modhumita, "Sex in Prison" in The Hindustan Times, May 27, 1994) Recently, the National AIDS Control Organisation tiled a reply to the Delhi High Court that condon's should be made available to minutes of prisons as a safety measure, supported by the Indian Medical Association. However, the government has not commented on the constitutional validity of Sec 377, but has left it to the judiciary to decide. Small but significant efforts like signature campaigns, discussions, write-ups in their publications, etc., are being made by gay groups in support of this case

Visibility here is not narrowly limited to marches or parades, but includes representation in other forums also. The most remarkable event in the Indian gay movement was the project demonstration organised in front of the police headquarters in New Delhion August 11, 1992 The demonstration was a protest against the unwairanted and illegal arrest of 18 people suspected to be homosexuals. The demonstration was organised under the banner of ABVA, the activist group working against the human rights violation of marginalised groups However, gays and lesbians also joined hands with other social workers and human rights activisis. This incident received wide publicity in the media. Although this protest might be considered mild and even ineffectual in comparison to the more aggressive and provocative tactics of groups in the western countries it marked a turning point for the Indian gay community. In the tradition of Stone Wall', this small band of men and women decided they had had enough of being victimised and decided to make a stand (John Burbidge in Campaign.

November, 1994). In the early 1990s various gay publications have seen light and much earlier, 1 e, from late 1970s, people have made their preferences public

To date, there are five newsletters/ magazines published from Mumbai, Delhi, Bangalore, Lucknow and Calcutta, some periodically and some irregularly. Of these five publications, one is marked 'strictly for members only' and the remaining are widely circulated, even through selected bookstalls. Bombay Dost is available in five bookstalls at different places all over India, whereas Pravartak is sold in two, Following Bombay Dost, which has one-half printed in Hindi, Pravartak contains literature in Bengali and Hindi along with English to address a trilingual cross section of people. To supplement these, there are a number of publications from abroad made available to Indian readers, usually free of cost Recently, Trikone (published in the US) changed its marketing strategy and is distributed by groups in Calcutta and Mumbai to the Indian readers

The print and visual media have exhibited a mixed response. In the beginning of the 1990s arrests, murders and suicides brought homosexuality into the headlines. While preparing the manuscript of this paper, a full page coverage of the gay scene in India, Calcutta in particular, appeared in a national daily (The Statesman, December 24, 1995). As a strategy for campaigning for visibility, the gay and lesbian coalition has requested readers to write protest letters whenever offensive and negative coverage is given to the issue (Amita Kai and Bombay Lesbians 'Country Report 1992', Bombay Dost, Vol 1, 5 and 6, 1992; Khan 1995b 63] and posture letters of appreciation to editors [Joseph 1995] stating clearly what gays are and what gays stand for. Calls for more gays to take up careers in journalism have been given, as the mass media is the most powerful means for visibility and for combating the silencing [Rantim Bhattacharya, Trikone, Vol.9(1), 199414

The English theatre in Mumbai is one arena where gay and lesbian themes and characters are dealt with openly. From 1950 to 1990, there have been 32 such theatre performances (LN in Bombay Dost 1991) Contemporary fiction has also tried to portray homosexual characters 1 Partha looks at the treatment of male homosexuality in Bengah literature (1994). Two books published on the subject are Shakuntala Devi's World of Homosexuals (Vikas, 1979) and Arvind Kala's Invisibility Minority (Dynamic Books 1992). Another addition was ABVA's Less of Homosexuality in India in 1991 which documents human rights violations against homosexuals In 1994, Rajesh Talwai published a fictional work titled Inside Gas

Land, a satirical play on sexuality and the law which criminalises homosexuality in India.

Two major seminars have been held in India on the subject - 'Gender Constructions and History of Alternate Sexualities in South Asia' in December 1993 in Delhi, which aimed at reviving the alternate historical and mythological traditions and delved deep into diverse issues related to gay men, lesbians and bisexuals (Ashwini in Pravartak. Issue 2, April-June 1994) and a year later. another one on 'Gay Men' and Men Who Have Sex with Men in Mumbai. This First South Asian Gay Conference, as it is popularly known, in addition to generating discussions on emerging gay identities, dealt with the implications of their behaviour on their sexual health. Earlier, 1992 a seminar on Politics of Sexuality had been held in Delhi. Following the filing of the petition in Delhi High Court to decriminalise sodomy, ABVA organised a meeting in April 1995 to develop strategies of action [Joseph 1995]. Recently in December last, in the open session of the International Conference on AIDS: Humanity and Law, the constitutional validity of the Victorian sodomy law existing in India was questioned before an international audience in the context of HIV transmission

Gay themes were visible in the silver screen also. In January 1995, a programme entitled 'Images on AIDS and Sexualities: A Tribute to Siddhartha Gautani' was held in Delhi, Four documentary films 'Straight from the Money', 'Paris Is Burning', 'Before Stonewall' and 'In the Year of the 13 Moons' were screened during this event. The International Film Festival in India (IFFI) held in Mumbai in January 1995 screened the movie 'Strawberry and Chocolate', the centenary celebration of motion pictures in Delhi screened 'The Naked Civil Servant' in July 1995 and the movie 'Twinkle' was a part of the Festival of Japanese films in August 1995 in Delhi. These films are based on gay themes. In addition to this, Calcutta and Delhi gay groups organised a series of video shows on gay and lesbian stories, 'Double the Trouble Twice the Fun' and 'Destiny, Desires, Devotion'. The Aarambh group staged a play titled 'Varun' in December, 1993, written and enacted by group members. The Indian first feature film on gays, 'Adhura' (Hindi) is to be released soon.

COMMUNITY, CULTURE AND SOCIAL NETWORKS

From a structural perspective, a gay community can be defined as a full-fledged entity complete with places for social and sexual contacts, gay traders, gay churches, gay clinics, gay schools, gay recreational centres, gay residential complexes, etc. In

a homophobic society like India, so far we do not have any record of such a gay community. Then what are the gays' and lesbians' claims about their status as a community? Community means common unities as a working group of the South Asian Gay Conference defines [Khan 1995b:29]. The Indian gays and lesbians define a community in a symbolic perspective The charter of the Bombay Dost clearly speaks of this: "To provide a framework whereby all such people, both male and female from the Indian subcontinent can come together and support each other so as to show solidarity and a sense of community of such persons who have this identity of an alternate sexuality". In the list of gay groups mentioned above, there are about seven groups active in India. All the publications mentioned here carry the addresses of other gay groups. The groups provide a variety of support systems. Regular meetings, either monthly or biweekly (often fixed on a particular day of a month/fortnight) is the forum through which the sense of community is strengthened. The venue changes from public cafeteria to public open spaces to residences of individual members. Lack of availability of safe social space is often a concern expressed by the gay community Most groups especially those with publications, have a good collection of literature on the subject which they call 'Archives of Homosexuality'.

Parties and social gatherings form another part of the gay culture as also celebration of festivals and special occasions. Largescale gatherings are not rare. Sneha Sangama in February 1993 and April 1996 at Bangalore, Goan Utsav in October 1993, Masti 94 in Jaipur, and the Big Bash in May 1994, New Year's Party in Bombay and Calcutta of 1996 are examples. Gay publications provide space for individuals to articulate and ventilate their feelings and to develop a sense of identity and the 'wefeeling'. The gays and lesbians have strong networks at local levels as well as on the national level, the main agents being gay publications.

The other support systems provided by the groups are related to sexual health, counselling, accommodations and employment. With the targeting of the so-called 'high risk group' with regard to HIV/AIDS intervention, the stigma associated with gays and lesbians increased. This forced many MSM (including gay men) to go underground. Peer group training and counselling evolved as an alternative strategy to counter this situation. Humsafar Trust came up because Bombay Dost recognised that almost no work was being done in terms of education. prevention and support of gay identified men and MSM [Khan 1995b:12]. Similarly, the formation of Counsel Club out of Pravartak and Friends India registering as an NGO can be seen in the above context. A peer group counselling model was also developed based on the experience of working with gay community (Ashok Row Kavi, editorial in Bombay Dost, Vol 1, 5/ 6. 1992b). The publications provide information on various facts of HIV transmission and condom use. Condom promotion programmes through networks and advertisements are also undertaken. Testing facilities for HIV, with pre- and post- test counselling are also provided. Because of the sensitivity of the already marginalised people, care has been taken to have trained

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counsellors. An advertisement in one of the issues of Bombay Dost required the service of trained social workers for their projects. Some psychologists and psychiatrists have also extended services to sex-oriented distress counselling in Mumbai and Calcutta. Nowadays more and more gays and lesbians are getting themselves trained/equipped in counselling skills and following the peer group counselling model.

Accommodation becomes a problem when the family ostracises a gay or lesbian on knowing his/her sexual-orientation (PD in *Pravartak* Issue 3, 1992). *Friends India* carried calls by gay men who are willing to share accommodation with gay men. A similar effort is being made by the Sakhi Collective for lesbians. Moreover, many gays and lesbians are extending local hospitality to those who are travelling. This trend can be seen as a strategy aimed at the building of a community.

The ongoing historical changes have led to the emergence of a variety of discourses individuals employ in order to construct their sexual identities. Prior to the 19th century, a person's sexual self was not defined in terms of the sex of his/her partners. The rise of gays and lesbians transformed 'doing' into 'being' and homosexual behaviour became a basis for their identities. In any society there are dominant modes of expression generated by dominant structures. It is these articulations that are heard and listened to, especially by outsiders. Minority groups, if they wish to communicate, must express themselves through the same dominant modes. However, there is a lack of congruence and compatibility between the ideas and experiences of minority groups like gays and lesbians and the modes of public communication available, which enforces a characteristic inarticulateness or muteness. Alternate sexual practices are seen as 'the other' of accepted or approved (heterosexual) practices. In a system of binary opposition (good-bad; right-wrong; blackwhite; constructive-destructive) 'the other' is the inferior or bad opposite of the dominant entity. The dominant entity, through the discourses it is capable of generating, constantly strengthens and perpetuates itself by self-definition, in opposition to 'the other'. Discourses function as ways of legitimating, authorising or validating some modes against some others in order to silence, control or domesticate certain elements seen as threats to the existence of the dominant entity.

But resistance to the power generated by the discourse, and hence counter-discourse, are inherent in the very nature of discourse. All the activities and issues related to gay and lesbian identity we have mentioned can be seen as the shaping up of a counterdiscourse. The Indian gay and lesbian movement is unique in the sense that much of the visible liberation efforts are made by the activist group ABVA, which does not have an identity as a gay group, while in the western countries, the movement is spearheaded by gays and lesbians themselves. However, it is difficult to comment on the future as we see a growing awakening among the gays and the lesbians in India themselves.

There is an effort to remove the act of sodomy from the category of crimes provided the persons involved are above a certain age on the grounds that it is an unwarranted attempt on the part of the state to regulate personal sexual morality by law. On the other hand, there is a trend whereby gay groups are widening their horizons of operation in search of financial support for their variety of programmes. This may lead to a situation whereby these aid-giving organisations, whether government of nongovernment, will dictate terms and conditions according to their policies leading to shifts in priority from liberation to sexual health.

The visibility of gays and lesbians is a barometer of a society's openness. The gay and lesbian network provides for the members what other communities do; a training ground for norms and values, a milieu in which they may live everyday and the social support as well as an information medium for members. The emerging gay and lesbian movement offers not just alternate identities, but prospects for social reconstruction. In spite of its marginality, the movement rejects the monolith and the mass. It is a reminder that if forced conformity is to be resisted, it must be by representing human lives as multiple; selfhood as several; communities as voluntary and various. A new definition of political pluralism would be one that judges a society not only by the plurality of groups it tolerates, but also by the plurality of identities it allows individuals to assume

#### Notes

- 1 The word gay signifies homosexual and homosexual life; it is a political term Homosexual is a broad descriptive term for feelings and behaviours and for people who are attracted to their own sex. The description applies to both women and men, but most female homosexuals prefer to call themselves lesbians. The use of 'gay' before 'lesbian' does not show any sexist attitude, but it is only a matter of popular discourse.
- 2 Reportedly, in 1978 two issues of a newsletter Gay Scene was published from Calcutta, India in Shakti Khabar, Issue 12, 1991
- 3 On June 27, 1969, the New York City police attempted to close down the Stonewall Inn, a har in Greenwich village popular with Puerto Rican drag queens and lesbians. The patrons of the Stonewall engaged in violent, unplanned and defiant action against the police

- because they were angry at police surveillance of their private gathering place. After Stonewall 'Gay Power' graffitt began to appear in Greenwich village. The Gay Liberation Front (a New Left Group), the Gay Activist Alliance and similar groups sprang up in other parts of the US
- 4 Detailed review of the visibility in media can be seen in Sultan Khan (media Watch', Bombay Dost, Vol 2(3) 1993) Debjyoti (Pravartak, Issue 2, April-June 1994).
- 5 Starry Nights and Strange Obsession by Shoba De, The Quilt by Ismail Chughter, One Day I Locked My Flat in Soul by Raja Rao and My Own Country by Abraham Varghese

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# Ladies and Gentlemen,

I have great pleasure in welcoming you all to the fortythird Annual General Meeting of your Company. The Directors' report and the Audited Accounts for the year ended 31st March, 1996, have been with you for sometime and, with your permission, I shall take them as read.

# WORKING RESULTS

During the year 1995-96, your Company reported a commendable performance, setting an impressive record both in hire purchase and leasing business. Total disbursements of the Company during the year amounted to Rs. 984 or as compared to Rs. 690 cr. in the previous year, a growth of more than 42%. The cumulative receivables under hire purchase and leasing reached a record level of Rs. 1636 cr. as against Rs. 1215 cr. in the previous year, an increase of around 35%. This performance was achieved at a time when severe credit constraints were expensed by all Nes.

when severe credit constraints were expenenced by all Non-Banking Financial Companies (NBFCs) especially in the latter half of the financial year.

In deposit mobilisation too, your Company set another record Your Company mobilised fresh deposits to the tune of Rs 197 or and renewal of deposits amounted to Rs 143 or Thus gross mobilisation aggregated to Rs 340 or as against

Rs.290 cr. in the previous year. The net accretion to deposits, was again a record at Rs 119 cr as against Rs 79 or in the previous year - an increase of over 50% Total public deposits outstanding as at 31st March, 1996, amounted to Rs 550 cr us against Rs 431 cr in the previous year Your Company continues to enjoy the highest credit rating 'FAAA' awarded by CRISIL. I sincerely thank the family of more than 5,40,000 depositors spread all over the country for their continued support and high degree of confidence reposed in the Company lassurethem of our constant endeavour to maintain efficient and perconalised service and prove worthy of their trust The paid up capital of your Company doubled from Rs 12 cr to 24 cr after the issue of bonus shares in November '95. The bonus component in the paid-up capital has increased to 96.7% During the year, your Company earned a gross profit of Rs 127 50 cr - an increase of 23 5% over the previous year. Profit after tax increased to Rs 64 92 ci from Rs 50 45 cr registering an increase of around 29% Enthused by thir performance, your directors happly recommended a total dividend of 35% on the increased paid-up capital. This would amount to a distribution of Rs 8 40 cr as against Rs 6 00 cr paid last year - an increase of 40%, the highest so far, both for the level of increase and the quantum

Your Company continues to Jathere to the Prudential Norms a rescribed by the Reserve Bunk of India (KBI) for NBFCs. You will be happy to note that the capital adequaty ratio as on 3.1–3.96 was higher at 15.97%, up from 15.25% reported lant year. This is almost double the prescribed maximum of 8%. The standard a sets, i.e., performance assets, as unding to 38% classification, were also at a high selevation 99.47% of the cotal purious assets, as compared to 99.36% reported lant year.

# ECONOMIC SCENARIO

The Indian economic marks of the ratio progress and the lecture doing 1995-96 (indian contents of the action of the III Zhi and dark characteristics).

too rose comfortably by 2.4%. GDP growth was 7%. The performance on the export front was satisfactory with a growth rate of 20.8% and the country's foreign exchange reserves were in a comfortable position at US\$ 17 billion at the end of March 1996. Despite the persistent high fiscal deficit, the Government has succeeded in bringing down the rate of inflation to manageable levels.

# BUDGET PROPOSALS

It is heartening to note that the Hon'ble Finance Minister Sri P Chidambaram has reiterated the United Front Government's commitment to continue the economic reforms and liberalisation aimed at accelerating economic growth and ensuring fiscal prudence and macroeconomic stability I congratulate him for his efforts to reduce the fiscal deficit to 5% of GDP for the current financial year and his resolve to bring it down to below 4% of GDP within the next few years

The budget also rightly emphasises the need for stepping up investment in infrastructural sectors as a prerequisite for sustained growth.

The numerous proposals in this area mark a new beginning and diserve appreciation. Agricultural development, health, education and poverty alleviation measures have rightly received priority.

Reduction of survivage on corporate tax from 15% to 7.5% naw, and the intention to remove it fully next year, in

welcome

Granting of depreciation on assets jointly owned will pave the way for big ticket leasing to take off. Curbs on sale and lease back transactions aimed at preventing unhealthy trade of depreciation is a step in the right direction. These measures provide the right environment for leasing companies and will enable them to step up their efforts to assist capital formation, and contribute to economic development.

# Sundaram Finance Limited

Registered Office: 21, Patullos Road, Madras 600 002.

# CHAIRMAN'S SPEECH

Speech delivered by
Shri T.S. Santhanam, Chairman
at the Fortythird Annual General Meeting of
Sundaram Finance Limited held on
26th July, 1996 at Madras.

# NBFC<sup>s</sup>-NEED For a positive Approac

#### Resources

The liquidity crunch faced by the economy particularly in the second half of the last fiscal year was severe and unprecedented. Coupled with reduction in ceiling on bank lending to all types of NBFCs and moderation of lending by financial institutions(Fls), credit availability to NBFCs from these sources became scarce driving them to access funds from other sources, often at non-competitive rates. Even though there are signs of easing of liquidity,

sentments towards NBFCs do not seem to have changed for the better. White unauthorised or improper end-use of funds by some NBFCs could have invited such a restriction by banks and Fls, it did affect, unintendedly, once well imanaged NBFCs engaged in **asset based** financing. The latter culting typic NBFCs, as a responsible constituent of the financial sector, play a complementary not competitive, role to banks and Fls. They display a time legic of economic efficiency, enjoy sound reputation as reliable and different depositories with superior credit ratings and comply with all producted inorm. The regulatory framework introduced in the last few years aid environ yieldentife ation and differentiation of these well managed NBFCs. Therefore, there is a need and justification for relaxation of some of the restrictions in their favour. I, therefore, appeal to the RBI to encourage

positively these NBFCs, with such safeguards as may be required, so that they continue to play the useful role assigned to them in the financial system and help accelerate economic development. There is a strong case for treating advances by banks to NBFCs whose end-use of funds is to finance small transport operators, as a part of priority sector lending by banks on par with their direct lending to this segment.

I welcome the initiative taken by the RBI to introduce offsite and on-site inspection and supervisory ratings to NBFCs also, on the same lines as applicable to banks. I also welcome the proposal in the Union Budget to arriend the RBI Act to strengthen the regulatory powers over all kinds of NBFCs. With this legal framework and effective supervision of NBFCs, the regulatory system would be complete and pave the way for the healthy growth of this sector.

The recent move to deregulate the interest rates on bank deposits for periods of over one year is a step forward towards total deregulation. The rate of interest on debentures and all other sources is already deregulated except that on deposits accepted by NBFCs. As NBFCs have to mobilise public deposits in a highly competitive environment, it is absolutely necessary to provide some flexibility at least to offer a yield matching with the tenure of deposit. The Reserve Bank of India has just announced major relaxations by freeing the ceiling on interest rates and the quantum of deposits that can be accepted by registered NBFCs which meet the prudential norms and credit rating requirement prescribed by RBI. While this will help the NBFCs to achieve the above purpose and also a better maturity match, it will be their responsibility to ensure an orderly and healthy development of the sector as a whole.

#### Value Added Tax

In October 1995 Value Added Tax (VAT) was introduced in Maharishtra and in the recent budget Tamil Nadu also has adopted the same. The concept is welcome since it would usher in the much needed uniformity across the country By virtue of constitutional amendment, hire purchase and leasing transactions are considered as "deemed sales" and as such come within the purview of Sales Tax Acts but enjoy second sales exemptions in various States, It should be recognised that there is no economic value addition in these transactions and therefore these should be outside the scope of VAT.

Being ukin to financial transactions in substance, application of VAT which, conceptually is a multi-point levy, would make them non-competitive against other modes of financing to which sales tax does not apply. In some cases, the levy could substantially affect the viability of the said hire purchase/leasing transactions too.

Hire purchase and leasing play an important supplementary role in capital formation - more so - in today's liberalised environment and they deserve to be encouraged. It is, therefore, imperative that the matter is examined **de novo** and ensured that VAT is not applied to hire purchase and leasing

# ROAD TRANSPORT INDUSTRY

The automobile sector, has shown further strong growth in all segments during 1995-96. The output of commercial vehicles (including LCVs) increased by over 32%. With the projected GDP growth of 6.6% for 1996-97 and continued moderate levels of infetion, the fiealthy demand for commercial vehicles is expected to continue. In the passenger car segment, with the entry of a host of multinationals, the availability and choice of cars will improve dramatically. The induction of new technology, new models and increased competition, should enable the car owner to benefit and also make for a sistained growth in the output of cars.

Road transport industry plays a vital role in the socio-economic development of the country. The share of road transport in the movement of freight has increased from 11% in 1951 to about 60% at present and in the increment of passengers from 26% to 80% during the same period. This trend is likely to continue

The vehicle population has increased from 3 takhs to 253 takhs (84 times) since 1951 and as per Association of Indian Automobile Manufacturers, it is expected to cross 530 takhs by 2000 AD. As against this, the length of roads has only increased from 4 takh Kms to 22 takh Kms (5 times) during this period Maintenance of the existing road network has also received scanty attention.

The recent budget has for the first time given maximum priority to the development of infrastructure including the road network. The budgetary allocations have been increased and several schemes have been announced to encourage investment in infrastructure projects. The biggest challenge will be mobilising the enormous resources required to expand the road network commensurate with the growth of the economy and the increased vehicle population.

# PROSPECTS

Your Company has written an aggregate business of Rs. 224 cr. in hire purchase and leasing in the first three months of the current financial year against Rs. 190 cr. previously. Though the recent hike in petroleum prices may have a slightly dampening effect on the offtake of vehicles, your Company still hopes to achieve reasonable growth in hire purchase and leasing business this year also by adopting suitable funding and business strategies.

# SUBSIDIARIES & DIVERSIFICATION

India Equipment Leasing Limited performed satisfactorily during the year and made an after tax profit of Rs. 4.59 cr. and declared a dividend of 15% for the financial year 1995-96 on the enhanced capital of Rs. 10 cr. Sundaram Finance Services Ltd. also performed satisfactorily during the year and made a profit after tax of Rs. 2.07 cr. and maintained a dividend of 10% on the paid-up capital.

Sundaram Finance Securities Ltd. Formed a profit after tax of Rs 0.14 lakh only, for the period ending 31st Morch, 1996 in view of severe slump in the capital market.

Your Company has entered into a Joint Venture Agreement with Newton Management Ltd., UK and Stewart Newton Holdings (Mauritius) Limited for setting up an Asset Management Company. Pursuant to this, Sundaram Newton Asset Management Company Private Limited was incorporated in February 1996 Your Company also proposes to set up a Trust in the name of Sundaram Mutual Fund which will float schemes for mobilisation of funds from the public after obtaining necessary approvals from Securities and Exchange Board of India.

Your Company is pursuing its plans to set up a General Insurance Company and is awailing the Central Government's policy decisions in this regard

# R ECOGNITIONS

Lam happy to inform you that the Government of India has awarded a certificate of commendation to your Company under the scheme for honouring "Good Tax Payers", in recognition of your Company's meritarious record in the payment of taxes and discharge of all obligations under the direct tax laws.

Your Company was also honoured by the Chartered Financial Analyst of the Institute of Chartered Financial Analyst of India, in recognition of your Company's efforts to set a trail-blazing record of investor rewards, to string the equity cult on ethical lines among the top hundred investor-rewarding companies in India for the period 1990-95. Your Company today enjoys a price earnings multiple which is twice that of the industry average. This stands testimony to the Company's concern for rewarding the investors consistently and to the best possible extent.

# A CKNOWLEDGEMEN T

On behalf of the Board of Directors and on my own behalf, I take this apportunity to thank our depositors, customers, bankers, financial institutions and all the shareholders for the co-operation and assistance extended to your Company and look forward to their continued support labs place on record my appreciation of the good work done by all members of staff both in the field and in the office.

Note: This does not juriport to be a record of the proceedings of the Annual General Meeting of the Company

### American Colonialism and Puerto Rican 'Criminality'

Maria Milagros Lopez Nalini Natarajan

'Subject People' and Colonial Discourses: Economic Transformation and Social Disorder in Puerto Rico, 1898-1947 by Kelvin Santiago-Valles; Suny Press, Albany, 1994.

KELVIN SANTIAGO-VALLES' recent study of the construction of the labouring poor of Puerto Rico in the first five decades of US colonisation is a truly impressive contribution to Puerto Rican historiography, colonial discourse analysis and studies of the interlinking between crime and colonialism. While recent studies of criminality within the signifying practices and legal systems of the empire (most notably from India) use a similar Foucauldian paradigm. Santiago-Valles' study is one of a few of its kind in the Puerto Rican context. Given that criminality is one of current day Puerto Rico's major concerns, this study suggests important continuities between past and present. At the end of this review we will take up this issue.

The book's wide scope incorporates an account of Puerto Rico's economic history between 1898 and 1947 with the social disorders that were accelerated by the North American colonial invasion. The class recompositions that took place, the new economic devices implemented after 1898 and the corresponding discursive constructions of the 'internal other', the colonial labouring subject, are the central interests. The labouring subject's response, 'popular illegalities', is contextualised within the uneven materialisation of American capitalism that took place in Puerto Rico between 1898 and 1921. Between 1898 and 1947, the islands became an increasingly wagebased site of cheap labour for the production and export of sugar, tobacco and needlwork items.

The period examined covers the transition from a peasant economy to a pre-industrial agricultural economy and the beginning of larger-scle manufacturing in the island. These required the buying of land from the peasants and their subsumption to an industrial regime of work. Santiago-Valles describes the resultant violent transition and the spread of popular illegalities ranging from petty thefts to homicides. He examines the moments of transgression and "the persistent autonomy of these survival practices [which] set limits to advancing capitalism's ability to effectively summon and fashion the impoverished majorities... as a docile potential labour force" (p 13). The context of this 'violent refashion[ing] (p 6) is moreover shown to be overdetermined by race ('internal' and 'external'), gender, and other domestic power relations.

In tracking the above, the author has gathered an impressive collection of historical data which ranges from the period's journalistic reports and more scholarly analyses, arrest records, municipal records and other forms of chronicling everyday life. His use of empirical data and his forms of discourse analysis emphasising the textuality of facts result in a multi-referential account (see for instance his discussion of 'local women', and Christian symbology, (p 96). The documents quoted also testify to the change in signifying practices with historical events such as the world war, increasing Creole participation, or mediating documents such as Negocio Trabajado prepared as a palliative after labour strikes.

Santiago-Valles' intervention in postcolonial studies and colonial discourse analysis is significant. Recent attacks on the use of post-colonialism as an analytic category have stressed its "dubious spatiality" and "problematic temporality", geo-political silences and universalising non-specificities, its "ahistorical and universalising deployments" (Shohat); the "reckless psychologising" of some of its practicioners (Ahmad); its blindness to hard economic realities or domination by intellectuals of one region (Dirlik). While we do not wish to undertake the project of countering any of these here we consider Santiago-Valles' book to be an enabling example of what post-colonial critique can produce. Santiago-Valles' analysis is locally specific, attentive to economic history and offers a very provocative reading of the signifying practices of US colonial history in Puerto Rico. The analysis breaks new ground in bringing Puerto Rico into the post-colonial paradigni, thus extending and clarifying the perspective's provenance as a positional rather than essential or chronological term.

Post-colonialism (as a perspective which highlights colonialism's founding role in contemporary oppressions) is privileged in Santiago-Valles as an analytic category through his: ..stained focus on the signifying practices of US imperialism in the subjugation of Puerto Rico. Santiago-Valles' text explicitly compares US 'production' of Puerto Rican colonised space to the 'Orientalising' manoeuvres Edward Said has outlined (p. 7). Accordingly, the signifying practices of US colonial discourse depend, like colonial discourses woildwide, on such narratives as 'mantfest destiny'; the civilising mission

bringing health, education, sanitation to the colonies; racial superiority; and a construction of the colonised space as a journey into a degraded (and now discarded) past.

These discourses seek to consolidate a colomsed 'other', the homogenised (in his words) "Porto Rican" (p. 239-40). In dismantling this homogeneity, Santiago-Valles analysis textualises Puerto Rican heterogeneiv, and it is in this process that the classed, gendered, raced subject comes into view. The various subjects - black urban artisans, 'whiter' peoples of the interior, prostitutes, Creole propertied classes, runaway children - pose a heterogeneity which challenges and is yet elided in colonial textualities. At the same time, the asymmetries of the colonial relation, the 'ambivalence' of colonial address theorised by Homi Bhabha, result in new subjects, the indigenous elites, the Creole propertied classes. The colonised reaction to this ambivalence is discussed under the trope of minnery, Minnery, according to Santiago-Valles, is a useful problematic in examining how the 'subalterns' on the island, the nonpropertied classes, were racialised (as nonwhite) and gendered (as female) in the Creole attempt to gain favour with the North American colonisers. Many instances of Creole attempts to mimic colonising discourses are discussed in the account. An especially telling one is the way a certain homicide was read by a university professor as marking the behaviour of the 'non-white' labouring class. The text highlights the aportas and inconsistencies in discourse (Creole and North American) that simultaneously criminalise and dominate the non-propertied subalterns, treating them at once as sexually libidinous and amoral, as well as docile, childlike beings with little malice

A similar disjunction between textual 'hybridisation' as resistance (in some postcolonial formulations), and the marginalising of racial 'hybridity' (under the sign of the non-Creole, 'non-white' subaltern) may be seen to emerge provocatively from the text. Actual racial hybridity as a sign of difference threatening to the 'whiter' propertied classes exposes purely discursive notions of hybridity by cliding the violence of racial encounter in the imperial theater and in Abdo Jan Mohammed's words, "focusing on celenial discourse as if it existed in a vacuum".2 Thus, both mimicry and hybridity become further means of clite Creole marginalising of the subaltern and extending the provenance of the colonial strategy of repression.

Drawing from the perspectives of the Subaltern Studies group in the Indian context, Santiago-Valles offers a revisionary study of the colonised by doing two things. First, in his avowed adaptation of Gayatri Spivak's formulation, he plots moments of changes plural and confrontational rather than transitional. The text records many such moments of confrontation. Second, he traces how

such changes are marked by functional changes in sign systems (p 6).

A significant aspect of Santiago-Valles' deployment of post-colonial theory is his range. He moves constantly between registers, combining archival readings with feminist, psychoanalytic, and economic analyses. This contributes a striking density to his text. In the Puerto Rican context, this approach which we call 'totalising' has strengths as well as weakness.

Significantly, for the charge of economic 'blindness' levelled against some varieties of post-colonial criticism, Santiago-Valles' text is far from ignoring the materiality of oppression in favour of its textual aspect. His text is scrupulously researched with details of the economic dispossession of the non-propertied classes, details of criminal behaviour ('popular illegalities') and the historical tracking of the change in the inscription and regulation of crime (which further subjugated and criminalised the 'subalterns') alongside socio-economic changes.

Santiago-Valles' argument claims a casual and structural link between criminal and illegal activity and economic factors induced by American colonialism. At the same time, these activities are textualised in the discourses justifying further punitive restrictions, all subsumed under colonial 'surveillance'. Increasingly, the Creole propertied classes associate themselves, in a typical colonial move, with the colonising lawgivers. The argument linking 'insides' (subjectivity and sexuality) and 'outsides' ("hard economic realities") hinges on the correspondence his text attempts to establish between the colonial representations of 'popular illegalities' and the dispossessions that spawned them. Petty crimes such as looting and stealing from farms by rural 'guerillas' are linked in the first decade of US imperialism with famine and forced nomadism; homicides in the second decade are used to inscribe and regulate labour strife, and child nomadism in later decades is linked to scarcity and high costs of living (p 233). The homicides and violence were typically read in racial or gendered terms and used by the Creoles to distance themselves from the 'internal Others', as well as to emphasise these 'others' as degenerate and in need of punitive action. There is a balance maintained throughout, between discursive and material.

Santiago-Valles' account offers an interpretation that explains better than earlier Puerto Rican historiography certain features that characterise contemporary life in Puerto Rico. His focus on the non-worker or the sub-proletanat (Marx's 'lumpen') challenges the attempt, under the sign of Marxism, to 'produce' a struggling working class in the 1970s and 1980s analyses. In this sense, Santiago-Valles challenges the sociohistorical analysis carried out during the 1970s and 1980s by Puerto Rican radical historians and sociologists.3 Their emphasis had been the documentation of the working class and its culture along the lines of E P Thompson. Their point of departure had been the industrial and agricultural proletariat and their efforts at developing a political pole of strength during the first half of the century. A progressivist, positivist, mode of productionist bent, under the sign of Marxism, characterised these efforts.

Nationalism, on the other hand, was another marker of anti-imperialism, which was however eager to identify the formation of a Puerto Rıcan national identity with the exclusion of the "evil disposed classes" that Santiago-Valles emphasises. The text points to elite appropriation of the anti-colonial platform.

In other words, this study is a departure from the conventional Marxist accounts (in dominant Puerto Rican historiography) of the development of capitalist modes of production and consequent cultural patterns. The theoretical explanations as well as consideration of other sectors not tied to the logic of production were hardly examined. Santiago-Valles' valuable and innovative focus on the non-worker ties up with the peculiarity of Puerto Rican insertion into the work regime. It throws light on the pathology of the Puerto Rican, his/her 'docility' in terms of his/her non-subsumption within the real regime of labour. Anthropologists have noted the Puerto Rican's resistance to hierarchy, his/her reluctance to work in teams. As Santiago Valles shows, the transition from the formal (imposed externally) to the real (internalised by the workers) subsumption of labour in Puerto Rico remained imcomplete.

The author details the North American colonisers' difficulty in subsuming the population within an industrial regime of work, attributing it to the "weakening effects and dark forces of a tropical nature" (p 67). Santiago-Valles reads this "opposition to working for anyone else" (p 69) as a result of "the nature of the forms of exploitation and the instability of the dispossessed sector' (p 64). Nomadic work and a variety of sources of income, legal and illegal, forced these sectors to shift constantly between places and forms of employment. Very significantly, this focus on non-work helps explain the present where 70 per cent of the population is outside the salaried wage structure. Comparisons can be made between the dispossession the book records and the condition of the deskilled and expelled working force on the island today, with its concomitant 'idleness rate'. Official unemployment rates in Puerto Rico are approximately 18 per cent while idleness rates for the total population between 16 and 65 years of age are 70 per cent. This has moved it to a 'tertiary' service economy, a condition 'peripheral post-industrialisation 4

As Santiago-Valles stresses, criminality and violence are the major official and unofficial concerns on the island. Non-work and criminality continued to be linked in Puerto Rico, and Santiago-Valles' study points out the historical antecedents of contemporary criminality. As in Fernando Pico's Los Gallos Peleados (1988), the idyllic Puerto Rican past of nationalist mythology is shown to be illusory. The micro-disorders

and tendency to lawlessness that spread out of the newly re-colonised space are well described in an effort to explain modes of subjection. In contemporary Puerto Rico, the dispossessed figure crucially in the concern over criminality and violence, and in the resulting punitive discourses and legal measures against criminals, drug users, and welfare recipients. For instance, during 1993 and 1994, 49 communities in public housing projects have been 'intervened' in by the Police and the National Guard in an effort to clean up 'decency zones'. Urban and suburban areas wall themselves in and private security guards and gadgets are a common feature. While official statistics are high, the imaginary fear they sustain is even larger.

Finally, we consider the charge of totalisation. Using the colonised subaltern to understand every single aspect of the society: race, gender, domestic violence, modes of accumulation - is impressive but problematic. This ambitious totalising move is important in that it explains, better than dominant Puerto Rican historiography, certain realities in Puerto Rico today. This premise allows a near total reinterpretation of the period from the perspective of the dispossessed. It explains the process, ignored hitherto, through which non-workers, the peasants/subalterns, were constituted.

However, there are many contradictions that escape the totalising post-colonial paradigm. Santiago-Valles' account does not adequately convey the combination of resistance and conformity to the colonising process, expressed today in the Annexionist impulse. The resistance-conformity in his text is confined to the Creoles, and conformity withheld from the subaltern. It does not explain why the sub-proletariat, even today, shows a pro-American tendency and consistently votes for Statehood.

Second, we raise a possible negative consequence of the use of analysts as Memmi, Fanon and Cesaire. While these analyses made crucial contributions to the understanding of colonialism and its cultural, subjective and sexual dimensions, the results can be psychic cul-de sacs for the colonised. Viewing colonialism as determining colonised mentality results in a taxonomy which works to legitimise the inferiority of the colonised. In Puerto Rico, the discussion around the colonised psyche engendered a discourse of the docile Puerto Rican (who accepted the colonial condition and lacked the drive to progress), even though the intentions were quite the opposite. Sociologists, psychiatrists and psychologist who shared an anti-imperialist stance nevertheless provided the 'empirical data' which in turn certified Puerto Ricans as interior subjugated

Finally, Santiago-Valles' claim about the voicelessness of the oppressed sectors locates signifying power too exclusively in Creole-North American discourses. It entails the legitimation of a single official public sphere where one should aspire to be heard, rather than a multiplicity of other spheres where 'the othered' do and did have a voice and are listened to. This suggests a 'vacillation'

within the author's own methodology of the chronicling of everyday life. Discourses such as gossip (chisme), whose popular and anonymous vocality can be a way of reclaiming culture from elitetextualities; music (like the little known 'Las Cadenas'); and other expressions of the popular everyday should also be seen to produce subaltern disturbances.

#### Notes

 See Ella Shohat, 'Notes on the Post-Colonial', Social Text. 31:32 (1992), 99-113, Atjaz. Ahmad, 'Marx on India', In Theory. Classes, Nations. Literatures, Verso, London, 1992:227,

- and Arif Dirlik, 'The Post-Colonial Aura: Third World Criticism in the Age of Global Capitalism', Critical Inquiry, 20, 2 (1994), 328-57.
- 2 Abdul R Jan Mohamed, 'The Economy of the Manichean Allegory The Function of Racial Difference in Colonialist Literature', Critical Inquiry, 12 (1985), 60
- 3 See for example, A Quintero, Lucha Obrera CEREP, 1972, and E Rivera and Raphael Ramirez, Del Canaveral ala Fabrica, Ediciones Huracan, Rio Piedras, 1985
- 4 John Jacobsen, 'Peripheral Post-Industrialisation Ideology, High Technology and Dependent Development', A Changing International Dimension of Labour, edited by James A Caporaso, Lyme Reiner Publishers, Boulder, CO, 1987.

## **Government and Industry**

Sanjeev Ghotge

Technology and Competitiveness: The Case of the Brazilian and Indian Machine Tools by J P Wogart, Aasha K Mehta and Arun Mehta; Sage Publications, 1993; pp 175.

THE chief concern of the book, which also defines its framework of enquiry, is to challenge Michael Porter's thesis of the limited role of government intervention in specific branches of industry which are deemed to be of national importance. Accordingly, the authors have marshalled facts and evidence to indicate that government around the world have given attention and support to the requirements of their machine tools industry. In the particular case of Brazil and India, which are the chosen case studies for in-depth examination, the book attempts to analyse the alternative strategies the two countries could pursue in future in supporting their machine tools industry The other issues which are pertinent to the broad framework of the study include the interrelationship between the micro electronic revolution, development strategies and international competitiveness. Successive chapters discuss general issues of technological development and in particular of the electronics revolution, the role of government in a number of countries, the emerging context of worldwide competition in machine tools, the role of demand with respect to quality and price and historical response strategies to demand in the form of import substitution and import diversification and. finally, analysis of supply with particular reference to training of the labour force and the rise of entrepreneurship. The concluding chapter evaluates the usefulness of porter's framework after having examined developments in Brazil and India as well as two other developing economies, Taiwan and South Korea.

Since Porter's thesis on 'the diamond of national advantage' occupies such an important part in the book under review, it is important to briefly refer to the basic elements of Porter's thesis Porter's thesis concerns the importance of the competitive spirit of individual firms and their environment which evokes a keen response from those firms. The critical environmental force is the pressure excited by demanding buyers on the producer to improve, innovate and upgrade. This in turn leads to inter-firm competition amongst the producers. Factor conditions and the rate of efficiency in creating, upgrading and deploying factors of production also assume importance, Lastly, the availability of major inputs and the international competitiveness of home-based suppliers are also a necessary ingredient These four together constitute the 'diamond of national advantage' according to Porter, who contends that government intervention has played a relatively minor role in enhancing competitive performance. Porter contends that in the case of Japanese robotics, the early and sophisticated demand from automobile and appliance industries led to the creation of competitive conditions and inter-firm rivalry in Japanese markets.

However, as Wogart et al show, the actual policies and development paths followed by a number of different countries do not confirm to Porter's thesis. Wastephal (1981) studying Korea has shown that infant industry protection has 'worked', Fransman (1986) cites the example of Japan to show how ruinous competition was controlled in the early intancy stage until firms reached competitive maturity. Then there is the evidence of the strong recuperation in both West Germany and Japan following the destruction of their industry in second world war. The role of MITI in particular has been widely commented on, particularly in its creation of Japan, Inc., brough financing numerous initiatives in the machine tools and automation sectors such as CNC and FMS. The Japan Development Bank also provided easy credit and depreciation terms. Similarly, the UK government started demand stimulation programmes aimed at specific technology sectors such as FMS, besides government supported R and D and support to small hi-tech companies. Three other EEC countries - Italy, France and West Germany had - programmes of easy credit for machinery purchase, research promotion and subsidised R and D personnel costs. In Sweden, based on the recommendations of a group of social scientists, some 'leading edge' companies were financed for highrisk pilot projects. Other examples abound: a centre for the development of multivendor hardware and software in Genoa. The Basic Research in Industrial Technology for Europe (BRITE), the FAMOS programme in flexible automated assembly are a tew of the impressive list of government supported projects as reported by UNISO. The US machine tool industry has not received explicit government support in R and D or otherwise; in fact, in the US case, the macroeconomic conditions (overvalued dollar, high public spending) helped foreign competition at the cost of domestic producers. In the US case, however, the role played by defence demand historically in fostering machine tool development needs to be borne in mind

As all these instances tend to show, governments across the world have had a role to play in nurturing competitive development in their national machine tools sector That, however, is only one part of the story. Firms have responded to the imperatives of technology development, tantamount to a revolution in manufacturing in the last 10 to 15 years, in a variety of ways including (i) changes in cost structure and out-sourcing, (ii) increasing design skills and R and D capabilities, (iii) system integrating activities, (iv) forming strategic alliances with other firms and (v) extending marketing and services. These responses were strongly supported by the presence of a strong engineering sector an ambitious automobile sector, a skilled ancillaries sector and government support. It is the mutually reinforcing nature of the different activities that can ultimately make a difference between dynamic technological performance and passive 'protectionist' policy frameworks as has been the case in India in the past.

As all those involved in the machine tools sector will recognise, the universe of machine tools production and development is a complex one even by the standards of other technology sectors. It consists of about 3,000 different types of machine tools, each with its specialised assortment of tools, accessories and attachments. No country in the world manufactures every type of machine tools. yet the top 35 machine tools producing countries in the world also account for 96 per cent of machine tool consumption. In other words, the universe is quite small and the acquisition of capability in this crucial sector is well worth striving for by any developing country The authors have done well in keeping alive this core question of industrial capability development and some of the options that developing countries can exercise. A more focused discussion of this question would have enormously enhanced the value of the book for practitioners, policymakers and scholars on the subject.

# **Convergence in Regional Growth Rates**

# **Indian Research Agenda**

#### Sugata Marjit Sandip Mitra

Restriction on resource movements plays an important role in justifying 'convergence' in regional income levels. The existing theories do not highlight its importance. After providing a critique of the Barro-Sala-I-Martin (1995) approach, the authors present a very preliminary study on the Indian states. It is observed that the states have been 'diverging' rather than converging in terms of their per capita income.

#### I Introduction

WITH the recent revival of interest in neoclassical growth theory, researchers all over the world have been talking about 'endogenous' explanation of 'converging' or 'diverging' national growth rates across the world. While the major part of this research has been focusing on the differential per capita growth rates among different groups of nations over a considerable length of time, a subset of them have been preoccupied with the question of convergence in regional growth rates within a specified geographic boundary. The idea of convergence is nothing new as it was buried in the conventional treatment of growth model a la Robert Solow. But the issues, those that have been made transparent through recent findings, seem to be quite interesting and have opened up avenues for further work in this area. The literature on endogenous growth is vast, intense and growing. Moreover, the purpose of this paper is not to dwell at length on the topic, but to raise a few questions regarding the analysis of 'convergence' as applied in regional context. Interested readers are recommended to go through the recent book of Barro and Xavier Sala-1-Martin (1995) and references therein.

We would first give a simple exposition of the problem of convergence as distinct from the problem of endogenising the long-run growth of per capita income. Then the thesis as to why convergence as a theory should be more suitable for comparing regional growth rates over time; would be critically discussed. We argue why regional growth models based on inter-regional trade and resource flows would be useful analytical framework to analyse convergence at the regional level. Later we report our preliminary findings from the regions within India focusing on the phenomenon of convergence working with the movements

in per capita state domestic product over time. In the last section we provide some concluding remarks.

# The Theory: A Critical Assessment

We start from the standard Solow model Think of the steady state equilibrium

$$\frac{\mathrm{sf}(\mathbf{k}^*)}{\mathbf{k}^*} = \mathbf{n} \tag{1}$$

where s - saving rate;  $k^* - steady state per capita capital stock; <math>n - rate$  of growth of population.

The long-run growth implication of (1) is that the per capita income is constant over the long run. One could bring in endogenous rate of technological progress and argue that the per capita income in physical units would grow at that rate. In a way the endogenous growth literature tries to remove the exogenity latent in the explanation of per capita growth rate. While trying to explain long-run growth rate, the new growth models look for steady states characterised by positive per capita growth rates determined within the model.

Another related question is derived from the off-steady state behaviour of the economy. Supposing that for two countries there are endogenously determined same steady state growth rates attainable in the long run. Now if we focus on the off steady state and rank the economics according to their initial capital-labour ratios, can we say something specific about the growth paths of these economies towards the steady state?

Solow model gives us a clear-cut answer. The country with lower per capita capital stock, hence lower per capita income, will grow at a faster rate. Thus, over time the two countries would converge in terms of their per capita income levels as well as the growth rates which are assumed to be the same in the long run. This is an outcome due to the diminishing marginal productivity

assumption in the Solow model. Lower initial k would imply higher r. From the Solow model it follows that

$$y = f(k)$$

$$(1' > 0, f'' < 0.$$

$$\frac{dy}{dt} = f'(k) \left[ \frac{st(k)}{k} - n \right] > 0 \quad \text{for } k < k^{*}.$$

$$g = \frac{dy/dt}{y} = \frac{f'(k)}{f(k)} \left[ \frac{sf(k)}{k} - n \right]$$

$$\frac{\partial g}{\partial k} = \left[ \frac{sf(k)}{k} - n \right] \left[ \frac{f''' f - f'^{2}}{f'^{2}} \right]$$

$$+ s. \quad \frac{f'}{f} \quad \frac{f' k - f}{k^{2}} < 0$$
(3)

(3) is negative because of the concavity of the production function, i.e., f > 0 and f'' < 0. Therefore, initially if  $k_1 < k_2$  then  $g_1 > g_2$ . Note that the assumption of a common saving rate or a common growth rate of population is quite important. If we start from  $k_1 < k_2$  but with  $s_2 > s_1$  and/or  $n_1 > n_2$ ,  $g_1$  can fall short of  $g_2$ , implying divergence rather than convergence.

To focus on convergence it is not necessary to concentrate on a positive longrun growth of per capita income. Solow model provides the simplest demonstration of convergence - where an assumption of a positive long-run growth is not necessary. In the example above growth rate for each country is zero in the long run. Yet on way towards the steady state growth rates are positive and different depending on the initial condition. For studying convergence it is not mandatory to incorporate optimum savings behaviour on the part of the individual agents as it is usually done in the formal models of endogenous growth. A constant savings rate is an adequate starting point to make one understand the basic idea of convergence. In fact the literature often falls to isolate what is and what is not necessary to hammer home the essential point.

The departure away from the phenomenon of convergence in national growth rates (henceforth growth rate would mean growth

rate of per capita income) towards regional convergence essentially hinges on the comparability of the long-run growth rates. If one could somehow control the differences in crucial growth accounting factors across nations, then one should get convergence as predicted by neoclassical growth models. Issues such as this have been discussed in Mankiew, Romer and Weil (1992). This is sometimes interpreted as 'conditional convergence'. Barro (1984), Barro and Sala-I-Martin (1991,1992) argue that regions within a national boundary sharing same legal and institutional structure could not differ much (in principle) in terms of their long-run growth rates. In other words, the crucial factors determining the long-run growth rate tend to be similar for these regions. Since we would be mostly concerned with the theoretical weakness of this approach, we shall abstain from going into the intricacies of empirical assertions. Interested readers can read Quah (1993)1 on possible criticisms of the Barro-Sala-I-Martin econometric approach. We now lay out our basic reservations against the theoretical approach towards convergence in regional growth rates.

#### III Resource Mobility and Convergence

The empiries of regional convergence suggests fairly low rate of convergence over time. It is revealed that the speed of convergence is quite similar across different data sets. 'B', the speed of convergence measure as developed by Barro and Sala-1-Martin (1995), tends to be 2-3 per cent per year in the previous contexts. A straightforward theoretical puzzle haunts us in this context. If we consider two regions with different real rates of return to capital, why does capital not move instantaneously to equalise these? In other words, with perfect resource mobility we must have immediate convergence of per capita income levels. Such a lesson is not unknown to neoclassical economics. There is an extensive literature on capital movement in the theory of international trade with rich set of results involving commodity and factor trade (see Jones (1967)). Resource flows across countries often do not follow theoretical prediction. Huge premiums may persist in global rates of return and there are reasons why that is so. This may be an outcome of country specific risks which would be reflected in the rates of return differential. But the regions within a country must not be so diverse as to preclude free movement of resources and goods.

The problems of demonstrating the idea of convergence in a typical Solow-type model is that it tends to ignore a prominent feature of neoclassical description. Interestingly growth economists were aware of this problem. Barro, Mankiew and Salal-Martin (1992) have discussed capital mobility in neoclassical models of growth. There also the idea of convergence across nations is sustained through a kind of imperfection in the capital market.

It is obvious that over time, as two regions approach similar steady states, differential rates of return persist but the gap narrows. Hence, it must be true that during such a phase capital (or labour) is not allowed to move or there are inherent mobility barriers. The idea of convergence is sustained by imperfect mobility of resources, nothing else. Diminishing marginal productivity as reflected in the concavity of production function cannot do justice to the idea of protracted convergence if resource mobility was perfect. The fundamental question therefore is why resources would be immobile between 'regions' which share many common characteristics not shared by different 'nations'.

First, how to sustain 'low per capita capital stock, high growth' relationship with some degree of resource mobility. This is a theoretical problem involving regional trade

and investment. The trade-theoretic counterpart of the problem is 'why factor prices would not be equalised among regions'?

Second one is empirical. One has to find out evidences indicating whether resources are immobile between regions. Suppose one could find some evidence that resources are somewhat rigid with respect to their locations, then the theory of convergence has a basis resting on the concavity of the production function. But evidence to the contrary must mean that there is something else going on. Resource mobility would mean much faster rate of convergence within the Solovian structure.

Borro and Sala-I-Martin (1995) analyse the relationship between migration and growth. They show that for the US economy, migration. ceteris paribus, does not respond much to differences in the levels of per capita income. On top of this, movement of labour does not significantly alter the convergence rate. The first part implies that there is not much movement in response to the market signals. There may be 'region-specific' features guiding the movement of labour and such restricted movement may be causing the result.

The delinking of the idea of convergence from the sphere of 'nations' to 'regions' is

TABLE : DATA

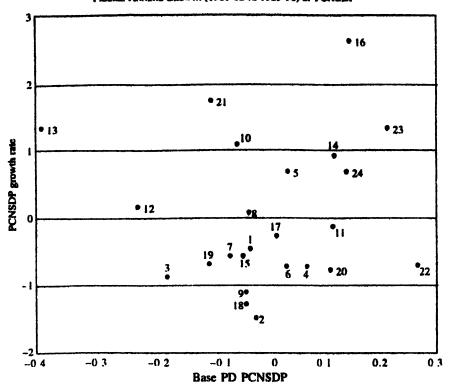
| State             | PCNSDP in Base<br>Pd (1960)<br>(Rs) | Average Annual<br>Growth Rate of<br>PCNSDP 1961-62 | Log x, - Log x | $g_i - \bar{g}$ |
|-------------------|-------------------------------------|----------------------------------------------------|----------------|-----------------|
|                   | x,                                  | g                                                  |                |                 |
| Andhra Pradesh    | 530                                 | 1.46                                               | -0.04          | 0.5             |
| Assam             | 535                                 | 0.52                                               | -0.04          | -1.44           |
| Bihar             | 389                                 | 1.09                                               | -0.18          | -0.87           |
| Gujarat           | 687                                 | 1.24                                               | 0.08           | -0.72           |
| Haryana           | 650                                 | 2.58                                               | 0.05           | 0.62            |
| Himachal Pradesh  | 630                                 | 1.23                                               | 0.03           | ~0.73           |
| Jammu and Kashmir | 485                                 | 1.36                                               | -0.08          | -0.60           |
| Karnataka         | 526                                 | 2.0                                                | -0.04          | 0.04            |
| Kerala            | 509                                 | 0.8                                                | -0.05          | -1.16           |
| Madhya Pradesh    | 508                                 | 3.09                                               | -0.06          | 1.13            |
| Maharashtra       | 745                                 | 1.67                                               | 0.11           | -0.29           |
| Manipur           | 339                                 | 2.16                                               | -0.23          | 0.20            |
| Orissa            | 236                                 | 3.36                                               | -0.39          | 1.40            |
| Punjab            | 790                                 | 2.90                                               | 0.13           | 0.94            |
| Rajasthan         | 519                                 | 1.35                                               | -0.05          | -0.61           |
| Sikkim            | 826                                 | 4.56                                               | 0.16           | 2.60            |
| Tamil Nadu        | \$5B                                | 1.64                                               | -0.01          | -0 32           |
| Tripura           | 517                                 | 0.77                                               | -0.05          | -1.19           |
| Uttar Pradesh     | 453                                 | 1.26                                               | -0.11          | -0.70           |
| West Bengal       | 737                                 | 1.13                                               | 0.11           | -0.83           |
| Arunachal Pradesh | 456                                 | 3.67                                               | -0.10          | 1.71            |
| Delhi             | 1047                                | 1.21                                               | 0.26           | -0.75           |
| Goa. Daman, Diu   | 915                                 | 3.32                                               | 0.20           | 1.36            |
| Pondicherry       | 815                                 | 2.60                                               | 0.15           | 0.64            |

 $\bar{x} = 576.458 \quad \bar{g} = 1.96 \quad \log \bar{x} = 2.76$ 

Sources: 1 Estimates of State Domestic Product, CSO (various issues).

2 Economic Survey (various issues).





Andhra Pradesh (1). Assam (2), Bihar (3), Gujarat (4), Haryana (5), Himachal Pradesh (6), Jaininu and Kashmir (7), Karnataka (8), Kerala (9), Madhya Pradesh (10), Maharashtra (11), Manipur (12), Orissa (13), Punjab (14), Rajasthan (15), Sikkim (16), Tamil Nadu (17), Tripura (18), Uttar Pradesh (19), West Bengal (20), Arunachal Pradesh (21), Delhi (22), Goa, Daman, Diu (23), Pondicherry (24)

PCNSDP stands for per capita net state domestic product

justified because regions are much more 'homogeneous' and therefore they would tend to converge towards similar long run steady states. Yet they must be 'heterogeneous' to some extent also. Such 'heterogeneity' gives birth to the persistent interest/wage rate differentials so that resource movements are not spontaneous.

#### IV Indian Research Agenda

A salient motivation of the entire planning process was to reduce the extent of regional disparity. The turning point of 1991-92 is meant to be justified by the overall failure of the planning process. A natural question to ask is: how different states in India have fared in terms of per capita growth rate over the last 40 years or so. Has there been a tendency for the states to 'converge' in the sense discussed earlier? The evidences so far for the regions within the US, among the Japanese perfectures and group of OECD nations have been quite convincing, although the theoretical justification is weak. India does throw up a magnifying research agenda as to whether the states can be treated as 'regions' or 'separate countries' within a country.

The most intriguing problem is to create and test a comparable and reasonable data set encompassing the states for a large number of periods. At this stage it is not done and we go by the CSO various issues, and the economic survey. We are not producing any kind of econometric exercise in this paper. Our task is to find out whether there is any a priori reason to believe that the states within India have been converging to some extent. Some degree of convergence would support the view that the centralised planning process did help in removing a particular element of disparity.

Data available to us go from 1961-62 to 1989-90 collected from CSO various issues; economic survey and the Centre for Monitoring the Indian Economy manual. The entire exercise is a 'first approximation' and should not be taken as an end in itself. We have converted all per capita net state domestic product interms of 1970-71 general price level. Hence, they are all expressed in 1970-71 prices. We are aware of the measurement errors o caused by not allowing the individual state price-levels to be the

deflators. We propose to do it in our subsequent work. In the table we have tabulated the base period (1961-62) per capita net state domestic product (PCNSDP) at 1970-71 prices and the average growth rate for the entire period. The figure represents the proportion between the base period PCNSDP  $(x_i)$  for each state and the average  $(\hat{x})$  expressed in logarithmic terms ( $\log x_i - \log \bar{x}$ ). The vertical axis denotes the deviation from the average growth rate  $(g_i - \bar{g})$  of PCNSDP. The numbers corresponding to each state are given in the table.

The figure suggests some interesting patterns. First note that a clear-cut 'negative relationship' between the variables is absent. While Manipur and Orissa starting from a low base period income have grown faster and West Bengal did exactly opposite there is a large band of states such as Tripura, Jammu and Kashmir, Andhra Pradesh. Tamil Nadu, Himachal Pradesh which started from different levels but roughly grew at the same rate. Karnataka, Harvana, Puniab. Sikkim, started with relatively strong base. and continued to grow at a faster rate. Kerala and Arunachal Pradesh started with a similar level as the other states belonging to the thick band in the middle, but grew much

If one ignores the states such as Orissa and Manipur, the dotted art work shows roughly an upward drift. This suggests that prima facie there is no evidence that the states in India have been converging in terms of the PCNSDP. In fact we have an evidence which suggests that barring the states belonging to the thick band, strong states grew even stronger.

This observation poses two distinct challenges to the existing and dominating strand of theory explaining regional convergence. First, if we assume that each state is progressing towards its own 'steady state', then clearly these 'steady states' do not seem to be the same. Even at the regional level we observe a feature that endogenous growth theorists believe a typical 'cross-country' experience, i e, poorer countries growing at slower rate than the richer ones.

Second, the simple 'Solow type' conclusion whereby the regional convergence follows from the basic law of diminishing returns, cannot be sustained. Hence, it requires a separate analytical framework to capture the 'divergence' phenomenon at the regional level.

#### V Concluding Remarks

We have tried to present a summary and a critique of the 'convergence hypothesis

quite popular these days in the literature on endogenous growth We have presented certain figures for the Indian states for the last 30 years and showed that they behaved differently from the regions within the US. Japan and the OECD nations We admit a couple of limitations regarding the data set Also Barro and Sala-I-Martin (1992) had a data set covering about 100 years for the regions within the US We do not have it. We tried to look at the 30-year period preceding the phase of ongoing liberalisation and found some reasons to question the application of the standard theory We propose to do the tollowing

We would like to persue a full-fledged econometric exercise to precisely show the pattern of 'divergence', after correcting the data with state-level deflators. Second, we shall try to build up a theoretical model that suits the observation after isolating the reasons for the pattern of state-level growth rates For example, we shall analyse whether allocation of developmental assistance by the central government had anything to do with such pattern A series of alternative measures of per capita growth rates would be attempted

as well as some analysis would be done on convergence or divergence at the sectoral level, i e. in agriculture, manufacturing, etc All said and done, we do teel that tocusing on per capita income levels is itself a narrow objective. It would be nice if a massive effort is put in to construct human development index for each state and the evolution of such indices over time 2

#### **Notes**

[We are indebted to Amitava Bose Dipankar Dasgupta Pradip Maiti Mihii Rakshit and Abhirup Sarkar for informal discussion. The usual disclaimer applies ]

- 1 Quah (1993) argues that Barro-regressions suffer from 'Galton' fallacy it is quite possible that the negative relationship between per capita income and growth rate just depicts the stationary distribution and there may not be any long-run tendency of convergence
- 2 For different types of convergence' studies involving variables other than per capita national income in the content of the US economy refer to Bishop et al (1989)

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# Diversification of Economic Activities and Non-Agricultural Employment in Rural Gujarat

#### Jeemol Unni

A household may diversify its activities by increasing the number of workers in the household or by the participation of each member in more than one economic activity. The latter is the focus of the discussion here. This paper views diversification of economic activities and participation in non-agricultural employment from the perspective of an individual worker in a rural household. His/her decisions regarding whether to participate in economic activity, the number of activities to undertake and the sector (agriculture or non-agriculture) of activity are combined and analysed in a single multiple choice model.

THE structure of employment in the economy is expected to shift relatively away from agriculture and towards industry and services with economic growth. The analysis of successive Indian censuses had not indicated any such shift until quite recently. In the last two decades some diversification of employment towards the non-agricultural sector in rural India has been observed. An interesting debate on the processes that facilitate or retard the growth of nonagricultural employment in the rural economy ensued In an earlier paper, a review of available evidence, suggested two divergent dimensions leading to such diversification.1 These were broadly termed 'agricultural growth led diversification' and 'distress diversification'. A series of papers has later tried to grapple with the problem of disentangling the effect of the two divergent phenomena with varying degrees of success.2

The processes of diversification can be analysed at two levels - the regional level and the individual or household level. Most of the studies have utilised regional level (state/district/village) data to analyse the problem. In the majority of studies at the aggregate level, the relationship between various macro indicators such as, agricultural development, urbanisation, poverty and unemployment, and the proportion of nonagricultural employment were studied. Some studies have attempted dynamic associations using growth of non-agricultural employment over two time points with changes in various macro indicators during the period.3 These relationships were used to analyse whether the growth of non-agricultural employment at the regional level was growth led or distress induced.

While this is an interesting approach, it is of limited use to understand the reasons and processes by which an individual or household diversifies its economic activities or engages in non-agricultural activities. This can be understood only at the micro level. The household is the basic decision-making unit for the allocation of family labour between various economic and non-economic activities. The process of diversification into

non-agricultural employment has to be viewed differently when looked at from the dynamics of household decision-making.

In this paper I propose to view the diversification of economic activities and participation in non-agricultural employment from the perspective of an individual worker in a rural household. From this perspective the aggregate macro arguments for diversification of economic activities can be restated as follows. Diversification can occur from a position of strength as a process of investment of surplus generated from the primary activity, agriculture or non-agriculture. 4 This can also be viewed as a process of diversifying risks in production. Multiple economic activities can also occur from a position of vulnerability and used as a household strategy of survival. This would involve long hours of work at very low levels of labour productivity.'

#### **ECONOMIC DIVERSIFICATION OF HOUSEHOLDS**

Gujarat is an industrially and agriculturally developed state located in the western part of India. There are, however, significant intra-state variations in levels of industrialisation and agricultural development. A significant part of the state is semi-arid with limited irrigation facilities. Bulk of the agricultural activity in this region is undertaken during July to January, the official monsoon and winter seasons.

A primary survey was conducted in 30 villages belonging to five districts of Gujarat state in India in 1988-89. The number of households selected were 3,760, using a stratified random sample. The households in each village were stratified into four categories, viz, cultivators, agricultural labourers, household industry (including skilled workers) and other non-agricultural households. All households engaged in household industry were surveyed. Besides, one-fifth of the cultivator and agricultural labour households and one-third of 'other' households were randomly selected for the primary survey. Information on individual and employment characteristics of all

members of the household and household assets was collected for the year 1987-88, which was a drought year This forms the data-base for analysis in this study.

Rural households undertake, often simultaneously, a variety of agricultural and non-agricultural activities. Consequently, their participation in non-agricultural work cannot be adequately analysed without undertaking the relation between agricultural and non-agricultural activities. Moreover, the nature of participation of household members in economic activities is influenced by their access to land and other assets, etc.

Table 1 presents the weighted percentage distribution of households in the sample villages by their major source of household income. The number of households in the villages surveyed is also estimated. Less than half (about 45 per cent) of the households has agriculture as their major source of income. The proportion of households undertaking non-agricultural activities as their primary source of income may be little high due to the drought that prevailed during the reference year, 1987-88. A relatively large proportion of households are found to be dependent on scarcity reliet works in the districts of Bhavnagar and Mehsana.

In addition to the major source of income. the households in the study villages participated in a variety of subsidiary activities. Table 2 indicates the average number of sources of income reported by households with different major sources of income in the selected districts. On an average, the surveyed households had 2.3 sources of income; the number ranged between a high of 2.7 for cultivator households and low of 1.8 for households primarily engaged in (a) allied agriculture and (b) other non-agricultural activities. In general, apart from cultivators, households primarily engaged in scarcity relief work and other non-agricultural labour reported more than the average number of sources of income. Villages in Bhavnagar provided the only exception.

Table 2 also shows the proportion of households that did not report any subsidiary sources of income and specialised in only

one economic activity. Overall, this proportion was higher among non-agricultural households than among agricultural households in all our 'surveyed' districts. The percentage of households reporting subsidiary source of income was higher among households primarily engaged in cultivation, scarcity relief work, non-agricultural wage labour and agricultural wage labour. In all, only about 24 per cent of households reported no subsidiary source of income. This proportion was relatively high in the districts of Bhavnagar and Valsad.

Table 3 suggests that access to land provides more possibilities of diversification. The households primarily engaged in scarcity relief work more often had access to land than other non-agricultural households, presumably because many households engaged in scarcity work had to abandon cultivation due to drought. This perhaps explains the relatively high proportion of households with only one source of income in Bhavnagar district.

Information was also collected in the primary survey on the nature of the subsidiary source of income of the household. Table 4 provides a cross-tabulation of households by major and subsidiary sources of income. The subsidiary activities engaged in most often were allied agricultural occupations (40 per cent of households) followed by agricultural labour and cultivation. About 10 per cent of households reported scarcity relief works as a subsidiary activity. The proportion of such households was, however, higher among cultivators and non-agricultural wage labourers. The latter probably worked as agricultural labourers, in a primary or subsidiary capacity, during a normal agricultural year. Participation in non-agricultural activities such as self-employment in manufacturing, trade and regular employment on a subsidiary basis was quite limited. In general, most of the nonagricultural households reporting subsidiary activities had subsidiary income from agricultural activities (except for agricultural labour), the latter often were made possible by access to land.

Process of Household Economic Diversification: Diversification of economic activities at the household level can occur through two processes. The household may diversify its activities by increasing the number of workers in the household, engaged in different economic activities. Or it may diversify by the participation of each member in more than one economic activity.

Table 5 presents the work participation ratios (WPRs) by the major source of household income. In order to understand the gender dimension to economic diversification the analysis at the level of individuals is done separately for men and women. The female WPRs are lower than males, as

TABLE 1: PERCENTAGE DISTRIBUTION OF HOUSEHOLDS BY MAJOR SOURCE OF HOUSEHOLD INCOME, 1987-88

| Major Source               |           |         | Sample V    | illages of |          |                  |
|----------------------------|-----------|---------|-------------|------------|----------|------------------|
| of Household<br>Income     | Bhavnagar | Mehsana | Panchmahals | Valsad     | Vadodara | All<br>Districts |
| All agricultural HHs       | 22.0      | 50.6    | 40.3        | 49.6       | 57.1     | 45.2             |
| Cultivators                | 10.3      | 30.6    | 29.1        | 16.6       | 24.0     | 22.6             |
| Allied agriculture         | 5.8       | 3.5     | 0.4         | 2.0        | 1.8      | 2.6              |
| Agricultural labour        | 5.9       | 16.5    | 10.8        | 31.0       | 31.3     | <b>20</b> .0     |
| All non-agricultural HHs   | 78.0      | 49.4    | 59.7        | 50.4       | 42.9     | 54.7             |
| •                          | (48.2)    | (22.9)  | (50.6)      | (50.0)     | (40.2)   | (41.4)           |
| Scarcity work              | 29.8      | 26.5    | 9.1         | 0.4        | 2.7      | 13.3             |
| Other non-agricultural lab | our 17.0  | 3.3     | 6.1         | 16.2       | 5.8      | 9.3              |
| Regular employment in      |           |         |             |            |          |                  |
| non-agriculture            | 10.9      | 6.7     | 25.1        | 23.5       | 24.5     | 18.1             |
| Self-employment in         |           |         |             |            |          |                  |
| manufacturing              | 6.1       | 4.1     | 4.8         | 2.6        | 2.7      | 3.9              |
| Self-employment in trade.  | , etc 9.4 | 4.9     | 10.5        | 3.7        | 5.0      | 6.4              |
| Others                     | 4.5       | 3.9     | 4.1         | 4.1        | 21       | 3.7              |
| All HHs                    | 100.0     | 100.0   | 100.0       | 100.0      | 100.0    | 100.0            |
| Number of sample HHs       | 664       | 779     | 716         | 801        | 800      | 3760             |
| Estimated no of HHs        | 2282      | 3097    | 2426        | 2847       | 3052     | 13704            |

Notes: 1 Figures in parentheses report the proportion of non-agricultural households excluding those engaged in scarcity work.

2 HHs - Households.

TABLE 2' AVERAGE NUMBER OF SOURCES OF INCOME PER HOUSEHOLD BY MAJOR SOURCE OF HOUSEHOLD INCOME.

| Major Source                |               |               | Sample V      | illages of   |          |                  |
|-----------------------------|---------------|---------------|---------------|--------------|----------|------------------|
| of Household<br>Income      | Bhavnagar     | Mchsana       | Panchmahais   |              | Vadodara | All<br>Districts |
| Cultivation                 | 2.9           | 2.6           | 3.1           | 2.6          | 2.5      | 2.7              |
|                             | (2.1)         | (4.3)         | (2.1)         | (11.2)       | (7.9)    | (5.6)            |
| Allied agriculture          | 1.7           | 1.7           | 2.0           | 1.8          | 2.2      | 1.8              |
| •                           | (52.3)        | (50.0)        | (0.0)         | (32.1)       | (10.7)   | (40.6)           |
| Agricultural labour         | 2.5           | 2.1           | 2.7           | 2.1          | 2.3      | 23               |
|                             | (13.3)        | (28.5)        | (7.6)         | (33.0)       | (16.0)   | (22.9)           |
| Agricultural households     | 2.4           | 2.4           | 3.0           | 2.3          | 2.4      | 2.5              |
| •                           | (18.4)        | (15.4)        | (3.6)         | (25.7)       | (12.4)   | (15.3)           |
| Scarcity work               | 2.1           | ` 2.2         | `3.3          | 3.5          | 3.5      | 24               |
|                             | (22.0)        | (23.0)        | (1.4)         | (00)         | (0.0)    | (18.8)           |
| Other non-agricultural wage | (             | ()            | ()            | <b>\-</b> -/ |          | • •              |
| labour                      | 1.9           | 2.6           | 3.1           | 2.6          | 2.5      | 2.4              |
|                             | (36.2)        | (15.8)        | (4.7)         | (16.9)       | (16.9)   | (21.3)           |
| Regular employment in       | (55.2)        | (10.0)        | (,            | (/           | (,       |                  |
| non-agriculture             | 2.3           | 2.2           | 2.0           | 2.0          | 20       | 2 1              |
| non-agriculture             | (36.3)        | (8.7)         | (38.0)        | (36.3)       | (40.4)   | (37.2)           |
| Self-employment in          | (50.5)        | (0.7)         | (30.0)        | (30.5)       | (10.1)   | (5)              |
| manufacturing               | 1.9           | 2.2           | 2.0           | 2.2          | 2.3      | 2.1              |
| mana caccar mg              | (43.2)        | (4.9)         | (34.2)        | (23.3)       | (30 1)   | (32.3)           |
| Self-employment in trade,   | (4.7.2/       | (4.7)         | (.14.2)       | (23.3)       | (501)    | (32)             |
| hotel, etc                  | 1.9           | 2.0           | 1.7           | 1.9          | 23       | 1.9              |
| notes, etc                  | (40,9)        | (7.6)         | (54.3)        | (42.9)       | (19.7)   | (35.9)           |
| Others                      | 2.1           | 1.6           | 2.1           | 16           | 1.8      | 1.8              |
| Culcia                      | (27.0)        | (10.7)        | (38.0)        | (53.8)       | (53.8)   | (46.0)           |
| Non and subsent beneated    | 2.0           | 2.2           | 2.2           | 2.2          | 2.2      | 2.2              |
| Non-agricultural households | (31.3)        | (27.1)        | (31.6)        | (31.1)       | (32.3)   | (30.6)           |
| All boundalds               | 4             |               | 2.5           | 2.2          | 2.3      | 2.3              |
| All households              | 2.1<br>(28.5) | 2.3<br>(21.1) | 2.3<br>(20.3) | (28.4)       | (20.9)   | (23.7)           |
|                             | (40.3)        | (41.3)        | (20.3)        | (40.7)       | (20.7)   | (44).17          |

Note: Figures in parentheses report the proportion of non-agricultural households without any subsidiary sources of income.

TABLE 3: NUMBER OF SOURCES OF INCOME PER HOUSEHOLD FOR EACH LAND STATUS GROUP

| Operational Holding | Sample Villages of |         |             |        |          |               |  |  |  |  |
|---------------------|--------------------|---------|-------------|--------|----------|---------------|--|--|--|--|
| Category            | Bhavnogar          | Mehsana | Panchmahals | Valsad | Vadodara | All Districts |  |  |  |  |
| Landless            | 1.9                | 1.8     | 1.7         | 1.6    | 1.9      | 1.8           |  |  |  |  |
| Small               | 2.4                | 2.6     | 3.1         | 2.7    | 2.9      | 2.8           |  |  |  |  |
| Medium              | 2.5                | 2.5     | 31          | 2.8    | 2.9      | 2.8           |  |  |  |  |
| Large               | 2.4                | 2.7     | 3.0         | 3.0    | 2.5      | 2.7           |  |  |  |  |
| Large<br>Landed     | 2.4                | 2.6     | 3.1         | 2.8    | 2.8      | 28            |  |  |  |  |
| All households      | 2.1                | 2.3     | 2.5         | 2.2    | 2.3      | 2.3           |  |  |  |  |

expected, and the variation across household groups is also greater. The WPR is higher in agricultural households as compared to non-agricultural households. This was true for all districts except among males in Mehsana, perhaps due their higher participation in scarcity relief works. Earlier it was observed that agricultural households also reported a larger number of economic activities.

Among the non-agricultural households, those primarily engaged in scarcity relief work had the highest WPR, particularly among women. The female WPRs were lower in all types of non-agricultural households (except those predominantly dependent on scarcity relief works) when compared to agricultural households.

Economic diversification of the household also occurs with the participation of each member of the household in more than one economic activity. Table 6 presents the average number of economic activities per worker by household groups. Male members in agricultural households were found to participate in more economic activities compared to non-agricultural households.

The opposite was true for female members. However, both men and women in households primarily engaged in cultivation and scarcity work reported the maximum number of activities, about two per worker. The number of economic activities per worker was higher among landed than among landless households (Table 7). Earlier we had observed that access to land provided possibilities for diversification to the household.

#### MULTIPLE ACTIVITIES PER WORKER: THE MODEL

The analysis so far suggests that households in rural Gujarat diversify their economic activities through two processes. That is, by increasing the number of workers in the household and/or by each worker undertaking more than one economic activity. In this paper I shall analyse the second type of process: What determines the individual household member's choice of economic activity?

The choice of occupation consists of a number of inter-related decisions. From an individual's point of view these are: whether to work (participate in economic activity); and if yes, how many activities to undertake and the nature of the economic activities, eg. agricultural/non-agricultural or self/wage employment.

To elaborate, the basic choice of whether to participate in economic activity consists of two additional dimensions. The individual chooses the nature of economic activity agricultural or non-agricultural (sector of activity)/wage or self-employment, Further. he chooses whether to specialise in one economic activity or diversify into more than one economic activity. Since these choices are made simultaneously by the individual we combine the decisions regarding work participation, number of activities and sector of activity into a single multiple choice model. The analysis regarding the choice of self versus wage employment was analysed elsewhere.7

The occupational choice model consists of five choices as follows: (1) The individual specialises in only one agricultural activity (2) He/she is primarily engaged in agricultural activity and also undertakes a second economic activity in any sector; (3) The

TABLE 4 PERCENTAGE OF HOUSEHOLDS REPORTING VARIOUS SUBSIDIARY SOURCES OF INCOME BY MAJOR SOURCE OF HOUSEHOLD INCOME, ALL DISTRICTS

| Major Sources of                                     | Subsidiary Source of Income |                       |                        |                  |                                      |                                                 |                                               |                                                 |            |                                       |
|------------------------------------------------------|-----------------------------|-----------------------|------------------------|------------------|--------------------------------------|-------------------------------------------------|-----------------------------------------------|-------------------------------------------------|------------|---------------------------------------|
| Household Income                                     | Cultivation                 | Allied<br>Agriculture | Agricultural<br>Labour | Scarcity<br>Work | Non-Agricul-<br>turul Wage<br>Labour | Regular<br>Employment<br>in Non-<br>Agriculture | Self-Emp-<br>loyment<br>in Manu-<br>facturing | Self-Emp-<br>loyment<br>in Trade,<br>Hotel, etc | Others     | Estimated<br>No of<br>House-<br>holds |
| Cultivation                                          |                             | 74.2                  | 34.3                   | 20.5             | 11.5                                 | 11.1                                            | 3.5                                           | 5.7                                             | 10.9       | 3093                                  |
| Allied agriculture                                   | 22.4                        | -                     | 27.3                   | 5.0              | 3.3                                  | 8.0                                             | 3.0                                           | 3.3                                             | 166        | 362                                   |
| Agricultural labour                                  | 33 I                        | 34.7                  | _                      | 6.3              | 118                                  | 27                                              | 2.1                                           | 4.4                                             | 8.4        | 2746                                  |
| All agricultural households                          | 16.0                        | 52.4                  | 187                    | 13.3             | 11.1                                 | 6.8                                             | 29                                            | 50                                              | 10 1       | 6201                                  |
| Scarcity work                                        | 27.3                        | 41.0                  | 39.0                   | -                | 9.3                                  | 4 4                                             | 4.2                                           | 4.6                                             | 74         | 1816                                  |
| Non-agricultural wage labou<br>Regular employment in | ır 33.9                     | 39.2                  | 36.3                   | 16.2             | -                                    | 2.9                                             | 2.4                                           | 2.4                                             | 9 2        | 1275                                  |
| non-agriculture Self-employment in                   | 27.0                        | 27.0                  | 18.1                   | 6.7              | 6.5                                  | -                                               | 3 1                                           | 4.8                                             | 11.3       | 2481                                  |
| manufacturing Self-employment in trade,              | 18.9                        | 19.7                  | 22. I                  | 8.5              | 91                                   | 6.1                                             | -                                             | 11.9                                            | 98         | 2539                                  |
| hotel, etc                                           | 13.2                        | 20.4                  | 15.7                   | 6. i             | 5.2                                  | 63                                              | 44                                            | -                                               | 15.4       | 879                                   |
| Others All non-agricultural                          | 11.3                        | 189                   | 10.3                   | 7.2              | 18                                   | 3.9                                             | 12                                            | 8.0                                             | -          | 513                                   |
| households All households                            | 25.0<br>20.9                | 30.6<br>40.4          | 25.7<br>22.5           | 6.8<br>9.7       | 5.8<br>8.2                           | 3.0<br>4.7                                      | 3.1<br>3 0                                    | 4.5<br>4.7                                      | 9.6<br>9 8 | 7503<br>13704                         |

TARLE 5: WORKER POPULATION BY MAJOR SOURCE OF HOUSEHOLD INCOME

| Major Sources of                      |           |      | Sample Villages of |      |       |             |        |      |      |       |               |      |
|---------------------------------------|-----------|------|--------------------|------|-------|-------------|--------|------|------|-------|---------------|------|
| Household Income                      | Bhaynagar |      | Me                 | sana | Panch | mahals      | Valsad |      | Vade | odora | All Districts |      |
|                                       | M         | F    | M                  | F    | M     | F           | M      | F    | M    | F     | M             | F    |
| Cultivation                           | 53.6      | 54.4 | 53.5               | 55.5 | 60.0  | 57.5        | 54.5   | 51 7 | 57 3 | 55 7  | 56 0          | 55.4 |
| Allied agriculture                    | 49 U      | 45.8 | 65 4               | 58.6 | 66.7  | <b>75 0</b> | 5P 9   | 52 3 | 58 9 | 71.2  | 56 4          | 54.0 |
| Agricultural labour                   | 58.0      | 46.0 | 54.0               | 56.1 | 58.8  | 52.4        | 57 6   | 49.2 | 62.5 | 62.0  | 58.8          | 58 4 |
| All agricultural households           | 53.6      | 50.0 | 54.3               | 55.8 | 59.8  | 56.3        | 56.5   | 50 2 | 59 9 | 59 4  | 57.2          | 55.1 |
| Scarcity work                         | 52.4      | 57.0 | 58.3               | 62.9 | 51.5  | 58.3        | 75.0   | 667  | 607  | 75.6  | 55.3          | 60.5 |
| Non-agricultural wage labour          | 52.7      | 33.2 | 58.4               | 46.2 | 54.6  | 54.6        | 57 3   | 40.2 | 56.0 | 42.9  | 55 2          | 40.7 |
| Regular employment in non-agriculture | 54.4      | 37.6 | 46.3               | 39.2 | 50.9  | 32 2        | 48.1   | 26.7 | 51.8 | 316   | 50.4          | 316  |
| Self-employment in manufacturing      | 52.6      | 31.2 | 57.5               | 36.9 | 55.2  | 34.6        | 49.7   | 33.8 | 57.9 | 42.4  | 54.8          | 35.5 |
| Self-employment in trade, hotel, etc  | 52.0      | 22.8 | 36.8               | 34.7 | 49 9  | 26.1        | 49.8   | 33.3 | 60.1 | 37.2  | 53.4          | 29.4 |
| Others                                | 52.1      | 46.1 | 19.8               | 27.0 | 35.8  | 41.0        | 15.7   | 190  | 35.2 | 207   | 34.3          | 32.5 |
| All non-agricultural households       | 52.7      | 42.4 | 55.3               | 51.8 | 51.2  | 39.7        | 50 1   | 31.9 | 54.0 | 37.1  | 52.7          | 40.9 |
| All households                        | 52.9      | 44.2 | 54.8               | 53.9 | 54.9  | 47.0        | 53.3   | 40.8 | 57.5 | 49.9  | 54.8          | 47.3 |

Note: M - Male: F - Female.

# ZUNKA-BHAKAR SCHEME • AIR SERVICE • POWER PROJECT • FREE HOUSES TO SLUM-DWELLERS • INDUSTRIAL CENTRES • KRISHNA VALLEY DEVELCENTRES



Shri. Manoher Joshi Maharashtra State Chief Minister

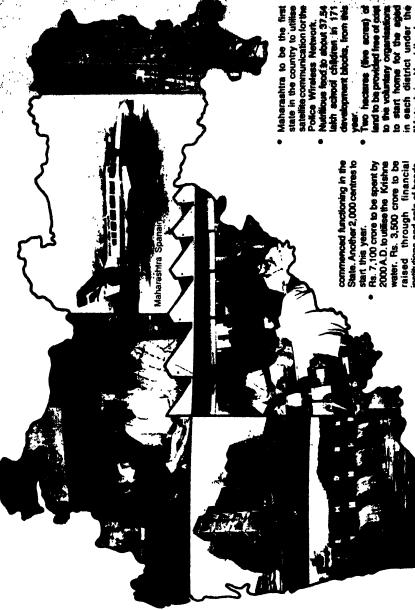
Shri. Gopinath Munde Dy. Chief Minister Maharashtra State

ON THE OCCASION OF GOLDEN JUBILEE WARM GREETINGS TO THE PEOPLE ALLIANCE GOVERNMENT EXTENDS YEAR OF INDEPENDENCE

DECISIONS AND AMBITIOUS SCHEMES BEING GOVERNMENT TO REALISE THE DREAM OF IMPLEMENTED BY THE ALLIANCE 'SHIVSHAHI' IN MAHARASHTRA SOME OF THE MAJOR



of Information and Public Relations Government of Maharashtra Directorate General



water schemes for 6,429 Provision of sufficient drinking A.D. Government stands committed to tanker-free Maharashtra. New drinking villages and habitets completed water to all in the State by 2000

Rs. 739.80 crore for drinking water schemes this year - an increase of 41 per cent over last year. A record provision of

stum rehabilitation dwellers in Mumbai. On the coming Dasera Day, five thousand slum-dwellers will move into their new homes

scheme gains momentum. As many as 2,000 Zunka-Bhakar centres have already Free housing to 40 lakh slumthat of the last year

Sale of bonds has commenced with enthusiastic support of the institutions and sale of bonds

Yojna". Construction has

aiready commenced at 17

service being faunched from August 15, 1996 to link major cities and industrial centres in Maharashtra Span Air the State.

programme of providing toiler, especially for the women, in every house in rural areas. Five extensive State-wide laid toilets to be constructed this year ş

Free education to all boys and girls up to standard X. Free S.T. travel to girls for going to

Provision of Rs. 900 crans during the current year - an increase of 200 crore over State, approval granted demand of power in of development as arrive by Dr. Dandelar Coeres To meet the ever incre

Economic and Political Weekly August 17, 1996

individual apacial pair in many distributive agricultural activity; (4) North is primarily engaged in non-agricultural work but also undertakes a second economic activity in any sector; and (5) The individual does not participate in any economic activity.

An analysis of the determinants of occupational choice requires the identification of exogenous factors. That is, factors that are not determined together with the occupational choice by the individual. The exogenous factors hypothesised to influence occupational choice in the model can be grouped into three kinds of variables.

- Individual characteristics age and education.
- 2 Household characteristics value of land holding and value of other productive assets and
- 3 External regional factors village wage rate distance from the nearest town and density of village population

Tentative hypotheses regarding the influence of these variables are discussed below. Age is clearly exogenous since the individual cannot influence it in the current period. Level of education is assumed to be determined by the parents and not by the individual so that choice between education and work rarely occurs.

Education is expected to enhance an individual's performance in his chosen activity. Among wage employees better educated workers may have a higher market wage Educated self-employed workers may also earn higher returns through higher productivity levels. Higher income accruing to such better educated workers may reduce the need for a second activity and encourage specialisation Other things remaining equal better educated workers may also be expected to be employed in non-agricultural activities, particularly in salaried jobs. Further, to the extent human capital accumulation occurs with age older persons may be expected to specialise in specific activities. The life cycle phenomenon will result in single activities being associated with higher age

Further, the occupational choice is determined by the non-earned income (asset) status of the household to which the individual belongs in rural india the land market is not very well developed and there is little buying and selling of land Owned land can be broadly assumed to approximate inherited land Hence, value of land owned constitutes a good exogenous factor determining occupational choice Value of assets, other than land, is also used as a proxy for income not earned in the current period However, this is more likely to have been acquired by the individual and therefore a less appropriate proxy for non-earned income

Regarding choice of the sector of activity, asset ownership directly influences the decision Land ownership should encourage agricultural activity and business assets other than land and related agricultural activity. Among self employed workers one reason for engaging in a second activity may be a constraint of physical capital on expanding the first activity. High value of physical assets may encourage specialisation in one activity by relaxing the capital constraint and also by reducing the need for a second economic activity.

The external regional factors enumerated are used to proxy for the availability of job opportunities in the region. These are clearly exogenously determined factors influencing the occupational choice model Closeness to a town would encourage non-agricultural activity by creating opportunities for such employment Pressure of population in the village is expected to encourage non-agricultural employment by creating a demand for such activity Ceteris paribus, regions with higher population density may provide a viable market for certain non-agricultural activities

The average agricultural wage is taken as a proxy for the average village wage Unfortunately we do not have data on non-agricultural wages. Relatively well-developed villages are likely to have a higher village wage. Higher incomes from activities in such villages may reduce the need for a second activity. Non-agricultural job opportunities may also be relatively greater in better developed villages due to availability of infrastructural facilities and greater demand for non-agricultural goods and services arising from higher income levels.

The sample means of the explanatory variables used in the model are presented in Table 8 by sex and alternate employment

TABLE 7 AVERAGE NUMBER OF ECONOMIC ACTIVITIES PER WORKER BY LAND STATES GROUPS

| Sample Villages of Districts | Landless | Small | Medium | Large       | Landed | All |
|------------------------------|----------|-------|--------|-------------|--------|-----|
| Males                        |          |       |        | <del></del> |        |     |
| Bhas nagar                   | 14       | 22    | 19     | 20          | 2 1    | 17  |
| Mehsana                      | 14       | 20    | 18     | 20          | 19     | i 7 |
| Panchmahals                  | 12       | 23    | 2 7    | 22          | 2 3    | 2.0 |
| Valsad                       | 12       | 19    | 19     | 2 2         | 2 3    | 20  |
| Vadodara                     | 13       | 2 1   | 2 2    | 19          | 2 1    | 18  |
| All districts                | 13       | 2 1   | 2 1    | 20          | 2 1    | 18  |
| Females                      |          |       |        |             |        | • - |
| Bhavnagar                    | 14       | 2 1   | 19     | 20          | 20     | 18  |
| Mehsana                      | 14       | 18    | 19     | 19          | 19     | 17  |
| Panchmahals                  | 13       | 2 3   | 2 2    | 23          | 2 2    | 2 1 |
| Valsad                       | 13       | 20    | 20     | 20          | 20     | 16  |
| Vadodara                     | 14       | 22    | 2 2    | 20          | 2 1    | 19  |
| All districts                | 1 4      | 2 1   | 2 1    | 2 0         | 2 1    | 19  |

Note See Fable 2

TABLE 6 AVERAGE NUMBER OF ECONOMIC ACTIVITIES PER WORKER BY MAJOR SOURCE OF HOUSEHOLD INCOME

| Major Sources of                      |     |        |     |       | Sa          | mple Vill | ages of |     |          |    |               |    |
|---------------------------------------|-----|--------|-----|-------|-------------|-----------|---------|-----|----------|----|---------------|----|
| Household Income                      | Bha | vnagar | Mel | กรแกล | Panchmahals |           | Valsad  |     | Vadodara |    | All Districts |    |
|                                       | M   | F      | М   | F     | M           | ī         | М       | F   | M        | F  | М             | F  |
| Cultivation                           | 20  | 2 1    | 17  | 18    | 2 2         | 2 2       | 20      | 20  | 20       | 20 | 20            | 20 |
| Allied agriculture                    | 1.5 | 16     | 17  | 14    | 20          | 20        | 16      | 16  | 2 1      | 16 | 17            | 16 |
| Agricultural labour                   | 2 1 | 2 1    | 17  | 16    | 2 1         | 2 1       | 18      | 1.8 | 1.8      | 19 | 18            | 19 |
| All agricultural households           | 19  | 2 (    | 17  | 17    | 2 2         | 2 2       | 18      | 19  | 19       | 19 | 19            | 16 |
| Scarcity work                         | 21  | 19     | 19  | 18    | 27          | 26        | 27      | 3.0 | 28       | 26 | 2 1           | 20 |
| Non-agricultural wage labour          | 14  | 15     | 18  | 19    | 2.4         | 23        | 19      | 19  | 18       | 17 | 18            | 18 |
| Regular employment in non agriculture | 16  | 17     | 14  | 1.5   | 14          | 15        | 13      | 15  | 14       | 15 | 14            | 15 |
| Self employment in manufacturing      | 14  | 14     | 16  | 1.5   | 15          | 15        | 16      | 16  | 16       | 19 | 15            | 16 |
| Self-employment in trade, hotel, etc  | 13  | i 5    | 15  | 14    | 14          | 15        | 14      | 16  | 15       | 16 | 14            | 16 |
| Others                                | 15  | i 4    | i 2 | 1 2   | 2 i         | 19        | i 2     | 15  | 13       | 10 | 15            | 15 |
| All non-agricultural households       | 17  | 17     | 18  | 17    | 18          | 20        | 15      | 17  | 16       | 17 | i 7           | 18 |
| All households                        | i 7 | 18     | 17  | i 7   | 20          | 21        | 17      | 18  | 18       | 19 | 18            | 18 |

Note M - Male, F - Female

status groups. The occupational choice model is estimated as a multinomial logit model which assumes that the error components have independent and Weibull distributions <sup>8</sup>. The probability that the i<sup>th</sup> individual chooses the j<sup>th</sup> activity status reduces to

$$P_{ij} = \frac{\exp(\beta_j | X_i)}{\sum_{k \in j} \exp(\beta_k | X_i)}$$

For comparison of the empirical results the marginal effects or partial derivatives are computed. The partial derivative indicates the impact of the independent variable X on the probability of choice j

$$\frac{\delta P_i}{\delta X}$$

where j indicates the activity choices and k the elements of the independent variable vector X. These measures satisfy

$$\frac{\delta P_{j}}{\delta X_{k}} = 0$$

The direction and strength of the relationship between the occupational choice and the independent variables are indicated by the  $\beta$ -coefficients. The simultaneous impact of independent variables on the probabilities of the distinct choices is given by the derivatives. It may be noted that the sign of the derivatives can be different from that of the  $\beta$ -coefficients

#### DETERMINANTS OF OCCUPATIONAL CHOICE

The results of the multinomial logit model are presented in Tables 9 and 10 for men and Tables 11 and 12 for women. The model consists of five choices as described earlier The choice of sector of activity (agriculture/ non-agriculture) is split into the individual undertaking only one or more than one economic activity. The choice of not working is omitted as a reference category to identify the model 'Fach column of coefficients in Tables 9 and 11 shows the effect of the regressors on the utility of the state (occupational choice) under consideration relating to the utility of the reference state (not working) To assess the simultaneous effect of the regressor variables on the probabilities of the five distinct choices one should turn to the marginal effects reported in Tables 10 and 12

Besides the exogenous variables described earlier, the model includes three dummy variables to represent the sampling design. This is done in orde, to remove any bias of the design on the estimates of the model. To recall, the sample households were randomly picked in varying proportions after stratifying the households in the villages into four categories viz cultivator agricultural labourers household industry and other non agricultural activities. Three dummy variables representing the strata to which the

individual's household belongs are introduced in the model. Due to our interest in the growth of the non-agricultural sector, the primary choice in the model is taken to be the sector of activity. This choice is further split into undertaking only one or more than one economic activity.

Individual Characteristics Participation in economic activity declines with age irrespective of the choice of primary sector and number of economic activities when compared to the reference state of not working However, when the simultaneous impact of age on all the choices is studied,

TABLE 8 SAMPLE MEANS BY EMPLOYMENT STATUS AND SEX

|                       | Employment Status |             |                |             |  |  |  |  |  |
|-----------------------|-------------------|-------------|----------------|-------------|--|--|--|--|--|
|                       |                   | culture     | Non Age        | nculture    |  |  |  |  |  |
| Vanables              | Without Second    | With Second | Without Second | With Second |  |  |  |  |  |
|                       | Activity Activity |             | Activity       | Activity    |  |  |  |  |  |
| Male                  |                   |             |                |             |  |  |  |  |  |
| Age                   | 37 0              | 35 /        | 33 7           | 33 7        |  |  |  |  |  |
| Education             | 2 5               | 2 3         | 3 2            | 2 5         |  |  |  |  |  |
| Value of land         | 36920 5           | 48081 1     | 12789 3        | 24014 3     |  |  |  |  |  |
| Value of assets       | 11872 6           | 119129      | 3845 6         | 6559 7      |  |  |  |  |  |
| Density of population | 4186              | 399 3       | 526 6          | 415.0       |  |  |  |  |  |
| Distan e from town    | 14 5              | 169         | 12 3           | 15.0        |  |  |  |  |  |
| Village wage          | 97                | 90          | 100            | 94          |  |  |  |  |  |
| Famalc .              |                   |             |                |             |  |  |  |  |  |
| Age                   | 34 2              | 33.1        | 32 4           | 31.4        |  |  |  |  |  |
| Education             | 18                | 16          | 2 0            | 13          |  |  |  |  |  |
| Value of land         | 24593 5           | 40094 1     | 7038 8         | 24475 8     |  |  |  |  |  |
| Value of assets       | 7750 3            | 12942 3     | 2121 1         | 0474 8      |  |  |  |  |  |
| Density of population | 443 2             | 4011        | 474 9          | 369 7       |  |  |  |  |  |
| Distance from town    | 140               | 16.4        | 14 3           | 15.9        |  |  |  |  |  |
| Village wage          | 9 8               | 92          | 9 7            | 91          |  |  |  |  |  |

TABLE 9 MAXIMUM LIKELIHOOD LOGIL ESTIMATES OF CHOICE OF SECTOR AND NUMBER OF ACTIVITIES MALE

|                                | Agrı           | Lulture     | Non Agi        | nculture    |  |  |
|--------------------------------|----------------|-------------|----------------|-------------|--|--|
| Regressors                     | Without Second | With Second | Without Second | With Second |  |  |
|                                | Activity       | Activity    | Activity       | Activity    |  |  |
| Intercept                      | 3 534          | -4 939      | 6 778          | 5   3       |  |  |
|                                | (913)          | (1194)      | ( 16 14)       | ( 14 56)    |  |  |
| Age                            | 0 376          | 0 498       | () 483         | 0.545       |  |  |
|                                | (20 07)        | (26.01)     | (26 49)        | (27 42)     |  |  |
| Age squared (10)               | 0.437          | 0 601       | 0.593          | 0 679       |  |  |
|                                | (-19 60)       | ( 25 70)    | ( 26 09)       | (27 14)     |  |  |
| Education                      | 0 546          | 0.661       | 0 310          | 0.635       |  |  |
|                                | (1241)         | ( 15 70)    | (790)          | (15.43)     |  |  |
| Value of land (10)             | 0.153          | 0 224       | 0 282          | 0 153       |  |  |
|                                | (1.26)         | (194)       | (209)          | (121)       |  |  |
| Value of land squared (1 ")    | 0.014          | 0.018       | 0 002          | 0 020       |  |  |
| •                              | (-1 36)        | (186)       | (193)          | (153)       |  |  |
| Value of assets (10 4)         | 0.092          | 0.113       | 0 179          | 0.056       |  |  |
|                                | (2.15)         | (2.72)      | (-3 5(1)       | (1.17)      |  |  |
| Value of assets squared (10 10 | 0 216          | 0.321       | 0.396          | 0 316       |  |  |
| •                              | (177)          | (-2.66)     | (2.89)         | (169)       |  |  |
| Density (10 <sup>-1</sup> )    | 0 020          | 0.035       | 0.069          | 0 000       |  |  |
| , ,                            | (1 ()3)        | (1.80)      | (4 21)         | (-0 17)     |  |  |
| Distance from town             | 0 002          | 0 042       | -0.010         | 0.015       |  |  |
|                                | (0.29)         | (5.68)      | (151)          | (2 11)      |  |  |
| Village wage                   | -0 012         | - 0 100     | 0 004          | 0.055       |  |  |
|                                | (-0 59)        | (537)       | (0 22)         | (- 1 04)    |  |  |
| Cultivator households dumms    |                | 0.308       | -0 277         | 0 432       |  |  |
|                                | (-1 37)        | (1.84)      | ( 1 44)        | (2 41)      |  |  |
| Households industry duminy     | 2 24           | -2 451      | 1 08           | 0715        |  |  |
| ,                              | (-799)         | (895)       | (5.51)         | (3 57)      |  |  |
| Other 1 on agricultural        | -1 337         | -1 670 7    | 0 346          | -0 201      |  |  |
| households dummy               | ( 8 20)        | (-10 33)    | (2 13)         | (-1 23)     |  |  |
| Log likelihood                 |                | -82         | 24 03          |             |  |  |
| Chi squared                    |                | 43          | 13 32          |             |  |  |
| LR                             | 852 92         |             |                |             |  |  |
| N (6603)                       | 878            | 1575        | 1818           | 1372        |  |  |

Note Figures in parentheses are asymptotic t ratios. Non-participation is the residual choice

the marginal effects indicate that younger males are least likely to be engaged in only one agricultural activity or non-work. All other choices, agricultural activity together with a second activity and non-agricultural activities, with or without a second activity are associated with younger male workers.

The participation in any sector and the number of activities are similarly negatively associated with the level of education when compared to non-participation in economic activity. However, the marginal effects indicate a positive impact of education on participation in a single non-agricultural activity.

Household Characteristics The value land and other physical assets have an inverted U-shaped relationship with agricultural activity, irrespective of whether the individual undertakes a single or multiple activities. This relationship is however, not significant for males. The value of land variable has a significant inverted U shaped relationship with women engaged in agricultural activity along with a second activity. That is, women's participation in agriculture along with a second activity increases with value of land except at a very high value of land. Significant inverted U. shaped relationship with value of other assets is observed for women engaged in agriculture with or without a second activity

The simultaneous effect of the land variable on the five distinct choices is indicated by the marginal effects. Multiple economic activities among both primarily agricultural and non-agricultural male workers are higher at a smaller value of land and other assets A higher value of land and other assets appears to encourage specialisation in nonagricultural activity among individual males Women's participation in agriculture with a second activity increases with value of land and other assets, except at a very high value of land and assets. Women's participation in only one non agricultural activity is encouraged by a higher value of other assets. Thus, a very high value of land and asset encourages investment and specialisation in non agricultural activity

I sternal Regional Factors. The density of population in the village is used here as a proxy for opportunities for non-agricultural employment which are crucially dependent on market size. High population pressure on land also limits the number of workers able to survive on agricultural activities. It has an interesting differential impact on the work participation of men and women.

The density of population positively and significantly influences men's participation in only one non-agricultural activity when compared to non-work (Table 9) as well as in relation to other choices (Table 10) Women's participation in a second activity is significantly neg itively influenced by the

density of population in the agricultural and non-agricultural sectors as compared to non-participation (Table 11) and in relation to the other choices (Table 12). We may infer that the men are able to specialise in a non agricultural activity in densely populated areas. Women on the other hand, retrain from a second activity.

To capture the impact of access to and availability of employment opportunities distance of the village from the nearby town is included in the analysis. A greater distance from town encouraged agricultural and multiple activities among men and women. In remote villages, opportunities for non agricultural employment are likely to be minimal. The multiple activities engaged in may be a response to uncertain and low incomes derived from the agricultural activities in these regions.

A higher village wage tends to reduce the chances of a second activity irrespective of the sector of primary activity among both men and women. As suggested earlier, the village wage perhaps captures better developed villages where income levels are in general higher. That is, therefore, likely to reduce the need for a second job and allow specialisation in one activity.

#### CONCLUSIONS

A number of studies have tried to explain the growth of non-agricultural employment at the regional level. In this paper an attempt is made to view the problem from the perspective of an individual worker in a rural household. Within this framework, the individual simultaneously decides

- (a) whether to participate in economic
- (b) if so the primary sector of activity agriculture or non agriculture and
- (c) the number of economic activities to undertake

These decisions are guided by certain exogeneous constraints such as his individual characteristics, household asset structure and regional job opportunities

In the macro context, the process of diversification of the employment structure or growth of non agricultural employment can be analysed as consisting of two components (1) new entrants to the labour force entering the non agricultural sector and (2) a shift of workers from agriculture to non agriculture. The earlier mentionec studies have not generally differentiated between the two. In the micro context divers fication of economic activity by ar individual worker/household can be analysec as (1) an occupational shift from one secto: to the other over a period of time and (2) participation in more than one economic activity in either sector if a point in time The data set available to me is for only one point in time. Hence in this paper. I have analysed the determinants of economic activities in this context

TABLE 10 MARCINAL ELECTS OF OCCUPATIONAL CHOICE MODEL MALE

|                         | Agn      | culture  | Non A    | griculture |          |  |
|-------------------------|----------|----------|----------|------------|----------|--|
| Regressors              | Without  | With     | Without  | With       | Non Worl |  |
| •                       | Second   | Second   | Second   | Second     |          |  |
|                         | Activity | Activity | Activity | Activity   |          |  |
| Age                     | ) 011'   | 0 012'   | 0.011    | 0 027      | 0 399'   |  |
| 2                       | ( 10.82) | (7.31)   | (7 04)   | (9 11)     | (12 48)  |  |
| Age squared (10-)       | 0.0161   | 0.0131   | 0.015    | 0.0371     | 0 0491   |  |
| • •                     | (11.73)  | (697)    | (727)    | (-10.05)   | (12 47)  |  |
| Education               | 0 1111   | 0.038    | 0.046    | 0.040,     | 0 04 3   |  |
|                         | (416)    | (881)    | (12 90)  | (895)      | (9 13)   |  |
| Value of land (10 %     | 0.019    | 0 040    | 0.086,   | 0.031      | 0.003    |  |
|                         | (2.53)   | (4 96)   | ( 883)   | 3 94)      | ( () 29) |  |
| Value of land squared   | 0.001    | 0.0031   | 0.007    | 0.004      | 0.005    |  |
| (10 )                   | ( 222)   | (408)    | (5.91)   | ( 5 44)    | (0.51)   |  |
| Value of is its (10 4)  | 0.140    | 0.230    | 0.050    | 0.134      | 0.005    |  |
|                         | (4 58)   | (6.67)   | 10.61)   | (142)      | ( () (2) |  |
| Value of assets squared | 0 022    | 0.052    | 0.1281   | 0.062      | 0.007    |  |
| (10-)                   | (287)    | (592)    | (10.44)  | (674)      | (0.63)   |  |
| Density (10             | 0.001    | 0.001    | 0.0014   | ₹ 008      | 0.003    |  |
| •                       | (151)    | (1.46)   | (8 68)   | ( / 58)    | (145)    |  |
| Distance from town      | 0.001    | 0.0071   | -0 006i  | 0.001      | 0.003    |  |
|                         | (354)    | (9.58)   | ( 9 86)  | (3 24)     | ( 135)   |  |
| Village wage            | 0 004    | 0.014    | 0.011,   | 0.005      | 0.003    |  |
|                         | (4 24)   | ( 9.06)  | (8 79)   | (472)      | (188)    |  |
| Cultivator HH dummy     | 0 049    | U 0521   | -0 093   | 0 096      | 0 006    |  |
| •                       | ( 4 58)  | (4 58)   | (-7.48)  | (7.26)     | (037)    |  |
| HH moustry dummy        | 0.3041   | 0 441    | 0 4041   | C 293      | 0.038    |  |
| •                       | (-10 91) | (1144)   | (11.98)  | (1161)     | (1 46)   |  |
| Other non agricultural  | ~0 130°  | 0 24     | 0 2371   | 0.088      | 0 048    |  |
| HH dummy                | (-885)   | (-10 64) | (11.84)  | (8 44)     | (3 13)   |  |

Notes 1 Significant at 1 per cent level

Figures in parentheses are asymptotic tiritios

TABLE 11: MAXIMUM LIKELIHOOD LOGIT ESTIMATES OF CHOICE OF SECTOR AND NUMBER OF ACTIVITIES. FEMALE

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Agri                       | culture                 | Non-Agriculture            |                         |  |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------|----------------------------|-------------------------|--|--|
| Regressors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Without Second<br>Activity | With Second<br>Activity | Without Second<br>Activity | With Second<br>Activity |  |  |
| Intercept                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | -1.070                     | -1.566                  | -1.663                     | -0.267                  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (-3.02)                    | (-4.55)                 | (-3.73)                    | (-0.61)                 |  |  |
| Age                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 0.168                      | 0.254                   | 0.162                      | 0.197                   |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (11.19)                    | (16.57)                 | (8.22)                     | (9.62)                  |  |  |
| Age squared (10 <sup>-2</sup> )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | -0.238                     | 0.365                   | -0.242                     | -0.309                  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (-12.65)                   | (~18.43)                | (~9.39)                    | (-11.36)                |  |  |
| Education                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | -0.366                     | -0.479                  | -0.316                     | -0.906                  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (-10.79)                   | (-14.56)                | (-7.7 <b>7</b> )           | (-15.87)                |  |  |
| Value of land (10 5)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 0 246                      | 0.413                   | -0.315                     | 0.261                   |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (2.18)                     | (4.20)                  | (~1.16)                    | (1.86)                  |  |  |
| Value of land squared (10-10)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | -0.026                     | -0.037                  | 0 007                      | -0.029                  |  |  |
| •                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | (-2.36)                    | (-4.31)                 | (0.13)                     | (-1.91)                 |  |  |
| Value of assets (10-4)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 0.130                      | 0.186                   | -0.564                     | 0 185                   |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (3.43)                     | (5.58)                  | (~4.52)                    | (2.43)                  |  |  |
| Value of assets squared (10 <sup>-1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | , ,                        | -0.383                  | 0.060                      | -1.080                  |  |  |
| •                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | (~2.91)                    | (-4.68)                 | (3.29)                     | (1.51)                  |  |  |
| Density (10 <sup>-1</sup> )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | -0.003                     | -0.004                  | -0.000                     | -0 096                  |  |  |
| , ,                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | (-1.75)                    | (~2.88)                 | (-().49)                   | (-4.77)                 |  |  |
| Distance from town                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | -0.000                     | 0.347                   | 0.081                      | 0 139                   |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (-0.00)                    | (6.26)                  | (1.14)                     | (1.99)                  |  |  |
| Village wage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | -0.016                     | -0.074                  | -0 031                     | -0.076                  |  |  |
| · · · · · · · · · · · · · · · · · · ·                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | (-1.10)                    | (-5.34)                 | (-1.78)                    | (-4.31)                 |  |  |
| Cultivator HH dummy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | -0.615                     | -0.061                  | -0.993                     | -0.193                  |  |  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (-4.17)                    | (-0.46)                 | (-4.51)                    | (-1.18)                 |  |  |
| HH industry dummy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | -1.793                     | -2.144                  | 0.142                      | -0.763                  |  |  |
| and and assignment of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state | (-10.21)                   | (-12.74)                | (0.85)                     | (-4.36)                 |  |  |
| Other non-agricultural                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | -1.405                     | -1.854                  | -1.120                     | 1.668                   |  |  |
| HH dummy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | (-10 87)                   | (-14.94)                | (-7.01)                    | (-1() 84)               |  |  |
| •                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | (-10 07)                   | , ,                     |                            | (-10.04)                |  |  |
| Log likelihood                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                            |                         | 97 39                      |                         |  |  |
| Chi-squared                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                            |                         | 00.19                      |                         |  |  |
| LR                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                            | 2                       | 19.06                      |                         |  |  |
| N (6603)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 1023                       | 1843                    | 577                        | 682                     |  |  |

Notes: Figures in parentheses are asymptotic t-ratios. Non-participation is the residual choice.

TABLE 12: MARGINAL EFFECTS OF OCCUPATIONAL CHOICE MODEL, FEMALE

|                                     | Agri                | culture             | Non-Agriculture |                     |          |  |  |
|-------------------------------------|---------------------|---------------------|-----------------|---------------------|----------|--|--|
| Regressors                          | Without             | With                | Without         | With                | Non-Work |  |  |
| -                                   | Second              | Second              | Second          | Second              |          |  |  |
|                                     | Activity            | Activity            | Activity        | Activity            |          |  |  |
| Age                                 | -0.0071             | 0.0331              | 0.002           | 0.0051              | -0 0471  |  |  |
|                                     | (5.07)              | (20 29)             | (1.50)          | (4.00)              | (-9.44)  |  |  |
| Age squared (10 <sup>-2</sup> )     | 0.0091              | 0.047 <sup>1</sup>  | -0.003          | -0.010¹             | 0.0691   |  |  |
|                                     | (-4.91)             | (-21.65)            | (~1.92)         | (5.60)              | (10.32)  |  |  |
| Education                           | -0.0111             | -0.046 <sup>1</sup> | 0.000           | -0.0521             | 0.1091   |  |  |
|                                     | (3.91)              | (-14.79)            | (-0.07)         | (-16 17)            | (10 03)  |  |  |
| Value of land (10 1)                | 0.179               | 0.0691              | -0.036          | 0.008               | -0.058   |  |  |
|                                     | (0.90)              | (3.67)              | (~1.95)         | (0.45)              | (-1.48)  |  |  |
| Value of land squared               | -0.002              | -0.005              | 0.002           | -0.001              | 0.006    |  |  |
| (10-10)                             | (-0.48)             | (-1.49)             | (0.51)          | (-0.28)             | (1.00)   |  |  |
| Value of assets (10 <sup>-4</sup> ) | 0.016               | 0.0371              | -0.0461         | 0.012               | -0.018   |  |  |
|                                     | (181)               | (4.07)              | (-5.83)         | (1.33)              | (~1.19)  |  |  |
| Value of assets squared             | -0.024              | -0.055              | $0.093^{i}$     | -0.079 <sup>1</sup> | 0.065    |  |  |
| (10 <sup>-10</sup> )                | (~1.07)             | (-2.45)             | (4.35)          | <b>(</b> -3.43)     | (1.57)   |  |  |
| Density (10 <sup>-1</sup> )         | 0.000               | 0.001               | 0 000           | -0.000 <sup>i</sup> | 0.000    |  |  |
| ,                                   | (0.10)              | (-3.64)             | (1.12)          | (-5.14)             | (2.30)   |  |  |
| Distance from town                  | $-0.002^{i}$        | 0.006 <sup>i</sup>  | -0.000          | 0.000               | -0.004   |  |  |
|                                     | (-4.89)             | (12 21)             | (-0.53)         | (0.42)              | (-2.48)  |  |  |
| Village wage                        | $0.004^{2}$         | -0.011 <sup>1</sup> | 0.000           | -0.004i             | 0.0122   |  |  |
|                                     | (2.89)              | (-9.07)             | (0.12)          | (-3.09)             | (2.87)   |  |  |
| Cultivator HH dummy                 | -0.079 <sup>i</sup> | 0.0492              | -0.057          | 0.004               | 0.082    |  |  |
| <b></b>                             | (-5.25)             | (3.19)              | (-3.78)         | (0.25)              | (1.95)   |  |  |
| HH industry dummy                   | $-0.159^{\circ}$    | $-0.312^{i}$        | 0.088           | 0.023               | 0.359    |  |  |
| -,,                                 | (-11.89)            | (-18.98)            | (7.73)          | (2.05)              | (7.45)   |  |  |
| Other non-agriculturai              | -0 075 <sup>1</sup> | -0.227              | -0.006          | -0.055              | 0.363    |  |  |
| HH dummy                            | (-6.63)             | (-16.78)            | (-0.54)         | (-4.90)             | (9.33)   |  |  |

Notes: 1 Significant at 1 per cent level; 2 Significant at 5 per cent level. Figures in parentheses are asymptotic t-ratios.

About 75 per cent of the households in our survey indicated diversification of their income portfolios at the household level. Households primarily dependent on agriculture for their livelihood were more likely to diversify their activities. It was also observed that access to land was a major factor facilitating this process. Almost all landed households (94 per cent) undertook a subsidiary activity, whereas only about 56 per cent of landless households did so.<sup>10</sup>

Such diversification of economic activities at the household level was found to occur through two processes. The household may diversify its activities by allocating the time of different members of the family to different activities. And/or it may do so by each member of the household undertaking more than one economic activity. In this paper we analyse the determinants of the second type of process.

According to the model, while older men tend to specialise in agricultural activities, better educated men specialise in nonagricultural activities. Men in households with a very high value of land and other assets also have a higher probability of specialising in non-agricultural activities. It is possible that better endowed households can diversify its household portfolio through educating its men folk who then undertake regular salaried employment. Specialisation in one non-agricultural activity is also encouraged by external regional factors such as a higher population density, closeness to town and in better developed villages.

Diversification, in terms of multiple activities per worker is encouraged by access to land, except at a very high value of land and other assets. Younger and less educated men and women also engaged in multiple activities. The probability of agricultural workers undertaking multiple activities is higher with greater distance of the village from a nearby town.

In conclusion, the chances of diversification into more than one economic activity are higher among agricultural households and individual agricultural workers. Access to land facilitates this process. Seasonality in agriculture, uncertainty and risks in production also create a greater need to diversify. In far away and less developed villages diversification is likely to be due to low and uncertain incomes from one economic activity.

#### Notes

(This is a revised version of a chapter contributed to the project report on 'Non-Agricultural Employment in Rural Gujarat: Patterns and Trends', sponsored by the Industrial Development Bank of India. I am grateful to the IDBI and the Gujarat Institute of Development Research for providing financial supportand research facilities. I also thank the faculty and staff of the GIDR

environment.)

- 1 Jeemol, Unni, 'Regional Variations in Rural Non-Agricultural Employment: An Exploratory Analysis', Economic and Political Weekly, Vol XXVI, No 3, January 19, 1991, pp 109-22.
- 2 For an interesting set of papers on this issue see The Indian Journal of Labour Economics, Vol 36, No 3, 1993.
- 3 A Vaidyanathan, 'Labour Use in Rural India: A Study of Spatial and Temporal Variations', Economic and Political Weekly, Vol XXI, No 52, December 27, 1986, pp A130-A146; A K Singh. 'Changes in the Structure of Rural Work Force in Uttar Pradesh: A Temporal and Regional Study' in P Visaria and R Basant (eds), Non-Agricultural Employment in India, Sage Publications, New Delhi, 1994; Alok Kumar, 'Rural Non-Farm Employment: A Static and Dynamic Study of Inter-State Labour Variations', The Indian Journal of Labour Economics, Vol 36, No 3, 1993, pp 455-69.
- 4 It has been argued that prosperous cultivating households diversify their interests into nonfarm activities. J W Mellor, The New Economics of Growth: A Strategy for India and the Developing World, Cornel University Press, Ithaca, NY, 1976; M Rutten, 'Capitalist Entrepreneurs and Economic Diversification: Social Profile of Large Farmers and Rural Industrialists in Central Gujarat, India' (Ph D dissertation), University of Amsterdam, Anisterdam, 1991.
- 5 A Saith and A Tankha, 'Economic Decision-Making of the Poor Peasant Household', Economic and Political Weekly, Annual Number, Vol VII, Nos 5-7, 1972, pp 351-60; Benjamin White, 'Population, Involution and Employment in Rural Java', Development and Change, 7, 1976.
- 6 Estimates and figures in all the Tables in this paper are computed from the primary survey data collected in 1988-89 as described in the text.
- 7 Jeemol Unni, 'Occupational Choice and Multiple Job Holding in Rural Gujarat, India', Economic Growth Centre, Yale University, Discussion Paper No 677, 1992.
- 8 G S Maddala, Limited Dependent und Qualitative Variables in Econometrics, Cambridge University Press, 1983. The weakness of the multinomial logit model is that the probability of any pair of states depends exclusively on characteristics of the two states concerned, and is independent of the number and nature of all other states that are simultaneously considered. The odds ratio is therefore not affected by the addition or deletion of an alternative. This property is known as independence from irrelevant alternatives (IIA). See J S Cramer, An Introduction to the Logit Model for Economists, Edward Arnold, Hodder and Stoughton Limited, UK, 1991.

It is possible to statistically test for the independence of these states in the following way. If the original model had two choices or two states, at each stage (each new model)

state j. This will always lead to an extended model with (j+1) states, two new states j, and j, being substituted for j. If the new distinction is arbitrary and irrelevant then j, and j, have the same regressor coefficients, which are those of their parent state; but their intercepts differ. See J S Cramer and G Ridder, 'Pooling States in the Multinomial Logit Model', Journal of Econometrics, 47, 1991, pp 267-72

To test for the pooling of states for each new logit model we therefore need to test for the equality of their logit regressor coefficient apart from the intercept. This can be done with a likelihood ratio test. The null hypothesis is that

The test statistic is,

$$LR = 2 \{Log L - Log L_u\}$$

where  $\log L$  is the maximum  $\log$  likelihood of the original model and  $L_k$  the maximum  $\log$  likelihood if the estimates are constrained as in the null hyppothesis. LR is distributed as a chi-square variate with k degrees of

implied by the null hypothesis. Log L is readily available, but L<sub>R</sub> requires constrained estimation which is laborious. However, Cramer and Ridder (1991) present a simple method to compute it and a complete description of the above methodology.

9 To test for the relevance of the new set of alternatives the null hypothesis is:
β agriculture, one job = β agriculture, two jobs and
β non-agriculture, one job = β non-agriculture, two jobs.
The test statistic, at 1 per cent level of

The test statistic, at 1 per cent level of significance, is a value of 45.6 with 26 degrees of freedom. The LR statistic constructed for the model is presented in Tables 9 and 11.

The LR statistic is clearly above the critical level in all cases and the null hypothesis is rejected. Thus the model, splitting the primary choice further into number of activities undertaken is a statistically valid specification.

10 Rakesh Basant, 'Diversification of Economic Activities in Rural Gujarat: Key Results of a Primary Survey', The Indian Journal of Labour Economics, Vol 36, No 3, 1993, pp 361-86.

**APPOINTMENTS** 

## SIHEW

# STATE INSTITUTE OF HEALTH & FAMILY WELFARE, RAJASTHAN

**JAIPUR** 

#### OFFER OF ASSIGNMENTS

The SIHFW has been established by the Government of Rajasthan as an apex level autonomous institution through a registered society.

The aim of the Institute is to contribute to the total effectiveness of the health system through improved management at different levels. For this, the SIHFW organizes training programmes, undertakes operational and applied research in management, and provides management consultancy in the health system.

The Institute requires six Professors/Associate Professors in the specialities of (i) Community Health, (ii) Communication & Social Marketing and, (iii) Organization Development/HRD.

The qualifications and experience prescribed for the above posts alongwith the prescribed application form, may be obtained either by post or personally from the Registrar of the Institute.

Last date of receipt of applications has been fixed as 14-9-96, which should be sent to the Director, S.I.H.F.W, HCM RIPA (O.T.S), J.L.N. Marg, Jaipur - 302 017.

Jaipur,

Dated: 10.08.1996.

DIRECTOR.





Shri Mantosh Sondhi

#### Ladies and Gentlemen

On behalf of the Board of Directors and on my own behalf, I extend to you all a very warm and cordial welcome to the 7th Annual General Meeting of your Company. The Notice convening the meeting, the Directors' Report and the Audited Accounts for the year ended March 31, 1996 have been with you for some time new and with your permission, I shall take them as read.

#### The Economy

May I now say a few words about the economy. The economic parameters for 1995-96 on all fronts indicate high growth. GDP grew at the rate of 7 per cent, higher than expected. Industrial growth at 12 per cent has been very assuring. Government revenue both from direct and indirect taxes has exceeded the budgetary estimates, due to buoyancy in the economy and better tax compliance at lower rates of taxes. Exports also registered a satisfactory growth rate of slightly more than 21 per cent in Dollar terms. Performance of the corporate sector has also been excellent. There are, however, certain areas of weakness and concern, more particularly the sluggish growth of the agriculture sector at 0.9 per cent, high fiscal deficit and abysmally poor state of the intrastructure sector. High interest rates, liquidity crunch, trade deficit and control on government expenditure are other areas which need urgent attention, if 7 per cent GDP growth and a fiscal deficit target of 5 per cent on a diminishing basis, as perceived by the new Government. have to be achieved and sustained.

We are also facing for decades problems of social infrastructure, unemployment and poverty which can only be ignored at our own peril. It is heartening to find that realising the gravity of the situation, the Finance Minister in his budget proposals has proposed definite measures to encourage rural development, faster growth of infrastructure through allocation of larger resources, introduction of tax incentive and creation of new institutions, these are all steps in the right direction. Other main highlights of the budget are imposition of 12 per cent minimum alternate tax (MAT), reduction in the 15 per cent surcharge on corporate tax to ~.5 rer cent and the introduction of non-voting shares.

In this connection there is also an urgent need to review various economic and other laws which have become totally archaic and outdated, these hinder

## Speech by Shri Mantosh Sondhi, Chairman at the Annual General Meeting of the Company held on August 14, 1996 at New Delhi

development. A good example of this is the Urban Land (Ceiling & Regulation) Act. All these should be modified or scrapped.

In my view, taking the political compulsions into account, 1996 - budget is a remarkable feat of skill and courage. As the London Economist points out, "The Finance Minister had to keep his political allies on board while preserving the direction of reform". This he has been able to achieve with a great deal of success although the time at his disposal to make far-reaching policy statements was extremely short, a mere 35 days.

Admittedly, there are some areas of disappointment. The Insurance Sector has not been deregulated as was generally expected. This sector has been protected from competition for a long time and although one must admit that the financial performance of the nationalised Insurance Sector has been reasonable, better than some of the allied sectors such as banking, time has now come when it must be thrown open to the private sector to make it more competitive. The latest portents are that this may happen in a phased time frame.

While on this subject it must also be stated that the Finance Minister has been very wise in not denouncing the excellent work done by his predecessor, which unfortunately had become a practice very prevalent in Indian politics and bureaucracy.

#### **Review of Operations**

During the year ended March 31, 1996, sales of your Company at Rs. 590.24 crores were a little lower compared to sales of Rs. 607.99 crores in the previous year due to suspension of trading of DAP because of wide fluctuations in the foreign exchange and high international prices. However, despite the fall in the turnover, the gross profit rose by 42% to Rs. 60.89 crores from Rs. 43.01 crores. The net profit also went up by 45% to Rs. 41.79 crores as compared to Rs. 28.73 crores in 1994-95. All the units performed well and contributed towards this excellent performance. To share with you the fruits of better results, your Board of Directors have recommended a higher total dividend of 40% on enlarged equity capital. Out of this, your Directors have already paid an interim dividend of 15% during the financial year under review.

#### A. Fertilisers

During the year, the operations of this Division were satisfactory. Unfortunately various claims for price escalation are still pending with the Fertiliser Industry Coordination Committee for settlement. Also there has been inordinate delay in the disbursement of the subsidy. This has adversely affected the cash flow and consequently the profits of this Division.

#### **B. Plastics & Chemicals**

Working of the PVC plant was satisfactory. Due to fall in international prices, the PVC prices remained depressed. The technical tie-up with M/s. Zeon Kasei Co. Ltd. of Japan has helped in improving quality of PVC compounds,

SHRIRAM UREA . SHRIRAM CEMENT . PVC RESIN 8

and consequently profitability of this business has improved.

Production and profitability of caustic soda and chlorine plants at Kota was adversely affected due to a fire, which broke out in the Rectifier/Transformer installation in April, 1995. The claim lodged with the Insurance company was settled and damaged equipment replaced. The plant is now : unning satisfactorily. Across-the-board cut in import duties for a number of industries, including plastics and chemicals proposed in the Finance Bill, 1996, will put these operations to greater foreign competition.

#### Power

Commissioning of an additional 30 MW power plant at the Kota complex was successfully completed during the year. The operations of the plant have been fully stabilised and significant cost savings were achieved during 1995-96, the first full year of the operations for this plant. You will be glad to note that the plant is performing extremely well and is operating over 90% P.L.F. against an average of 63% for the country as a whole.

#### ). Cement

During the year, profitability from operations of the unit significantly improved The Company's product continue to command premium prices in the market. Due to commissioning of new large capacities in Northern India, the selling prices may come under pressure

#### E. New Plant - Shriram Alkali and Chemicals

It is a matter of great pride that your company during the year has added a modernised chlor-alkali plant at Jhagadia, Distt. Bharuch, Gujarat into its operations. The new Chlor-alkali Plant 'Shriram Alkali & Chemicals' was recently partially commissioned in a record time of 13 months from ground breaking Using the latest membrane cell technology from M/s Asahi Chemicals, Japan, the Plant has a capacity of 50,000 tons/annum of Caustic Soda and 44,000 tons/annum of Chlorine and places your Company amongst the top 5 producers of Chlor-alkali products in the country. The investment on the total project is around Rs 200 crores. Operations of the plant are in the process of being stabilised and are expected to provide strong earning growth, in the coming years. By December, 1996, a state-of-the-art flaker plant of 33,000 tons/annum capacity is also expected to be commissioned. The flaker plant, based on BERTRAM technology, would provide an excellent window for exports.

#### . Textiles

There has been considerable improvement in textile operations with much lower losses

As you all are aware, the Supreme Court had sometime back directed the Central Pollution Control Board to issue notices to certain industries to stop functioning in the city of Delhi as per the provisions of Master Plan -2001 and be relocated outside Delhi. Swatantra Bharat Mills and DCM Silk Mills Units were also issued these notices. As per the latest directives of the Supreme Court, these units cannot operate at their existing site beyond 30th November. 1996. The Company is examining options with regard to relocation and is formulating action plans.

#### Environment

Shriram Environment & Allied Services at Kota, recognised by the Department of Science & Technology, set up to carry out research and development work in the ield of environment continues to do well.

#### **Subsidiary Companies**

DCM Shriram Credit And Investments Ltd. (DSCIL), wholly owned subsidiary of rour Company is doing well. In the case of other subsidiary, DCM Shriram Aqua Foods Ltd. (DSAFL), the aquaculture project at Karaikal, Pondicherry continues to see on hold on account of Interim Order of the Supreme Court against a Public interest litigation filed with them.

#### **New Business Development**

Your Management is actively pursuing opportunities for diversification into new business area of Sugar and for bigger thrust into areas of Power and Cement The Company is progressing with its plans for setting up a 3125 TCD Sugar Project in the State of Uttar Pradesh. Discussions are on for implementation of the Project The project is proposed to be located in an area with excellent cane availability to enable rapid expansion.

The Company is continuing its efforts in the area of independent power generation business in Rajasthan, Madhya Pradesh, Gujarat and Punjab Due to various procedural constraints and lack of clear cut policies from the Govt, these projects are taking longer than anticipated. Your Company has now attained a great deal of expertise in the maintenance and operation of power plants. We wish to take advantage of this and put this expertise to effective use in the future.

Further, the Company is expecting a prospecting license for lime stone in Rajasthan The necessary recommendations from the Central and State Governments have already been received. Depending upon the quality of lime stone and deposit estimates, it is planned to set up a grass root cement plant with a capacity of approx 1 3 million tons/annum, which would significantly help in consolidating our position in the industry. Looking at the cement industry from a long term perspective, it has a very promising future with the present emphasis on rural housing and infrastructure development.

These projects would help in achieving sustained growth and all our stock holders can look forward to better times in the future.

#### Industrial Relations

The Company continued to maintain harmonious and cordial relations with its workers in all its divisions, which enabled it to achieve higher performance levels on all fronts.

#### **Human Resource Development**

The progress of the Company during the last 6 years is in a large measure due to the quality of our human resources. New challenges and additional responsibilities have been accepted by one and all with a great deal of enthusiasm and with a full sense of commitment. Human Resource. Development in your Company continues to receive high priority. Training inputs are being provided to employees at all levels.

#### **Prospects for the Current Year**

In the first three months of the current financial year i.e. April to June, 1996, sales of your. Company at Rs. 135.93 crores are lower as compared to sales of Rs. 141.70 crores in the previous year due to planned maintenance shut down of the fertiliser plant in April, 1996. Substantial reduction in import duties on plastics and chemicals, proposed in the Finance Bill 1996, may impact the profitability of these products. However, your company is fully geared to meet increased competition and pressure on margins through the introduction of effective cost rationalisation and plant re-engineering exercises. The Company is quite hopeful that overall, the current year should end on a satisfactory note.

#### Acknowledgements

Ladies and Gentlemen, in conclusion, I would like to compliment the Management Team of your Company led by Shri Ajay S. Shriram and Shri Vikram S. Shriram for their excellent performance. The Directors also wish to thank the Government authorities, financial institutions, bankers, business associates and shareholders for their co-operation and support extended to the Company. The Directors also place on record their deep appreciation for the contributions made by employees at all levels to improve the working of the Company. Thank you.

Note. This does not purport to be a record of the proceedings of the Annual General Meeting

## OMPOUNDS • CAUSTIC SODA • YARN • DCM TEXTILES

# **Privatisation of Commons for the Poor**

## **Emergence of New Agrarian Issues**

#### Milind S Bokil

In the literature on common property resources (CPRs) privatisation is often decried on the ground that it deprives the rural poor from a critical source of livelihood and only benefits the rich and powerful sections of society. The problem, however, gets complicated when the poor themselves encroach upon the commons for their livelihood needs. Such a situation has arisen in the Marathwada region of Maharashtra where the dalits have encroached upon the village common lands to establish ownership. A number of important agrarian issues arises in this context.

AN important agrarian issue in countries like India, where rural poverty is directly related to agricultural backwardness, is how do the poor secure their livelihood? The corollaries are, how do they establish access to important agricultural resources like land, water and trees and what strategies are adopted by them to retain the control? What are the consequences of their actions in terms of agrarian social relationships? What effects do changing environment and state policies have upon them? And so on.

An important characteristic of poor people in backward countries is that they are resource-less or resource-poor. In hierarchically organised societies like India they also belong to the low ranking castes. There is therefore a continuous striving on their part to acquire those crucial resources which will help them to secure their livelihood In the traditional rural societies the poor have been often found to depend upon what is called as common property resources (CPRs). However, the CPRs are rapidly declining in terms of both quantity and quality. A variety of factors like growth in population, over-exploitation, ecological degradation, state intervention and commercialisation have been found responsible for their depletion. In the literature on CPRs, privatisation is often decried on the ground that it deprives the rural poor from a critical source of livelihood and only benefits the rich and powerful sections of the society. A strong case is made against private industries to whom vast tracts of commons are granted for captive cultivation. The usual appeal is to halt the process of privatisation and retain the commons as commons.

The problem gets complicated when the poor themselves encroach upon the commons and attempt privatisation for their livelihood interests. Such a complex situation has presently arisen in the Marathwada region of Maharashtra. Here, dalits have encroached upon the village common lands to establish private on nership and from time to time their encroachments have been regularised by the state government. This process has

given rise to a number of important agrarian issues. The study is an attempt to analyse some of them.

#### COMMON GRAZING LANDS

Grazing lands called as 'gairans' in the vernacular is a common feature of villages in Maharashtra. Gairan literally means 'cowland' (gai = cow, ran = land). These are common lands signifying open access common property resource. The extent of gairans all over Marathwada is 2,40,800 habelonging to 7,786 villages. Thus each village has on an average about 30 ha of gairan. There are, of course, significant variations following the habitat, topography, size and population of the village as well as a number of historical and socio-political factors. The control and management of the gairans is vested with the gram panchayats.

Within a village there are other types of common lands also. These are classified as barren and uncultivable land, culturable waste, land put to non-agricultural use, and so on. Excepting the categories where the ownership is otherwise defined all the common lands are owned by the government and administered by the revenue department. The local people usually have usufructuary rights over them. Besides, there are forest lands also. In Marathwada, their extent is very small and they are greatly degraded (Tables 1, 2). The proportion of common lands to the total geographical area ranges from 9 per cent to 25 per cent in the seven districts of Marathwada with about 145 ha of common lands per village. This, however, also includes the land put to nonagricultural use, i.e. land under roads, buildings, playgrounds, funeral and burial grounds, etc. If these are excluded, then the proportion of commons would range from 5.9 per cent in Beed to 21.65 per cent in Osmanabad (about 115 ha per village). The proportion of garrans to total commons ranges from about 12 per cent in Latur to 36 per cent in Beed (about 30 ha per village).1

A large body of literature on utilisation of common lands in India has accumulated

in the last 10 years. This literature emphasises that the common lands satisfy a great deal of bio-mass needs of the villagers and it has been strongly reiterated that they are useful to the rural poor who cannot afford to pay for their bio-mass needs.<sup>2</sup>

In earlier times the gairans of Marathwada were no exception to this. But at present they are so degraded that they hardly satisfy any livelihood needs. They are used only as grazing lands and that too during the rainy season. Secondly, unlike the state of Rajasthan their extent is quite limited (about 30 ha per village) This being a dry region they are also subjected to the vagaries of monsoon. Hence neither the quantity nor the quality of grass is significant enough. The principal means for grazing are still the private lands which become tree after the first and the only crop is over. Then on, there are no restrictions on grazing and the cattle graze freely on the crop stubble. This is symptomatic of the semi-arid regions in general where a significant percentage of villages depend primarily on rain-fed agricultural crops and are less dependent on CPRs [Arnold and Stewart 1991:8]. There is a generic term for this phenomenon in Marathwada as 'ran sutya zalya' meaning lands have become free.

Encroachments over public lands is not a novel phenomenon, either in the country or in Maharashtra. Public lands being nobody's property have been encroached whenever suitable opportunities existed. In Maharashtra, the encroachments have a particular history though the trends are similar to those found in the country. Here, encroachments were primarily made by the tribals residing in the mountainous and forest areas. In rural area this trend was followed by dalits and other landless sections.

Among the ex-untouchables, the mahars (and neo-Buddhists) are relatively advanced. In the traditional village society they were village servants (watandars or balutedars). They performed a number of duties and were compensated either in kind (baluta) or through a grant of land (watan). The practice of mahar watans was continued by the British

along with the other watans granted to village accountants, clerks, revenue collectors, etc. A prominent feature of the watan lands was that they were inalienable and only hereditary transfer could take place. After independence the watans were abolished by the state government as the traditional services had become redundant. This was also a demand of the mahar leaders as the watans perpetuated social servitude and bondage. When the watans were abolished the previous holders were given an option to repurchase the land by paying the charge prescribed by the government (called as 'nazarana' - usually a multiple of the annual cess). Most of the superior watan lands were therefore, retained by their holders but the mahars could not take advantage of this fact because of illiteracy, ignorance and absence of proper records. Those who could do so received only a fraction of the total land as by then the watan land was fragmented due to successive partitions. As village servants the mahars were compensated in kind and hence had never taken to farming seriously. The fractional and uneconomic holdings further discouraged them from doing so. Their uncaring and parasitical lifestyle formed over centuries also came in their way. As a result the watan lands were soon mortgaged to upper caste landlords and moneylenders. For all practical purposes the mahars lived as landless labourers. The other sections of dalits, particularly the Mangs, had traditionally not owned the land and had lived mostly as bonded labourers. This practice was widely prevalent in Marathwada because of the feudal setting. According to a survey of dalits undertaken in Maharashtra, the proportion of landless dalits in Marathwada ranged from 85 to 90 per cent [Gare and Limaye, 1973].

In other parts of Maharashtra the encroachers on common lands belonged to various communities including the dominant upper castes. But in Marathwada the proportion of dalits has been higher. The most prominent reason behind why dalits started encroaching is this factor of landlessness. The other landowning castes in Marathwada have not felt the need to resort to encroachments. The main agriculturist castes like maratha and lingayats have sizable landholdings whereas brahmins, marwadis and dhanagars have not been interested in farming. The latter have also not been as localised as the dalits. After marathas it has been only dalits who had traditional skills and experience in farming as they worked as agricultural labourers once the traditional duties were abolished.

The usual motive behind any encroachment on common land is to bring the land under cultivation and increase the food security of the household. In the present

case another motive has been operational as well: earning a better social status. It has been a common feature of backward societies that social status is equated to ownership of land. Throughout the past, the dalits literally lived at the mercy of the landowning upper castes. Even when they had watan lands it was more a form of obligation than a piece of property. To own land and to be on par with other agriculturist sections of the village has been a constant obsession with the dalits.

In order to achieve this a quiet social action was pursued since the 1950s. This action was a part of the wider dalit or backward class movement. The dalit movement in India has been considered as an important expression of protest and change. The major thrust for this movement came from Maharashtra since Babasaheb

Ambedkar was instrumental in organising and mobilising the depressed classes (in Maharashtra the movement is often termed as Ambedkar movement). It has been noticed by scholars studying this movement that 'dalit consciousness is a complex and compound consciousness which is a product of inhuman conditions of material existence, powerlessness and ideological hegemony' and the response pattern has been first to rise against the socio-cultural oppression (social reforms movement); secondly, to strive for political disenfranchisement and thirdly, to bargain for better economic conditions [Oommen 1990:255].

It has been also observed in the case of the backward class movements that these movements passed through two stages: in the first, the low castes concentrated on acquiring the symbols of high status whereas

TABLE 1: THE LAND USE PATTERN IN MARATHWADA

| Name of<br>the<br>District | Total<br>Geographical<br>Area (ha) | Proportion<br>of Forest to<br>Total Area<br>(Per Cent) | Common Lands (ha) with Proportion to Total Area (ha) | Net Area<br>Under<br>Cultivation<br>(ha) | Net Area<br>Under<br>Irrigation<br>(ha) | Inhabited<br>Villages<br>(No) |
|----------------------------|------------------------------------|--------------------------------------------------------|------------------------------------------------------|------------------------------------------|-----------------------------------------|-------------------------------|
| Aurangabad                 | 1013000                            | 7.84                                                   | 205000<br>(20.23)                                    | 728000                                   | 77000                                   | 1250                          |
| Jaina                      | 773000                             | 0.66                                                   | 130000<br>(16.81)                                    | 638000                                   | 56000                                   | 900                           |
| Parbhani                   | 1097000                            | 3.48                                                   | 180000<br>(16 40)                                    | 879000                                   | 91000                                   | 1420                          |
| Osmanabad                  | 748000                             | 0.54                                                   | 187000<br>(25.0)                                     | 613000                                   | 74000                                   | 704                           |
| Latur                      | 667000                             | 0.04                                                   | 115800<br>(17.36)                                    | 551400                                   | 31000                                   | 885                           |
| Beed                       | 1043000                            | 2.08                                                   | 95000<br>(9.1)                                       | 926000                                   | 270000                                  | 1202                          |
| Nanded                     | 1033000                            | 8.92                                                   | 221000<br>(21.39)                                    | 720000                                   | 31000                                   | 1425                          |
| Total                      | 6374000                            |                                                        | 1133800                                              | 5055400                                  | 630000                                  | 7786                          |

Source: GOM (1990).

TABLE 2: EXTENT OF COMMON LANDS IN MARATHWADA

| Name of     | Area Not            | Available             | Other                 | Other Uncultivated Land Fallov |               |                   |                |  |  |
|-------------|---------------------|-----------------------|-----------------------|--------------------------------|---------------|-------------------|----------------|--|--|
| the         | for Cul             | tivation              | Exclu                 | ding Fallow                    | Land          |                   |                |  |  |
| District    | Land Put<br>of Non- | Barren<br>and Un-     | Permanent             | Land<br>Under Mis-             | Culturable    | Current<br>Fallow | Other          |  |  |
|             | Agri Use            | and On-<br>cultivable | Pastures<br>and Other | cellaneous                     | Waste<br>(ha) | fallow<br>(ha)    | Fallow<br>(ha) |  |  |
|             | (ha)                | Land (ha)             | Grazing               | Tree Crops,                    | (114)         | (na)              | (114)          |  |  |
|             | (184)               | Land (IId)            | Lands                 | etc, Not                       |               |                   |                |  |  |
|             |                     |                       | (ha)                  | Included                       |               |                   |                |  |  |
|             |                     |                       | •                     | in Area                        |               |                   |                |  |  |
|             |                     |                       |                       | Sown (ha)                      |               |                   |                |  |  |
| Aurangabad  | 57000               | 16000                 | 42000                 | 5000                           | 20000         | 55000             | 10000          |  |  |
| Jaina       | 28000               | 10000                 | 29000                 | 6000                           | 8000          | 22000             | 27000          |  |  |
| Parbhani    | 39000               | 17000                 | 35000                 | 2000                           | 53000         | 12000             | 22000          |  |  |
| Osmanabad   | 25000               | 11000                 | 23000                 | 5000                           | 34000         | 24000             | 65000          |  |  |
| Latur       | 17100               | 11500                 | 13800                 | 1700                           | 19800         | 20600             | 31300          |  |  |
| Beed        | 3.3000              | 15000                 | 34000                 | 3000                           | 4000          | 2000              | 4000           |  |  |
| Nanded      | 41000               | 21000                 | 64000                 | 5000                           | 25000         | 30000             | 35000          |  |  |
| Total       | 240100              | 101500                | 240800                | 27700                          | 163800        | 165600            | 194300         |  |  |
| All         |                     |                       |                       |                                |               |                   |                |  |  |
| Maharashtra | 1079000             | 1725000               | 1523000               | 180000                         | 1024000       | 959000            | 1014000        |  |  |

Source: GOM (1990).

in the second the emphasis shifted from the symbols to the real sources of high status, i e, possession of political power, education and a share in the new economic opportunities [Sriniwas 1991:319]. In this regard, among all the scheduled castes of India, the mahars of Maharashtra have been particularly dynamic and effective as they used political means most consistently and unitedly in their attempt to better their economic condition [Zelliot 1992:86]. Being traditionally involved in the village system the mahars were more attached to the land (despite urban shifts) and always came back to their villages. When some advances were made in removing the stigma of untouchability and when they emerged as a vote-bank in the political sphere, the next logical step was to establish control over productive resources. Encroachments on public lands was the direct outcome of this aspiration.

The most characteristic feature of the encroachments has been that mainly gairans were encroached. It can be seen from Table 4 that of the total 28,902 ha of public lands regularised in Marathwada, 28,874 ha were gairans (99.9 percent). The extent of revenue and other lands has also been significant in this region but mainly gairans have been targeted. This happened because gairans were being controlled by the village gram panchayat which has been a weak political body compared to the organised revenue or forest departments. Traditional village authority was strong but when it was replaced with elected representatives its character was altered. Though the encroachments by dalits were later resisted, in the initial years the gram panchayats did not take a strong view. They also did not have any judicial powers. In many cases the village level power equations were taken advantage of. For the encroachers, it was both a means of securing livelihood as well as an act of defiance.

#### PRIVATISATION OF GAIRANS

As mentioned earlier encroachments on public lands have been occurring steadily over the past 40 years. Though it is a punishable offence under the Maharashtra Land Revenue Code, the attitude of the revenue administration has never been uniform. It has been tinted with anomaly. ambiguity, indifference, favouritism, inefficiency, laxity as well as corruption. When the 'Grow More Food' campaign was popularised in the 1950s and early 1960s a lenient view of the encroachments was taken. Afterwards also encroachments were tolerated for a number of years and then suddenly noticed and evicted. On many occasions the local revenue officials took bribes and turned a blind eye towards the encroachments. Such bribes had been a good source of extra income for the officials. Excepting the years 1974-76 when internal emergency was imposed in the country, the government never took clear position against the encroachments. The elected representatives generally adopted a populist stance and the encroachments were regularised from time to time.

After emergency, the then progressive leftist state government regularised the encroachments on a wide scale [Revenue and Forest Department GR/1078/3483-42 dated December 27, 1978]. Though this was termed as a progressive legislation, there were a number of flaws. It was subsequently amended on September 12, 1979 by another GR (No.FLD 1079/1366-F3) which regularised the encroachments from April 1, 1972 to March 31, 1978. The most salient feature of this GR was that it prescribed eligibility criteria for regularisation and thereby sought to regularise the encroachments only of the weaker sections. Its provisions read as follows

All subsisting encroachments on government waste lands, gairan lands, revenue forest land and forest lands in charge of the Forest Departments made for cultivation which existed on 31st March 1978 should be regularised. Provided:

- (i) The encroacher is -
  - (a) a person belonging to backward class that is scheduled castes, scheduled tribes, nomadic tribes, vimukta jatis or neo-buddhist, or
  - (b) a person whose total annual income including the income of members of his family does not exceed Rs 3,600.
- (ii) The usual place of residence of the encroacher is within the radius of eight kilometres from the land encroached upon,
- (iii) The encroacher is a landless person or the total land lawfully held by him in any capacity is less than two hectares of jirayat land, and
- (iv) The encroachment to the extent of an area equal to 2 ha of jirayat land shall only be regularised. Where the encroacher is holding some jirayat land either as owner or in any other capacity the regularisation shall be limited to such areas as would bring his such landholding equal to 2 ha of jirayat land

A number of action groups/non-governmental organisations/ voluntary agencies which were active in getting the encroachments regularised strove for its implementation and though numerous difficulties and obstacles were encountered more than 5,000 cases were regularised in the subsequent years. While enacting this GR the government declared that henceforth no encroachment in whatsoever form would be regularised and attempts to do so would be sternly dealt with.

However, the tempo of encroachments did not stop. In fact, in certain areas where common lands were still vacant, more encroachments were made. These were overtly supported by the organisations of dalits and other activist groups. The instability and weakness of the state government in the late 1980s was also taken advantage of. As a result, the government once again passed a resolution in 1991 regularising the encroachments of 84,230 persons on 1,08,915 hectares of government waste lands and gairan lands (No LEN 1090/ 172/1 dt November 28, 1991). In its content this GR was similar to the 1979 GR as it specified the eligibility criteria for regularisation. But a notable thing was that for the first time it provided the statistics collected in various district headquarters. The GR however did not regularise the encroachments over the forest lands as the state government did not have the authority to do so (following the Forest Act of 1980 these powers have been vested with the union government).

The most serious implication of privatisation of gairans has been in terms of the social conflict generated in Marathwada. This region, which was under the dominion of the nizam of Hyderabad till 1950, has been predominantly rural and agricultural and the society has been characterised by feudal and hierarchical caste relations. In the past, i.e., before 1979 encroachments on gairans were treated with indifference but after the issue of renaming the Marathwads University the situation altered. For a number of years the dalits in Marathwada were demanding to rename the Marathwads University (campus at Aurangabad) after their leader Babasaheb Ambedkar as a tribute to his contribution to Marathwada and as a symbol of social equality. This was accepted by the then state government (led by the Progressive Democratic Front, a combine of leftist and secularist parties) in 1978 and a resolution to that effect was passed in the Legislative Assembly. However, this decision could not be implemented because the non-dalit organisations, rightist association and even the neutral educational bodies protested strongly. It was argued by then that the term Marathwada was a matter o cultural identity and hence the name should not be changed. On the other hand the progressive and leftist organisations launched a movement for enactment of the governmen decision and hundreds of activists courter arrests on a number of occasions. Both the parties made this issue a matter of prestige The resulting confrontation assumed a blood form in 1979-1980 and large scale violence against dalits erupted in Marathwada. In

many villages the dalits were beaten to death and their houses and property were burnt to ashes.

This intense and widespread expression of anger against dalits was an unprecedented event in the history of Marathwada. Caste hierarchy and the notion of superiority among the upper castes and subsequent ill treatment to dalits were prevalent but the kind of caste conflict witnessed during the riots was unheard of. A number of reasons were responsible to this. There was a general feeling of resentment against the dalits because of the policy of reservations in government service and educational institutions. This was fuelled by the frustrations experienced by the unemployed youth of the middle and upper castes. It was conveniently believed that the root cause of unemployment was the preferential treatment granted to dalits. The abandonment of traditional lowly duties like scavenging, carrying dead animals, tanning hides, running errands, etc. had previously put the villagers to inconvenience. The political mobilisation of dalits and the assertion of equality by their militant organisations were annoying to the feudal psyche of Marathwada villagers. As a result, there was a widespread feeling to 'teach a lesson' to dalits.

These events coincided with the regularisation of encroachments (the GR of 1979) and the phenomenon which was till then neglected or tolerated suddenly came to the fore. The encroachments over common lands provided a concrete opportunity to the village upper castes to give vent to their anger Dalit families were physically beaten and evicted from the gairans, their crops were destroyed and stocks were razed to ground. In many villages where there was no other issue of discontent, regularisation of encroachments created the conflict. Though the administration took quick steps to ensure law and order and in some cases the rioters were punished, dalits suffered great losses and more misery was added to their life.

The situation cooled down afterwards but the renaming could not be performed till 1993. In the meanwhile another GR was passed (1991) and encroachments were further regularised. However, this decision did not cause the same degree of tension as the earlier one. By then the local villagers had accepted the fact that the government was in favour of the dalits and would take a pro-poor and populist stance in order to win over the backward classes. The university was renamed on December 6, 1993. It was thought that this decision would cause fresh riots but the government maintained strict vigil and enforced law and order. Excepting a few sporadic instances, the situation remained under control

Though the 1991 GR regularised a large number of encroachments, the problem was not solved in its entirety. In the first place the statistics collected by the revenue department was erroneous as it did not correctly enumerate all the encroachers. In many villages only a section of them was benefited, the encroachments of the others were not recognised. This fact created a great degree of anomaly and disparity among the encroachers. Secondly, though land grant certificates were issued this step was not followed with measurement and demarcation of the plots. Thus, in almost all the villages the beneficiaries were uncertain about the exact location of their plot and cultivated the same piece which was in their custody. The lack of demarcation created the obvious problems of equity as some of the encroachers had retained bigger plots than two hectares. Thirdly, though encroachments were regularised the criminal and civil suits filed against the dalits at various levels were not automatically withdrawn. This factor caused considerable harassment to the beneficiaries even after 1992. Finally, though lands were granted to provide a source of livelihood, the decision was not followed by appropriate arrangements of credit, agricultural inputs and land development. As a result the beneficiaries could not take advantage of any of the agricultural development programmes.

This whole phenomenon of encroachment and regularisation has brought to the fore a number of important agrarian issues. These could be broadly classified as follows.

- (a) What is the outcome of this phenomenon in terms of agrarian relationships? In particular, what changes have been brought in the pattern of landownership as well as in the corresponding social relationships due to the creation of a class of small land owners from landless labourers.
- (b) How has this activity helped the poor in securing livelihood?
- (c) What has been the effect on the CPRs in land? What processes have been set in motion with regard to the sustenance and management of commons?
- (d) Could this be a strategy for poverty alleviation? Would it ensure equity, productivity and sustainability?
  - (e) What could be the alternatives?

In order to seek answers to these questions a study was conducted in Latur district of Marathwada in collaboration with a grass roots level organisation called 'Sarvangin Vikas Sanstha' (SVS - organisation for allround development). SVS was founded by a dalit activist (Tatya Kamble) and since its inception in 1984 had consistently worked on the issue of equality and social justice for dalits. It was one of those organisations

which had taken up the present cause but unlike the others had sustained its interest in resolving the issue.

The inquiry was conducted in 30 villages – selected randomly – of Udgir and Ahmadpur talukas. The tools of data collection included two proformas, one for the village and another for the individuals. Out of the total 366 beneficiaries from these villages, 260 beneficiaries (71 per cent) were contacted. Most of the qualitative information was, however, collected from informal discussions in each village with both beneficiaries as well as non-beneficiaries (Table 5).

As could be seen from Table 5, the number of beneficiaries varied from village to village. This number is not significant in comparison to the total size of the village but it assumes significance in terms of labour relationships. Almost all the beneficiaries were previously employed on the farms of the upper caste landowners. The peasantry in Marathwada could be broadly categorised in four classes; landlords, large land owners, middle peasants and small peasants (poor peasants with uneconomic holdings). The pattern of operational holdings in Latur district has been as in Table A.

This differentiation would roughly coincide with the categories mentioned above. Of these the first category could be kept aside as this is a class of the traditional landlords (deshmukhs) and who are present only in a few selected villages. They have preferred to operate in the larger political arena. It is the second category which mattered the most. Before the encroachments almost all the dalits used to be employed by the large landowners on annual bonds. This kind of labour relationship was dramatically altered once dalits started establishing access to land and began retaining those plots despite adverse socio-juridical conditions. It was

TABLE A.

| Operational Holdings |
|----------------------|
| 1                    |
| 30                   |
| 38                   |
| 31                   |
|                      |

TABLE B

| Type of<br>Crop | Yield in<br>Quintal | Market<br>Price Per<br>Quintal<br>(Rs) | Value<br>of the<br>Produce<br>(Rs) |
|-----------------|---------------------|----------------------------------------|------------------------------------|
| Cereals         | 5.5                 | 500.00                                 | 2,750 00                           |
| Pulses          | 1.1                 | 1400 00                                | 1,540 00                           |
| Oilsecds        | 06                  | 1100.00                                | 660 00                             |
| Miscellaneous   | 0.5                 | 950 00                                 | 475.00                             |
| Total           |                     |                                        | 5,425.00                           |
| Fodder          |                     |                                        | 2,000.00                           |

As we have seen earlier, privatisation of the common lands has certainly helped the beneficiaries to acquire a better food security. The important question is whether this could be treated as a potent means of poverty alleviation. After consolidating all the individual details it was found that though a relatively better food security was obtained it had not brought the beneficiaries above the poverty line.4 The poverty line in the present context (without getting into the complexities of its definition) is roughly the dividing line between employment and unemployment. If a person receives year round employment at the minimum wage rate, his/her family could be considered as above the line of absolute poverty during the year. This basic question has not been solved by the process of privatisation. As shown earlier, access to a piece of land has provided food security only for two to three months. For the remaining months the beneficiaries still had to search for wage employment. The poverty conditions have only been ameliorated and hence, in its present form, privatisation could not be considered as the most efficacious strategy for poverty eradication.

This has happened because the beneficiaries have to cultivate uneconomic holdings. The holdings have been uneconomic primarily because of (a) small size of the land, (b) dry land farming dependent upon the vagaries of monsoon, (c) lack of credit resulting into inadequate application of labour and inputs. (d) lack of basic agricultural assets like bullocks and implements, and (e) absence of improved methods of farming.

Any strategy in the backward economies, aiming at improving the livelihood of the poor, needs to consider three important aspects, namely, equity, productivity and sustainability. What is expected is that the benefits or gains should be equitably distributed, the strategy should ensure optimum productivity so as to become a viable proposition and it should be sustainable so as to permit continuation and growth.

If the present measure is assessed on these criteria, it could be seen that in the present form it does not satisfy any of these requirements. The question of equity has not been taken care of by privatisation as not all the dalits in any given village have been endowed with land. The cultivation of dry landholdings have not been productive due to the reasons mentioned above. Subsequently, this could not be termed as a sustainable strategy as it would soon become a loosing proposition. The danger of the commons getting lost in this process would also be apparent. The search for alternatives thus becomes necessary.

The search for alternatives needs to be carried out within the limits of two factors.

Firstly, the private property rights conferred upon the individuals would be irrevocable and secondly, individual small dry landholdings would be permanently unviable.

In such situations, the alternative adopted in the past has been that of joint or collective farming societies where the members pooled their lands together and practised collective cultivation. In India this measure was greatly propagated in the 1950s and early 1960s and a large number of such societies were established with active state support. Many of them were exclusively for the weaker sections. However, the single most conclusion of their performance has been that they have failed miserably. Barring a few exceptions the joint or collective farming societies have been unsuccessful because of the inherent problems of pooling the land together. labour participation, income distribution and in many cases the basic unviability of the proposal apart from the problems of weak member loyalty, lack of interest, dissension and disorganisation [Deshpande 1977]. The failures of the societies of the weaker sections have been particularly striking because of lack of institutional support, opposition from vested interests and absence of community spirit. In Maharashtra alone there were 327 joint and 892 collective farming societies in 1979. The number came down to 74 and 243, respectively, in 1987 [Commissioner for Co-operation, GOM, 1987].

If the land cannot be pooled together, the next alternative is to share other critical resources like water in a co-operative manner. The merit of a co-operative arrangement is that the members come together without sacrificing their individual or private interests. This institutional arrangement is more suitable in the present context. The scholars studying the institutional aspects of collective action have concluded that cooperative management of natural CPRs is the most appropriate of all forms of management in most situations [Singh and Ballabh 1992]. As for the cultural ethos Maharashtra offers the most conducive environment as there has been a longstanding and successful co-operative movement in the state.

The productivity of gairans has been low mainly because these are unirrigated lands. A variety of experiments in the semi-arid tropics have shown that annual precipitation as low as 500 mm could be effectively harnessed to satisfy local water requirements. The region under concern is more favourably placed as the average annual rainfall is around 800 mm. In comparison with the land sharing arrangements, those sharing water have been found to be more sustainable and efficacious. If proper

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impounding and harvesting structures are undertaken then at least protective irrigation could be provided which would increase the productivity two to three times.

The productivity of gairans could also be increased if, along with cereal crops, a mix of trees, grasses, legumes, herbs and bushes could be grown. This was the produce the gairans used to yield earlier and their physical characteristics are extremely suitable for a combination of trees and grasses. It was noticed that agro-climatically fruit trees and orchards could be more favourably grown which would also have commercial value. In tropical countries agro-forestry has been found to be more beneficial than mere farming. While growing trees the problem of gestation period could be solved by assured wage-labour under the employment guarantee scheme (EGS). Since its inception in 1977, a massive public works programme was undertaken in Maharashtra which not only provided wage labour to millions of workers but also created capital assets like percolation tanks which helped in reducing the severity of drought conditions. The EGS in its current form has only been a lean season guarantee. This cover could be extended throughout the year.

Once an institutional arrangement is established (preferably for sharing water) then other crucial inputs like seeds, manures, fertilisers, insecticides, agricultural implements as well as agricultural expertise in production and marketing could be shared. This would not jeopardise the present private property foundation and would leave plenty of room for individual initiative and enterprise in a collective setting.

In practical terms this would mean that the privatised plots of gairans should be treated as 'Agro-Forestry Plots' granted to the members of weaker sections. With proper protection, conservation and regeneration these plots would yield much more than what the gairans used to yield earlier or what they are yielding at present. During the course of investigation a rough estimate was prepared for five villages and it was found that through this technique gairans could generate surplus bio-mass produce that could be shared with other members of the community. Thus the aspect of equity could be also taken care of. It was in fact realised that it would be possible to involve all the poor in such a sharing arrangement which would be productive as well as sustainable.

The premise of this strategy lies in the belief that poor people can come together and utilise their natural resources to their advantage. This ot course would need considerable motivational and organisational inputs. In the present context these could be ideally provided by voluntary organisations (NGOs). Maharashtra has been known for a tradition of social reforms and voluntary social service. At present a number of voluntary organisations are operational at the grass roots level. The present issue provides an ideal opportunity to all voluntary organisations. The issue is related to the core process of agricultural production and deals directly with the livelihood interests of the poor. If these organisations decide to provide motivational inputs in selected villages, then it is quite possible to establish institutional arrangements for sharing the benefits of the commons in an equitable and sustainable manner. After the earthquake, considerable amount of funds have come to Marathwada. from both governmental and non-governmental agencies. This inflow of capital could be meaningfully used for undertaking the constructive measures mentioned above. It would thus serve both the pragmatic and long-term interests. The sense of deprivation experienced by dalits could also be minimised as they would be involved in the mainstream process of social and economic development.

#### Notes

[This is a concise version of the paper presented at the International Congress on Agrarian Questions held at Wageningen Agricultural University (NL) in May 1995. I am thankful to H Bedi of Community Aid Abroad, Pune for financial support and to Tatya Kamble of Sarvangin Vikas Sanstha, Latur for field assistance. The usual disclaimers apply.]

- i This is symptomatic of the general trend found in the arid and semi-arid regions where land allocation have reduced CPR lands to a small area (on an average 20 ha per village) which is typically heavily degraded and under open access usage [Arnold and Stewart 1991:21].
- 2 The seminal contribution in this regard is by Jodha (1986) but there are other studies as well.
- 3 It is a countrywide fact that common property resources in dry regions are considerably smaller in area than those in wet mountainous regions [Arnold and Stewart 1991:8].
- 4 A person holding less than 2 ha of dry land equivalent is considered poor in the literature on CPRs (Jodha 1986:1171).
- 5 This has been the rallying point of the pani punchayat experiment in Pune district of Maharushtra Its main argument is that water should be treated as common property and should be distributed in terms of per capita requirement and not in terms of rights in land. The technical and social viability of the programme has been well established [Bokil 1990].
- 6 The community fodder farms in Kheda district of Gujarat are a good example where the previous grazing lands (gouchars) are converted into a more efficient system of providing the biomass needs [Shah 1989].

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# Misinterpreting Unfree Labour in Contemporary Haryana

Tom Brass

IN his latest, and it has to be said more strident, contribution to a series of exchanges with me about unfree labour in Haryana, Jodhka (1996) introduces no new information or ideas. Since the points raised by him in his previous contributions [Jodhka 1994, 1995] have been answered by me in Brass (1995, 1996), there would normally be no need for me to respond to his latest one.1 However, apart from fairly innocuous points, such as attributing to me an old view (about worker agency) and a new one (the 'two class model'), neither of which I hold, questioning my point about landholder bias and making symptomatically unsustainable claims about the decline of landholder power, Jodhka's latest contribution also contains two rather obnoxious points: a baseless innuendo about intellectual appropriation, and the invocation of a nationalist discourse, the object of which is intellectually and politically exclusionary. Since these cannot be permitted to pass unchallenged, I will deal with all of these points briefly.2

Complaining once again that I attribute "no agency to workers at all", Jodhka (1996:1286) repeats what by now even he must surely know to be an untrue assertion: that my view corresponds to one of "an absolutist power structure where labourers have no space to bargain and contest". About this continuing (mis)representation of my views two things can be said. First, and as I have pointed out ad nauseam it is precisely because workers exhibit agency in the form of a growing consciousness of class that landholders in Haryana increasingly resort to the debt mechanism as a method of waging class struggle 'from above'. That the latter is effective is clear, not just from what the labourers themselves have to say on this subject but also from what Jodhka states in his thesis. And second, what he forgets - or perhaps does not know - is that even chattel slaves were able to pursue specific kinds of agency, the exercise of which did not obviate the unfree nature of their relation.4 Jodhka fails to comprehend that an important difference exists between a free labour market (a direct exchange between worker and employer) and a free market in labour (an indirect exchange involving only employers or the latter and contractors). To regard the presence of labour-power in both transactions simply as evidence of free labour, and thus worker agency, is palpably nonsensical.

The next point - that I operate 'a two-class model' based on a landlord/labourer dichotomy, as a consequence of which I maintain "that a powerful class of landlords is still in control of the politics and economy of contemporary rural Haryana" [Jodhka 1996:1286, 12871 -- is of course nonsense on stilts. Excluding quotations from other sources and informants, the term used by me with reference to contemporary Haryana is not 'landlord' with its implications of precapitalist (= 'feudal'/'semi-feudal') relations of production and political power but rather 'landholder'.5 As is clear not just from my article on Haryana [see, for example, Brass 1990:60 note 25, 63 note 46] but also from everything else I have written on the subject of agrarian transformation and unfree labour. the concept 'landholder' encompasses rich peasants and capitalist farmers.

Linked to this is his equally problematic view that those who now possess economic power have shifted its focus and locus away from the village and 'outward to the possibilities of greener pastures in towns and big cities" [Jodhka 1996:1287].6 Unfortunately for Jodhka, this too is nonsense: where it has occurred, the recent expansion by agrarian capital into urban India has not been at the expense of (and thus involved a loss of interest and/or contraction in) its rural operations. Much rather the contrary, since rich peasants and capitalist farmers whose economic activity straddles the rural/urban divide, continue not just to own and consolidate property in the village but also to depend on the profitability of agricultural production in the latter context for the success of their whole accumulation project.7

Jodhka also objects to my raising the point about an inherent landholder bias in his approach to employer/workforce relations as a result of the presence of property-owning kinsfolk of his in one of the fieldwork villages, and disavows the relevance of his own 'personal context' to the way he perceives the issues in question. For a number of reasons, however, these remonstrations fail to impress (let alone persuade), not least because the point about landholder ideology is actually reinforced by so many other discursive components in his analysis (silence about the fact that employers threatened to recall debts at election time, a denial that

they were able to enforce the labour-servicing obligations of indebted workers; assertions regarding 'emancipatory trends', the non-existence/non-importance of unfreedom, its declining incidence, the powerful-workers/weak-landholder dichotomy, etc, etc).9

Invoking a recent intervention on this subject by Singh (1995) as support for his own views [Jodhka 1996:1287, note 3] cuts no ice either. To begin with, this kind of I-am-not-alone-in-thinking-this is something we can all do: that others share a viewpoint may be evidence of nothing more than the fact that they, too, are wrong.10 More importantly, the objection by Singh to the concept deproletarianisation stems from a different teleology: namely, that capitalist development requires the presence of free labour (or a process of proletarianisation), an interpretation consistent with the 'semifeudal' thesis.11 Singh's article has little to do with the substance of the dispute between Jodhka and myself whereas the latter concerns whether or not unfreedom exists and is declining, the focus of the former is on whether or not unfree relations are compatible with accumulation.12

Finally, the attempt by Jodhka to hint that his ideas and data about unfreedom have been appropriated by me is not just (and rather obviously) wrong and a disgraceful slur but hilarious.13 Although it is unquestionably the case that, like others conducting research into bonded labour, there is still much for me to learn about complex issues such as the causes of unfreedom/ attachment, its relational structure and significance for the political economy of development, etc, the implication that I remained unaware about any of these aspects until suddenly and magically enlightened about them in the context of Haryana by Jodhka himself, is actually quite amusing. As he well knows, there was indeed a process of enlightenment about the subject of unfreedom, but not quite the one his innuendo suggests. Precisely who owes an intellectual debt to whom is clear, therefore, not just from an admission by him about the origin of his own interest in this subject but also from the beginning (and crucial) portion of the chronology that he rather surprisingly omits to mention: namely, that Jodhka assisted me with some of my research in Haryana during the summer of 1987, a full nine months before he himself embarked on fieldwork for his own thesis.14

Somewhat predictably, and entirely understandable given the disintegration of his arguments in the course of these exchanges, Jodhka concludes his latest contribution by resorting to a ploy much favoured by the despurate - playing the nationalist card, 5 in my most recent contribution, the sole Hence the assertion by him that no one who is not an Indian national can possibly understand what is happening in the Indian countryside, which is as a result intellectually accessible solely to those who reside there and correspondingly inaccessible to those who do not. Unsurprisingly, this 'argument' reproduces in its classical form not merely landholder discourse but the ideology of its historically most powerful component, the landlord class. Amongst other things, therefore, such a discourse asserts that it is only landholders - the permanent and hence 'authentic' custodians of the Indian countryside - who can know 'their' workforce, what it thinks and thus what it really wants. This xenophobic turn on Jodhka's part is most regrettable, and constitutes yet more evidence (if this were needed) of the discursive connection between his analysis and landholder ideology.

#### **Notes**

- 1 Jodhka should rest assured that he personally has not 'unsettled' or 'disturbed' me in any way whatsoever. As always, my only quarrel is with inadequate theory, inappropriate methods, and the inaccurate claims to which the latter give rise.
- 2 It also gives me an opportunity to reply again very briefly - to the intervention by Singh (1995), which was published after I had already submitted my last contribution to the
- 3 Thus, for example, the following grass roots utterance: "We [labourers] want to unite, but it is difficult for us to organise unions in support of our wage bargaining, because farmers always bring these pressures [among which is the recalling of outstanding debts] against us to break our people" [see Brass 1990:63, note 45]. This is confirmed by what Jodhka (1990:255-56) himself observes in his thesis, namely that: "This category of moneylender [local farmers] does not lend merely for earning interest. Its stakes in the existing structure of the rural society are much more than any other social group. They control most of the village land. They also dominate in the village politics. They are always dependent on wage labour for the cultivation of land. They also need support of the small/marginal farmers in the village politics. Moneylending for them, is a method with which they reinforce this overall domination in village society".
- 4 In the case of the antebellum American south. for example, such agency extended from a capacity to cultivate their own small holdings or to work in local towns on the one hand, to a modicum of cultural autonomy on the other. For a variety of reasons, this kind of agency can be extremely supportive of landholder power (which is why it is permitted): not only do slaves meet a portion of the costs of their own reproduction (through subsistence cultivation), therefore, but they also generate additional income for their masters (through urban employment).

- reference to the landlord class in the sense outlined here is actually a quotation taken from a text by Jodhka [Brass 1996:240. note 20], so any strictures of his on this point should be directed at him and not me.
- 6 Although the source for this dubious proposition is Mendelsohn (1993), nothing in the latter text actually supports Jodhka's contention that landholder power at village level is declining as a result of newlyacquired urban interests. To begin with, the methodological focus of Mendelsohn's analysis of the 'transformation of authority' is restricted to the juridical process, and does not extend to the exercise of economic power. Since it is the locus where resistance is expressed, therefore, 'dispute settlement' by its very nature gives an exaggerated image of the extent and effectiveness of grass roots agency. By contrast, the absence of resistance, or its suppression, goes unrecorded in such an analysis, and is thus deemed by the unwary either not to occur

or to be of less significance. Furthermore, the theoretical focus of the text by Mendelsohn is on changes in caste rather than class relationships: his central argument is that, precisely because of the emergence of capitalist farming, the 'dominant caste' model of Srinivas and Dumont which has dominated theoretical models of rural India since independence, no longer applies (1993:816, 825, 828, 840-41). It is not the exercise of power at village level which has declined, therefore, so much as its exercise by the 'dominant caste'. To a large degree this argument coincides with my own, since what I argue is that unfree labour is not a 'feudal'/ 'semi-feudal' relationship exercised by a traditional landlord class (belonging to the 'dominant caste') but rather one that is now operated by rich peasants and capitalist farmers.

7 For the interpenetration of rural and urban commercial interests, and its connection with the new farmers' movements, see for example Banaji (1995). Jodhka's view about

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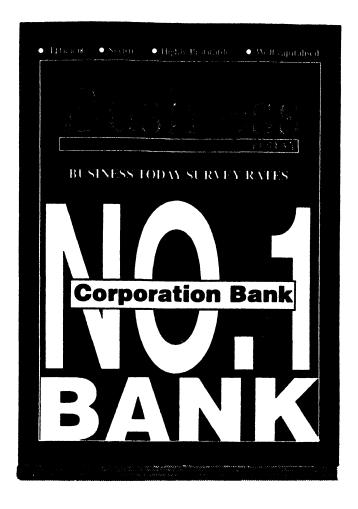
- the suffi of cuspossis (and thus nower) from rural to urban contexts is not only shared by neo-populists but also has as a sub-text the argument that, as they no longer have a significant or enduring economic interest in the village, landholders cannot possibly have a political interest either in what happens there or in the control of labour-power in such contexts. This appears to explain his belief that in Haryana, empowered permanent and casual workers face no serious opposition from disempowered landholders. As pointed out by me previously, such a view which posits the existence of powerful-workers/ powerless-employers is not merely fallacious but is in class terms also a politically disempowering discourse [Brass 1996:238-39, 240, note 23].
- 8 Having first denied the accuracy of this observation about property-owning kin, he then confirms its veracity. However, the subsequent declaration by Jodhka (1996:1287, note 2) that the holdings concerned are only 'marginal', and further that no attached labour is employed on them, remains unconvincing, not least because it fails to uddress the question that it is casual workers who are unfree. Moreover, having denied the relevance to his finding, of his own 'personal context', Jodhka then proceeds to argue that my findings are structured by my own 'outsider' status as a 'foreigner' (and a Cambridge one at that!).
- 9 There were in fact early signals to this effect. Hence the revealing comment the full significance of which escaped me at the time written by me ("SSJ says this is not bonded labour, before the truth emerges") in the margins of my 1987 Haryana fieldwork notebook during an interview with one particular agricultural labourer. Although the latter went on to outline in graphic detail the nature of the coercion exercised by his employer, it seems that Jodhka had decided a priori that no unfreedom was involved.
- 10 Characteristically, when confronted with texts that either do not support his views [such as Ahlawat], or do not support them in the way he claims [such as Chowdhry and Bhalla, on which see Brass 1996:239, note 6]. Jodhka's 'response' is silence. For my part, I could point out that much of the literature on rural Haryana supports the view of workforce recomposition and agrarian restructuring as an ongoing process [see, for example, Miller 1979:119].
- 11 As I am sure, Singh himself would agree, this is a complex issue as well as a politically important one. Significantly, much of the theoretical dispute about the presence/ absence in the third world countryside of capitalism and semi-feudalism has turned on the presence or absence in such contexts of unfree labour. this was true not only of the initial exchanges about Latin America [Frank 1969; Laclau 1977] but also of those which subsequently characterised the mode of production debate in India (Rudra et al. 1978; Thorner 1982]. Insofar as some Marxists continue to insist on the absence from agriculture of capitalism and the unbroken dominance of semi-feudal relations, however, capitalism must for them remain a politically progressive force. consequently, their 'Marxism' also remains

- trapped in the discourse of nationalism. While the latter is perfectly compatible with neo-populism (and, indeed, is its political raison d'etre), the continuing support for nationalism in a context of global capitalist development is or should be Incompatible with Marxism.
- 12 Although no one has greater admiration than I for the quality of and courage informing Manjit Singh's fieldwork (especially that involving migrant workers), it is nevertheless the case that his theoretical framework is somewhat problematic, as has been noted by me elsewhere [Brass 1986:120-26]. It is equally clear from another text [Singh and lyer 1984] that the situation he describes in Punjab for the early 1980s, when migrants from Bihar (many of whom either were or became unfree) were similarly displacing local workers (who for the most part were free), also corresponds to one of deproletarianisation. So, a parallel between both contexts does exist, albeit not the one proposed by Jodhka: insofar as the restructuring of the agrarian labour process in each context entailed work-force recomposition amounting to depro-letarianisation, the Puniab of the early 1980s is indeed like the Haryana of the late 1980s.
- 13 Of the many things that could be said about this, three will suffice. First, and as is stated clearly in Brass (1990:36), the data collected by me in Haryana were already written up by December 1987 in the form of a research report (submitted to the New Delhi office of the Ford Foundation), and it was on this that the information contained in my article was based. The first glimpse I had of anything written by Jodhka on the subject of unfree labour was when Punjab University invited me to be the external examiner for his thesis. in May-June 1990 My article on Haryana had already been written and accepted for publication (it came out in the October 1990 issue), and the references to his thesis were inserted at the proof-stage. Second, the two arguments - about both the change in the witness system and the enforcement of debts not by the landholder but by those belonging to the same caste as the indebted worker which were referred to by me [Brass 1995:698, notes 1 and 2) as having surfaced in Jodhka's article without reference to the fact that they were also contained in mine, are in fact mentioned by me not just in the article [Brass 1990:54, 65 note 60] but also and verbatim in the December 1987 report (pages 69, 105, note 155). And third, although my examiner's report on his thesis was generally favourable (an opinion that I have not changed), it was clear from the comments therein that I disagreed with his interpretation of unfree labour (which did not prevent me from recommending that he be awarded a doctorate). When Jodhka asked me subsequently (iii January 1991) for a copy of my examiner's report, I was more than happy to oblige. With hindsight, this was probably a mistake on my part, whether or not the dismissive references by Jodhka (1994) to my own views about unfree labour are in any way connected with the criticisms of his views about the same subject contained in my examiner's report is of course a matter for conjecture

14 Needless to say, the omission or this intuma and crucial section of chronology looks very much like another instance of suppressio veri. Concerning the nature and extent of intellectual debts, in a letter to me dated April 28, 1995 Jodhka admits unambiguously that: "My interest in attached labour was largely generated by you. I have learnt a lot from you...".

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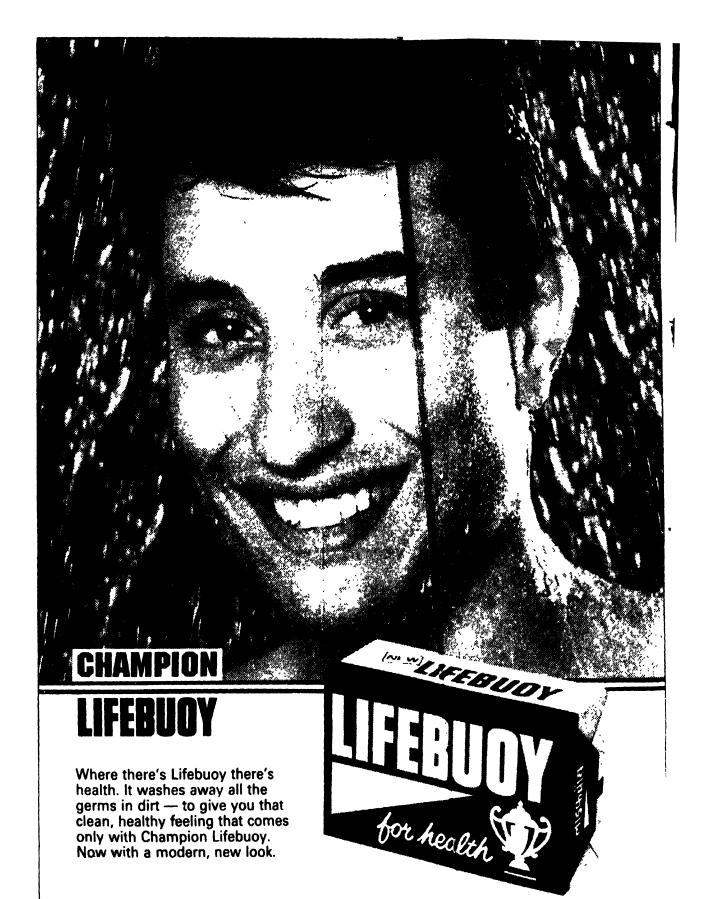
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## Themale 'Ascetic'

An this of the Brahma Kumari sect in its initial years enables us to unracirtain hidden aspects of Sindh society which account for an unput inted but successful patriarchal attempt to regulate and restrain femalicality or stimulate its self-restraint under the all-encompassing claimfeforming society. In later years, confronting a greatly changed social militie central thrust of the sect of control of female sexuality has again control to its success in breaking out of its high caste and class complexion and rving out a committed middle class urban following. 2307

## Limilisation and Kerala's Growth

Kers one of the least industrialised states in the country. Among the fact esponsible for this, the three most important are thought to be ultitant trade union movement, high cost of land acquisition and wroting power situation. Has there been a significant improvement in the croumstances in the post-liberalisation period and how do the in thent proposals the state has been able to attract compare with the red of other states?

## (stly Medicine

Tharmaceutical industry has demanded and secured several major changes in government's drug policy on the ground that the severity of price cool has hampered the industry's growth. Yet a categorywise analysis of the pass of drugs over a period of 15 years shows that there has been a great trend of prices, especially of essential and life-saving drugs. 2331

#### ying Hard to Get

sthe government's wooing of reign investors has become more diperate, the latter have stiffened thir terms. The government's own com for manoeuvre, on the other and, has grown progressively more mitted because the 'reformers' have hosen to focus almost exclusively on breign investment in the making f economic policy.

2282

## Nature-Friendly Planning

If the people as a whole are our constituency, surely no planning will be purposeful unless it be people-oriented. Primacy must be given to environment-propitious methodologies, not to technology in the abstract.

2297

#### For the Big Fish

The FAO's strategy for fisheries management is aimed at ensuring a steady supply of fish to the developed world and full employment of the fleets of the advanced distant water fishing nations.

2289

## Beginning Is the End

Yeltsin's inauguration as president on August 9 marks the real autumn of the patriarch, the end of the Yeltsin era. It also marks the beginning of a new presidential race in Russia. 2293

#### CTBT Debate

In no country, certainly not in India, is there as much awareness and sensitivity on nuclear weapons related matters as in Japan. By contrast, the debate on the CTBT in India has been both one-sided and extraordinarily ill-informed. 2275

#### Army in Nagaland

The army and paramilitary forces have been in the north-east for four decades now. Over these years their continued presence has undermined civil and legislative authority over the area and has brought a high degree of uncertainty and insecurity to the lives of ordinary people. 2284

#### **Political Funds**

The Supreme Court's judgment on the maintenance of audited accounts by political parties is a powerful blow for the cause of free and fair elections. The judgment has been rightly lauded, but its nuances need to be better understood.

2278

#### **Troubled Waters**

The decision on the height of the Narmada dam, being projected as an outcome of the meeting of ministers of the riparian states, is in reality a decision of the prime minister which, for the moment, papers over the differences among the three states.

2287

#### In Praise of RSS

ONE wishes T Mani Chowdary (August 10) had read the piece 'In Praise of RSS', a hit more seriously before coming out with his vitriol. One needs to understand different levels, layers and mechanisms through which 'an' ideology gets actualised through the actions of an individual. The reasons for which the Mahatma was killed by a votary of Hindutva, were the reasons which were being propagated by RSS. The RSS was at the forefront of criticising the Mahatma for 'appeasing Muslims', which according to RSS, in turn made them bold and due to which Pakistan was formed. The provocation for murdering him by a 'soldier of Hindutva' (Godse) came when Mahatma Gandhi advocate giving to Pakistan her share of Rs 56 crore from the treasury.

Though Godse was not assigned the task of murdering Mahatma by the RSS, it was the RSS concoction against Gandhi which created the backdrop for his being murdered by Godse. And going by the Frontline (January 1994) interview by Gopal Godse, Nathuram was a member of the RSS even at the time of his murdering Gandhi. Inspirations for such acts need not be obvious. because 'inspirations' are not commands, they are inner constructs rooted in the ideology. In this case the inspiration for the above act did come from the RSS propaganda, and the act was executed by a member of the RSS, the act was executed for the politics of Hindu Rashtra, which is the goal of the

To say that all naxalites are indulging in extortion and are killing one another, is to ignore the social phenomenon and concentrate on the aberration. One's 'class bias' is very obvious while seeing any phenomenon; it depends on this whether you see the naxalite movement as the cry of subalterns to get their rights or you just reduce it to being just an 'extortion' and mutual killing. That apart one has also to see that in the case of naxalites, and whole ML movement, despite the flaws, they had/have a totally different perception of strategy and tactics; they fundamentally differ in their understanding of society and politics from the understanding and politics of the CPI and the CPI(M). While in the case of RSS and Godse the fundamental approach to secular nationalism (i e, their hatred for it) unites them in an inseparable manner, and where they differed, was on the question of tactics. And undoubtedly it was and is the RSS which is the fountainhead of Hindu communal nationalism, which is the source of inspiration of all acts which attack either an individual who is a towering symbol of secular nationalism or a monument which has a place in secular national ethos.

For Chowdary let me state that I am aware of at least five inquiry committee reports which have come out (Reddy, Vythayathil, Venugopal, Madon and recently Bhagalpur), and to quote Basu et al (Khakhi Shorts Saffron Flags, Orient Longman, 1993, p 20) "At least three commissions of inquiry —

Reddy, Vythayathil and Venusop have found RSS inspiration behind an alim and anti-Christian riots, not so as direct cadre participation, but through term and sustained communal product.

In the case of RSS the front org lions (controlled by RSS 'pracharaks' a are working for the RSS agenda indu Rashtra. It is a mere division bour between the patriarch (RSS the organisations like BJP, VHP, Ba Dal, Adivasi Kalvan Ashram, etc, who are controlled by the RSS. Techr ately core organisation is responsible actions of its front organisations bu and ethically it is.

An organisation which strait-jate the role of women, workers and other such rase can be nothing but working for 'author and model of society. The fact is 'ng are anathema for this right wing organior (workers have to 'produce' for the organized to be part of a family headed industrialist, women are adviced to the ideal housewives, mothers and daures under the patriarchal supervision husbands, sons and fathers). The winds Sangh parivar is subtly 'attacher reservations for the disadvantaged section of society, is meant to uphold the 'quo' which in today's social matrix at the hegemony of upper castes/class. this is not authoritarianism'?

When I say the RSS is at the roccommunalisation of society, I mean to society. One is aware of the role of Muccommunalism and its negative impact society. As a matter of fact what started is not a valid question. One can very supplement a big list of Hindu communations even before the formation of R Both communalisms (Hindu and Musl started parallel to each other. Both communalisms did begin together, in response

secular nationalism and both these hated 'secular nationalism' (Gandhi-Nehru), both boosted each other, both were aloof from the freedom struggle and both created 'fear' of the other, within their own constituency. Since partition Muslim communalism is on the defensive, while the RSS brand Hindu communalism is on the offensive and is the communalism of today's society. It is RSS which has systematically propagated 'hate Muslim' ideology, it is RSS whose 'shakha boud-hikks' (intellectual sessions) train the volunteers in the communal, Hindu Rashtra doctrine. Muslim communalism is equally condemnable, in today's society it performs the function of oppressing poor Mulsims and giving the necessary provocation to Hindu communalism, but all said and done it is the Hindu communalism spread by RSS which is the real threat to today's society.

One does not hold a 'brief' for 'communist' parties and their non-democratic practices in the erstwhile socialist states and elsewhere. Despite all the drawback and dictatorial policies most of the communist parties transformed their countries from feudal empires in the direction of modern industrial societies. Their role is to be contrasted with the military and other dictators who reduced their countries to banana republics, and puppets in the hands of American imperialism. But nothing whatsoever justifies the suppression of democracy, democratic norms and values, whatsoever be the given circumstances. And only in that sense I share with Chowdary, a condemnation of communist parties for their suppression of democratic rights. The mistakes of communist parties are no justification for the current oppressive 'philosophy' and practices of the RSS.

P R RAM

Mumbai

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## Back in the Red

THE deterioration in the performance of sheduled L commercial banks in 1995-96 and the fears hat the situation may worsen in the current year must surprise those who had taken the authorities' claim that the recess of cleaning up the banks' balance sheets had been completed by 1994-95 itself. To any objective observer, however, it was clear that the way the government had gone about the ask was replete with problems and was not sustainable in the medium term. Broadly, the approach has been that the finanial system exists for its own sake and the objective of rebuilding the balance sheets of banks and financial institution had to be pursued irrespective of the costs this imposed on it government budget and the real sectors of the economy. In consequence, the economy has had the worst of bothlie worlds: the working of the financial intermediaries has ben such as to hinder the growth process and the financia institutions themselves have been hard put to it to come ou of the red.

It is a fact that over the years the banking adustry had accumulated a variety of problems associate with rapid growth, but all the same the fundamentals of blic sector banking had remained strong. Despite the operational inefficiencies and the phenomenon of disintermedation, banks had been consistently attracting high deposit gowth, thanks largely to the public confidence that governmat ownership had conferred on them. Also, the banking indury had come to accept lending to the far-flung sectors of the sonomy as its primary function. Of course, the industry was unently in need of revitalisation, but the blanket application i mainstream stabilisation and structural adjustment programmes to the financial system has actually destabilised the system, for which the economy will have to pay dearly wer the years. What was needed instead was a more discrimnating reform that would have addressed with vigour (a) the poblem of loan recoveries and non-performing assets, (b) th#application of prudential accounting norms, namely, income recognition and asset classification, and (c) the subject or evitalising the management and internal structures of banks including issues relating to profit planning, costing of perations, staff motivation and enforcement of performancicriteria, proper housekeeping, balancing of books and reconfiliation of interbranch and inter-bank transactions. A most discriminating approach in the application of provisioning requirements would, for instance, have treated investment in sovereign securities differently from the present insistence on a sizeable proportion (50 per cent) being marked to market or the prescription for balance sheet valuation of 14 per cent yield to maturity for the 10-year securities which did not have a quotation in March 1996. These obsessions are rooted in the RBI's blind faith that it was possible to create overnight a large secondary market for government securities, ignoring the fact that large trading in government securities would necessarily require a narrowing of the difference between their yield rates and interest rates on commercial instruments such as CDs, CP and bills — in other words, profound structural changes in the financial system and total market orientation which are neither possible nor indeed desirable at this stage of development of the economy.

No less damaging have been the consequences of the insistence upon public sector banks and financial institutions satisfying an 8 per cent capital adequacy norm by March this year. This has been sought to be achieved by massive recapitalisation to the extent of Rs 14,000 crore provided by the government through the budget, by raising fresh capital through primary issues of bonds and equity by some banks and financial institutions in competition with the manufacturing sector, substantial upward revision of yield rates on government securities and large increases in the rates of interest charged by banks and financial institutions on their loans and advances following the freeing of lending rates. Taken together these measures have harmed the working of the financial system and the real sector in a variety of ways. The interest burden on the central budget has shot up from Rs 21,498 crore in 1990-91 to Rs 60,000 crore in 1996-97, a rise of 179 per cent in six years. The government's internal debt has ballooned during this period. Likewise, real rates of interest on both short- and long-term advances from institutional agencies have touched dizzy heights. The general interest rate structure has experienced tremendous pressure as a result, apart from the government's borrowing, of the primary issues of capital by banks and financial institutions, all of which could have been avoided if there had not been the insistence on banks fulfilling wholly premature capital adequacy norms.

The most damaging effect of the banks' attempt to fulfil the capital adequacy requirement is to be seen in their growing reluctance to pursue their normal activity of lending to the productive sectors. Instead they have preferred to make substantial investment in government securities; despite a sharp reduction in statutory liquidity requirements, the ratio of banks' investments to their demand and time liabilities has remained virtually unchanged in the past six years, at 35.4 per cent in March 1990, 34.9 per cent in March 1995 and 34.3 per cent in March 1996. There is enough corroborative direct evidence of banks shying away from normal commercial lending.

It may be claimed that the operational performance of banks has not been as disappointing as their balance sheets suggest.

Though the nationalised banks have moved from a net profit of Rs 270.57 crore to a net loss of Rs 1,122.23 crore, the number of loss-making banks has declined from 12 in 1994-95 to seven in 1995-96 and the bulk of the loss, of as much as Rs 1,336 crore is attributable to a single bank (Indian Bank) due to a series of irregularities. The banks' non-performing assets ratios have come down. Also, only eight of the 27 public sector banks have failed to fulfil the required 8 per cent capital adequacy norm. But, as pointed out above, these improvements have been secured at a heavy cost to the exchequer and the economy. Further, it does not also appear that these improvements will be enduring; in fact all indications are that 1996-97 will be yet another year of deteriorating performance. Also, their financial performance apart, the persistent reluctance of the public sector banks to engage in normal lending activity will be damaging to the growth of the economy. Even their performance in terms of their priority sector lending as a proportion of their total advances is exaggerated because of the slow growth of the latter.

#### **HUMAN DEVELOPMENT**

## Pie in the Sky

ACCORDING to the Human Development Report 1996, the world has become more polarised than ever before. The ratio of the shares of the richest and the poorest increased from 30:1 to 61:1. Points out the report, "Development that perpetuates today's inequalities is neither sustainable nor worth sustaining". There is much that is wrong with the growth patterns of third world/ developing countries. Sometimes the growth has been rootless; that is, in pursuit of nationbuilding goals governments have imposed impossible conditions on the people, wiping out minority cultures or marginalising those who do not contribute to or subscribe to the dominant cultures. Growth has also been voiceless in many countries where political repression and authoritarian governments have nevertheless enhanced the indicators of economic growth.

The polarisation is also reflected within countries: the gap between the richest and the poorest in many countries, especially those with shrinking incomes, has grown sharply. Overall although life expectancy in most developing countries has increased, it is still not what is obtainable in the developed countries. And this is necessarily a consequence of the deprivation in health, with the very young and women continuing to temain vulnerable. Notwithstanding the incremental human progress in some of these countries, it is not a picture which spells

hope. There is clear indicat iton that with exceptions the lack of econ-tonic growth rooted in the specific social and cultural and therefore political traditions of individual developing countries is disastro out or human development. If indeed the growth ruthless as the report says it is in so mad nyd veloping countries, this is often due to their adopting universalised solutions prescribed by multilateral benefactors. And if the growth has been voiceless, again the perpetrators and promoters of such development have been aid-givers and global conomic interests. And yet amazingly the HDR can with equanimity prescribe yet more formulae for sustainable and equitable growth: a political commitment to full enhancement. enhancing human capabilities, strengthening small-scale and informal production, broader and more egalitarian access to land, and research into labour-intensive technologies.

These prescriptions become particularly interesting when we look at the human development trends in developed countries. More than 100 million people in OECD countries live below the national poverty lines; more than five million are homeless this in countries which have registered expanding economic growth. The per capita income of the poorest in the US is less than a fourth of the country's average per capita income and in Japan it is nearly half. In Australia and the UK the richest 20 per cent earn 10 times more than the poorest 20 per cent. Income distribution in the UK has over the last 30-odd years become more unequal. There is also an unequal distribution of assets: in the US in 25 years the richest per cent of the population expanded their share of assets from 20 per cent to 36 per cent. Unemployment rates have risen, there are more than 30 million looking for work to ay. The wage rate for women, another indicator of human progress, is still only two-thirds that for men; nor are women secure in their societies. While life expectancy has continued to rise, it also means that more than 13 per cent of the population in these countries are over 65 years old and more than 30 million people are over 80 years old. This is bringing its own problems - apart from the need or specialised health care and support services, it also means that these countries have to generate enough revenue to afford some protection for the older people. Interestingly, while industrial countries have higher enrolm and literacy rates, there is growing concern about falling standards and number of the technically qualified, given that on a third or less of students take technic courses or read for natural sciences degree Thus not only may incomes be becomin polarised but the opportunity to acquire incomes too may be shrinking. Add to this what the UNDP report has to say on the state of political participation in these societies; union membership, an indicator as the report points out, of the strength of civil societies and of how much voice the productive sections of the population have, has been falling in most industrial countries (the exceptions being Denmark, Finland and Sweden).

These societies are also becoming increasingly insecure, having repercussions on the social fabric. This is seen not only in the increase in violent crime, traffic accidents and addiction but also in the violence against women and increasing incidence of child abuse. In many developed countries marginal indigenous populations are rapidly being wiped out due to one or the other reason. It is a measure of the blinkered approach of the HDR that, in spite of the facts and figures. there is little comprehension of the fact that the impending human disasters in the industrial world (and elsewhere) are a result of the political-economic trajectory being traversed by the industrial countries. There is no way that 'humanising' components gender equality, increased social spending by the state or good governance - can alter the primarily rapacious nature of global capitalism.

#### **POLITICS**

#### **Congress Game**

THOUGH the Congress has said repeatedly that it is lending 'unconditional support' to the United Front government, it is clear from the course of events that the party and the party president personally have made the support bargaining counter to bolster their positions. The tactic has been craftily deployed by Narasimha Rao not only to keep the UF government on tenterhooks but also to beat back the growing dissidence against his leadership within the Congress.

The hue and cry raised over the alleged surveillance of Narasimha Rao's residence and tapping of the telephones of senior Congress leaders, including Rao, appears in retrospect to have been aimed at countering the efforts of Congress dissidents to join the UF government. Reports of talks between prime minister Deve Gowda and Congress dissident leaders K Karunakaran and Sharad Pawar had been appearing in the newspapers. By publicising reports of phone tapping directed against Congress loyalists, Rao was able to have Deve Gowda rushing to his residence to 'clarify' the matter and thus succeeded in reasserting his command over the party.

But CBI disclosures of the mind-bogglin booty amassed and hoarded by Sukh Ram the telecom minister in Narasimha Rao' government, is a different kettle of fis

altogether. When the opposition had levelled charges of corruption against Sukh Ram, Narasimha Rao had gone out of his way to defend his minister in parliament. But the CBI revelation have brought out close business links between Narasimha Rao's son Prabhakar Rao and the promoter of 'Advanced Radio Masts, Patalu Rama Rao, who has been pinned down by the CBI in one of possibly many telecom scams. Narasimha Rao who is already facing charges against him in a cheating case and a bribery case and has his kins involved in various financial scandals has decided on attack as the best form of defence. By issuing a veiled threat of withdrawing support on the ground that the UF government was diverging from Congress policies, Narasimha Rao again had the prime minister Deve Gowda scampering to his residence. The Congress can order home minister Indrajit Gupta to keep his hands off Congress Party affairs, but the prime minister cannot evidently stand up and assert that the Congress cannot dictate to the UF in policy matter.

The prime minister himself needs Narasimha Rao's backing to ward off attacks by constituents of the UF. This is clear from the way the Andhra Pradesh Congress has remained mum over the Alamatti dam row that has been raging between the Telugu Desam Party and the Karnataka Janata Dal. Further, the prime minister looks upon himself as a crusader against the BJP. In his excessive zeal to cut BJP down to size he seems to overlook regional political variations. His hour-long meeting with Bal Thackeray when the latter's party has been cornered by charges of extortion, illegal eviction of tenants and murder in the state, and sparing hardly 10 minutes for meeting Janata Dal party workers are little short of blunders of political judgment. CM Ibrahim, the prime minister's close confidant, showed his political ineptness when at a meeting at Bhendi Bazar in Mumbai he argued that since the Shiv Sena is inspired by Shivaji who was not against Muslims, the Sena should disassociate itself from the communal BJP. The attempt at driving a wedge between the saffron partners was so ill-timed that it has provided the besieged Narasimha Rao with a pretext to question the secular credentials of the UF and to extort further a price of Congress support.

**BHOPAL DISASTER** 

## Hope, of Sorts

THE United Front government's decision to revive the extradition proceedings against Warren Anderson who was chairman of Union Carbide at the time of the 1984 disaster is no doubt a commendable long-delayed.

move. To he isousands of victims in Bhopal, Anderson presents a company which has wrecked the lives. But even more than the disaster, An erson and his ilk have come to be seen as the perpetrators of the Orwellian disaster with followed, of doublespeak, shrouds of the recy, deliberate misinformation campaigns cientific jugglery and blatant and system is distortion of truth. That the Indian goe inment has chosen to all but abandon to proceedings seeking to get Anderson of face the charges in court has been a shreful reminder of the extent to which desliping countries are beholden to multinatings.

Whethrais decision of the government, taken appently at the initiative of the external fairs minister after a meeting of a delegation of victims with the CPI general secretar will actually be acted upon is of course you be seen. It is useful to recall that it was at Congress government which dragge atts feet over the extradition proceed as and, before that, played out the farce charresting him when he landed in India cit to immediately release him. Given the cupit political circumstances whether the La parties will be able to force the Unite Front government to show greater interest in the Bhopal proceedings in court is a monguestion.

Eva more remote is the possibility that the overnment will revive interest in reserching the consequences of the gas expoure on people's health. The ICMR has long closed down its research units and transerred some of the projects to the state govament, which is now employing staff on and hoc basis and might well close down therojects with little or no notice. This is a dister not only in terms of the loss to the research literature on an extremely hazardous sustance which continues to be manufaured elsewhere in the world, but also mans that the follow-up on medical treatment of the thousands who are suffering will cotinue to be ad hoc and symptomatic. Far wase of course is the case of the dependents othose who have died because of exposure take gas but are unable to prove the causality. nust often because no clear prognosis is railable of the gas-affected. No official tempt has been made to use alternative thods for determining causality, such as e verbal autopsy method. (The method mprises collating information on the dead rough interviews with their next of kin and brough available documents and getting

such information scrutinised by an independent medical authority who can arrive at a diagnosis of the cause of death.) The method has been much discussed in academic circles and has been used extensively to assess causes of childhood deaths and maternal deaths and has been used experimentally in rural South Africa and England. While experts agree there is a great potential for using the method in Bhopal or similar disaster situations where adequate documentation is not available to prove causality, it needs to be tested out in Bhopal. Today this appears to be the only way that the survivors of breadwinners who died after long illnesses connected with the disaster can hope to get recompense. Not surprisingly, of course, no state agency in the health and medical research field has been interested in conducting these exploratory investigations.

VIP SECURITY

## Threat to Citizens' Rights

SECURITY arrangements for VVIPs, which have become a threat to the movement of ordinary citizens in the streets, have now begun to impinge on the privacy of people in their own homes too. During prime minister Deve Gowda's recent visit to the Sitaram Bhartia Institute in the capital, not only were the roads cordoned of f, but the police entered the house of a professor living nearby and took complete control of the terrace of his house for hours together, since it provided them with a vantage point from which to cover the prime minister's route. When the professor protested he was hauled up by the police on the charge of 'preventing public servants from executing their duty'!

Some months ago, the daughter of the eminent diplomat the late Badruddin Tyabii complained in the pages of a national daily how even before she could recover from the shock of her father's death, security forces entered her house, snooped around every nook and corner, and then billeted themselves in her kitchen ordering tea and snacks - all in the name of protecting the vice-president who was to visit her place to pay condolences on her father's death. Quite recently, as a result of the vice-president's visit to his dental surgeon in Connaught Place in New Delhi, people were trapped inside the building (which houses a large number of offices apart from the dental clinic) and outsiders were not allowed in, as security forces

#### **Special Number**

In view of a Special Number to be published in early September, there will be no weekly issues on August 31, September 7 and 14.

clamped a cordon around the premises as long as the vice-president remained closeted with his surgeon

Our people appear to show incredible patience in accepting all sorts of inconvenience caused by the gun toting security forces acting under the olders of their masters, the VVIP politicians. Not a single private individual nor the numerous human rights groups are known to have approached the judiciary to put an end to such regular harassment of the public, which apart from being extremely humiliating to anyone having an iota of self respect, violates the citizen's fundamental rights and the right to privacy

It may be worthwhile comparing the security arrangements provided for the president the prime minister and the ever increasing flock of VVIPs in India with those prevalent in other democracies to protect politicians in similar important positions Even in dictatorial regimes, where unpopular rulers are more vulnerable to assassination attempts, one rarely comes across such ceremonial displays of paranoia as one witnesses in the streets of Delhi or other parts of our country whenever a VVIP chooses to travel or visit a particular spot (which during the visit is turned into a highsecurity enclave with restrictions imposed on the movement of its residents) Journalists who have been in the capitals of countries in south and south-east Asia passing through the worst periods of dictatorial rule -Islamabad under Zia, Dhaka under Eishad Manila under Marcos, Bangkok under military regime – find it difficult to remember experiences there as unpleasant and insulting as Indian citizens face in Delhi, even when engaged in the innocuous task of crossing the road during a VVIP's trip along that route and the rough treatment that he/she gets from the security guards

Yet it is the revenue provided by these citizens - recovered by the state in the shape of taxation - that is being spent on protecting their rulers and politicians which in the process, deprives these citizens of their fundamental rights. According to one estimate, the annual expenditure borne by the centre on providing security for these politicians has crossed Rs 1,000 crore. The National Security Guard (NSG) which was raised as a crack force to tackle anti-sabotage and anti-hijacking operations, now spends a large chunk of its Rs 55 crore annual budget on protecting 19 VIPs including among others the former Lanul Nadu chief minister Jayalalitha (against whom criminal cases are pending) and former MP Sajjan Kumar (who stands indicted by government appointed commissions for complicity in the 1984 massacre of Sikhs in Delhi)

It is ironical, but sad at the same time, that a veteran Indian communist is a party to such

shameful decisions as the home minister in the present government. Like many other proposals announced by Indrajit Gupta with tantare in the first flush of his ministerial role his brave decision to withdraw security cover from undeserving VIPs and thereby curtail expenditure had to be hastily withdrawn following pressures from politicians who wield more clout than Gupta in the United Front cabinet. So the NSG 'black cats' continue to protect political

leaders who are arraigned before the court: Under what law can they enjoy stat protection?

While posing this question to the hom minister, the democratic rights organisation movement have also to decide when they ar going to take up the issue of the daily violatio of the fundamental rights of Indian citizen by the VVIP and VIP security arrangement that are formulated by the union hom ministry?

## Senior Consultant Mahila Samakhya, U.P.

Mahila Samakhya, Uttar Pradesh is a women-centred educational programme, mobilising women for empowerment The programme facilitates rural women's initiatives for change Mahila Samakhya, U.P. is part of the Mahila Samakhya Programme of the Department of Education, Ministry of Human Resource Development, Government of India

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The annual inflation rate, continuing a steady rise, touched 5.4 it. The latest data for scheduled commercial banks show a deposit growth of 3.8 per cent compared to a fall of 0.6 per cent in the same period last year. Exports re14.6 per cent in the first quarter of 1996-97 and imports by 14.4 per cent (POL imports by 44.2 per cent) and the trade deficit widened to \$1 bit. Petroleum prodapital goods and chemical products continue to contribute to the sharp import growth while food and live animals, ready-made cotton garments. gems and jewel@emicals and chemical products and capital goods constitute the chief exports. Foreign currency reserves have touched \$18 billion. \$822 million having been since the end of March.

#### Macroeconomic Indicators

| Wiacroeconomic in                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                        |                                         |                                  |                  |                          |                    |                                         |                           |                                         |                       |
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| All Commodities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 100 0                  | 311 97 0 8                              |                                  | 89               | 4.3                      | 3.2                | 4 9                                     |                           | 108                                     | 70                    |
| Primary Articles Food Articles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 32 3                   | 327 0 16                                |                                  | 8 8<br>7 8       | 6 I<br>7 9               | 3 I<br>6 O         | 57<br>97                                |                           | 115<br>44                               | 3 ()<br>5 4           |
| Non-Food Articles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 17 4<br>10 1           | 371 3 19<br>332 × 13                    |                                  | 108              | 43                       | 22                 | 11                                      |                           | 24 9                                    | 14                    |
| Fuel, Power, Light and Lubrican                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | nts 107                | 324 06                                  |                                  | 16               | 134                      | Õĩ                 | o i                                     |                           | 13 i                                    | 152                   |
| Manufactured Products                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 57 0                   | 301 ( 0.4                               |                                  | 10.5             | 16                       | 39                 | 5.4                                     |                           | 99                                      | 79                    |
| Food Products Food Index (computed)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 10 1                   | 290 18<br>341 19                        | 3 2<br>7 5                       | 39               | 67<br>75                 | 3 3<br>5 1         | 0 1                                     |                           | 12 3<br>7 0                             | 68                    |
| All Commodities (Average Basi                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 27 5                   | 341 19                                  | / '                              | 6 5              | , ,                      | , 1                | 6 6                                     | 10 6                      | 70                                      | 5 8                   |
| (April   August 10, 1996)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 100 0                  | 306                                     | 60                               | 99               | 48                       | 6.2                | 77                                      | 10 9                      | 83                                      | 10.1                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        |                                         |                                  |                  | riation (P               | er ( ant )         | Doubt to E                              | Zornt                     |                                         |                       |
| Cost of Living Indices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                        | Mont Over                               | Over 12 Mo                       | nthe             | Fiscal Yea               | r So For 1         | 995 96                                  | 1994 95 1                 | 001 04 1                                | 002 01                |
| and or saving indices                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                        | Month                                   | Latest Pre                       |                  |                          |                    | ,,,,,                                   |                           | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, |                       |
| Industrial Workers (1982=100)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                        | 33 15                                   | 8 8                              | 10.5             | 44                       | 44                 | 89                                      | 97                        | 99                                      | 61                    |
| Urban Non Man Emp (1984 85:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | =100)*                 | 20 04                                   | 97                               | 97               | 70                       | 72                 | 0,                                      | ý ģ                       | 83                                      | 68                    |
| Agri Lab (July 60 to June 61=10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        | 2 13                                    | 90                               | 121              | 2 5                      | 09                 | 7 2                                     | 11.1                      | 112                                     | 0.6                   |
| @ Based on linking facto                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | or of 5 89 betwe       | een old new sei                         | nes (1986-87≃                    | 100)             | * For                    | 1995 96            |                                         |                           |                                         |                       |
| The Particular Section advanta about the No. of Section 1886.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                        |                                         |                                  |                  |                          | riation            |                                         |                           |                                         |                       |
| Money and Parling (Da.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Aug                    |                                         | Fiscal Y                         |                  |                          | 100,               | n.c                                     | 1001.05                   | ,,,                                     | 03.04                 |
| Money and Banking (Rs ciore)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                        | 6 (Month                                | 1996 97                          |                  | 995 96<br>               | 1995               | AU                                      | 1994 95<br>               |                                         | 43 94<br>             |
| Money Supply (M <sub>3</sub> )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                        | 5 99 (0 0)                              | 25239 (4 2)                      |                  | 84 (2 1)                 | 71034 (            |                                         | 78617 (17.4               |                                         | 7 (19 3)              |
| Currency with Public Deposits with Banks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 12234                  | 7 32 (32)                               | 4186 (3.5)                       |                  | 43 (7 2)                 | 17372 (            |                                         | 18806 (22 9               |                                         | (20.9)                |
| Net Bank Credit to Govt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                        | 0 704 (1.4)                             | 18945 (3.9)                      |                  | 15 (0 1)                 | 53702 (<br>34994 ( |                                         | 58956 (16 0<br>16325 (7 9 |                                         | 5 (18 7)<br>5 (16 3)  |
| Bank Credit to Commis Sector                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                        | 8 06 ( 0 8)<br>6 64 (0 0)               | 21108 (8 2)<br>65 (0 0)          |                  | R3 (9 7)<br>16 (1 6)     | 51246 (            |                                         | 14491 (18 4               |                                         | 51 (7.5)              |
| Net Foreign Exchange Assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                        | 5 707 (2 1)                             | 5388 (7 0)                       |                  | 4 ( 0 6)                 | 1233               | (16)                                    | 21298 (44 3               |                                         | (110.9)               |
| Reserve Money                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 18536                  | 2 389 (-4 3)                            | 8975 ( 4 6)                      | 653              | 25 (3.9)                 | 25058 (            |                                         | 30608 (22-1               |                                         | 2 (25.2)              |
| Net RBI Credit to Centre                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                        |                                         | 12292 (10 3)                     |                  | 9 (187)                  | 19855 (            | 20 1)                                   | 2130 (2.2                 |                                         | 50 (0 3)              |
| Ad hoc Treasury Bills<br>Scheduled Commercial Banks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 4202                   | () 9520                                 | 12575                            | 1544             | 5                        | 5965               |                                         | 1750                      | 61                                      | 00                    |
| Deposits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 44060                  | 6270 (1 4)                              | 16336 (3.8)                      | _230             | 0 ( 0 6)                 | 45486 (            | 118) 4                                  | 53630 (16.1               | 5214                                    | 4 (18 6)              |
| Advances                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                        | 3 968 (-0 4)                            | 1617 ( 0 6)                      |                  | 79 (0 0)                 | 40540 (            |                                         | 10638 (23 8               |                                         | 56 (7 3)              |
| Non Food Advances                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 23953                  | (-01)                                   | 2773 (11)                        | -226             | 3(11)                    | 43024 (            | 216)                                    | 37797 (23 4               | ) 88'                                   | 75 (5 8)              |
| Investments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 174730                 | (5716 (3.4)                             | 10595 (6.5)                      | 529              | 93 (3.5)                 | 14887 (            | 10 0)                                   | 14172 (10 5               | 2864                                    | 1 (26 9)              |
| Based on March 31 figures aft<br>March 29 1996                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | er closure of go       | rnment accour                           | us except for                    | 1997             | o (tuii ye               | ar) and 19         | 140 A1 MI                               | nerc the bar              | iking data                              | i te iate i           |
| Manager and the second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second |                        |                                         |                                  |                  | T 1 No.                  |                    |                                         |                           |                                         |                       |
| Index Numbers of Industrial W<br>Production (1980-81=100)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                        | 1005.04                                 | 994 95 199                       | 93 94            | 1992 93                  | ar Avera:          |                                         | 00 91 19                  | 89 90 7                                 | 000 00                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        |                                         |                                  |                  |                          |                    |                                         |                           |                                         |                       |
| General Index                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 100 0 332 2            | 84 3(12 1) 25                           | 3 7(9 4) 231 1                   | (56)             | 218 9(2 3)               | 213 9(0            | 6) 2126                                 | (8.2) 196                 | (86) 18                                 | 0 9(8 7)              |
| Mining and Quarrying<br>Manufacturing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 11 5 340               | 265 7(6 9) 24<br>78 9(13 7) 24          | 8 5(7 3) 231 2<br>5 4(0 4) 222 2 | 2(3 4)<br>2(5 5) | 2247(06)                 | 222 5(4            | 5) 221 2<br>8) 207 9                    | (6 3) 211 (               | 1((4) 19<br>1(86) 17                    | 9 1( 1 /)<br>5 h/8 7) |
| Electricity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 77 I 327 2<br>11 4 364 | 340 0(8 I) 31                           | 4 6(8 5) 222 2                   | )(7 4)           | 269 9(5 0)               | 257 0(8            | 5) 236 8                                | (7 8) 219 7               | 109) 19                                 | 8 2(9 5)              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        |                                         |                                  |                  |                          |                    |                                         | End of Fisc               |                                         |                       |
| Capital Market                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Augus3,<br>199         |                                         |                                  |                  | Irough                   |                    | 1995 9                                  |                           |                                         | 993 94                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        |                                         |                                  |                  |                          |                    |                                         |                           | -                                       |                       |
| SSE Sensitive Index (1978 79=10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                        |                                         | 0 15 10                          | 4069             |                          |                    | 3367(3.3)                               | ) 3261( 13<br>) 1606( 12  | 7) 3779                                 | 9(65.7)               |
| National Index (1983 84=100)<br>BSE-200 (1989 90=100)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 1563(2)                | 1627 1566(-                             | -25 5)   1549<br>  31 7)   345   |                  |                          |                    |                                         | ) 1606(-12<br>) 368(-18   |                                         | 0(79.2)               |
| VSE (Nov 5 1995=1000)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 346 8)<br>)[3          | 1051                                    | - 976                            |                  |                          | -                  | ,-4 / ( 1/ ).                           | , .011( 10                | 2) 4,                                   |                       |
| Skindia GDR Index (Apr 15 1994                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | =100) 69( 16)          | 77 86(-                                 | -29 3) 63                        | 90               | ) 61                     | 91                 | 79(1.3                                  | )                         | 78                                      |                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Reca                   | ist BSE sensex                          | but variation o                  | ver the          | old index                |                    |                                         |                           |                                         |                       |
| oreign Trade June                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Cumul ve fo            | r Fiscal Year S                         | So Far                           |                  |                          |                    |                                         |                           |                                         |                       |
| 1996                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                        | 1995 96                                 | 1995 90                          | 6                | 1994 95                  | . 19               | 93 94                                   | 1992 93                   | 190                                     | 11 92                 |
| xports Rs crore 9075                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 2853 24 1              | 22990 (30 6                             | 106465 (29                       | 3) R             | 2330 (18 4               | 69547              | (30.4)                                  | 51688 (21                 | 9) 44()4:                               | 2 (35 3)              |
| US \$ mn 2594                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 821,146                | 7168 (27 7                              | 7) 31831 (21                     | 4) 2             | 6233 (18 3               | ) 221/             | (20.4)                                  | 18537 (3                  | 8) 1786                                 | 6 (-15)               |
| nports Rs crore 9819                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 3177(207)              | ) 26319 (44.4                           | i) 121647 (37                    | 1) 8             | 8705 (21 8               |                    | (157)                                   | 63375 (32                 |                                         |                       |
| Non-POL US \$ mn 2111                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                        | ) 7992 (37 <sup>4</sup><br>) 6407 (41 ( |                                  |                  | 8251 (21 7<br>2538 (29 1 |                    | (2 (6 8)<br>5 (10 6)                    | 21882 (12<br>15782 (12    |                                         |                       |
| alance of Trade Rs crore -744                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | -324                   |                                         |                                  | 82               | -637                     |                    | 3259                                    | 90                        | 587                                     | 3809                  |
| US \$ mn -213                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                        |                                         |                                  | 539              | -201                     |                    | -1039                                   |                           | 345                                     | 1545                  |
| Ana                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 16, Ag 18, N           | Mar 31.                                 |                                  |                  | Variat                   | ion Over           |                                         |                           |                                         |                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 996 <b>9</b> 95        | 1996 Mos                                | nth Year                         | Fisc             | al Year So               | Far 199            | 5 96 1                                  | 994 95 19                 | 93 94                                   | 992 93                |
| xcluding gold)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                        | Ag                                      |                                  | 1990             |                          | 5 96               |                                         |                           |                                         |                       |
| s crore 64                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 207 .1777              | _                                       |                                  | -                | 201 4                    | 296                | 7 302                                   | 18402 2                   | 7430                                    | 5385                  |
| ~ ~                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 007 1732<br>948 19050  |                                         | 45 2275<br>29 - 1102             |                  |                          |                    | 7 102<br>3690                           |                           | 8724                                    | 731                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <u> </u>               | 1/140                                   | - 11/4                           |                  |                          |                    | · * * * * * * * * * * * * * * * * * * * |                           | ****                                    |                       |

| Foreign Trade                  |                           |              |                          |         |                            |             | 1,4          |         |              |        |
|--------------------------------|---------------------------|--------------|--------------------------|---------|----------------------------|-------------|--------------|---------|--------------|--------|
| _                              | April                     |              | April-                   |         |                            |             | Pall Fisc    | al Year |              |        |
| Commodity Composition of       |                           | <u>5-97</u>  | 199                      |         |                            | 96 _        | 1994         | -95     | 1993-94      |        |
| Imports and Exports            | Rs Cr                     | US \$ mi     | a Rs Cr                  | US 5 ma | a Rs C                     | S\$mn       | Rs Cr U      | S \$ mn | Ra Cr US     | \$ min |
| Imports                        |                           |              |                          |         |                            |             | <del></del>  |         | <del></del>  |        |
| Food and live animals          |                           |              |                          |         | 2                          |             |              |         |              |        |
| chiefly for food               | 296(0 9)                  | 85           | 309(1 2)                 | 98      | 2084(1                     | 623         | 4034(4 5)    | 1285    | 1651(2 3)    | 526    |
| Pulses                         | 158(0.5)                  | 45           | 148(0 6)                 | 47      | 631((                      | 189         | 593(07)      | 189     | 567(0 8)     | 181    |
| Cashewnuts                     | 61(02)                    | 18           | 48(0 2)                  | 15      | 749((                      | 224         | 691(08)      | 220     | 483(07)      | 154    |
| Sugar                          | ()0(0 0)                  | 00           | 3(neg)                   | 1       | 186(4                      | 56          | 2283(2.5)    | 727 e   | neg neg      | neg    |
| Crude materials medible oils   |                           |              |                          |         | *                          |             |              |         |              |        |
| except fuels                   | 1712(5 4)                 | 493          | 1963(7.8)                | 625     | 8031(6)                    | 2401        | 6748(7 5)    | 2149    | 4273(5 8)    | 1362   |
| Fertiliser crude               | 68(0 2)                   | 20           | 90(0 4)                  | 29      | 500(c)                     | 149         | 479(0 5)     | 153     | 388(0 5)     | 124    |
| Metalliferous ores and         | <b></b>                   |              |                          |         |                            |             |              |         |              |        |
| metal scrap 7                  | 603(1 9)                  | 174          | 542(2 2)                 | 173     | 2627(2                     | 786         | 2349(2 6)    | 748     | 1411(19)     | 450    |
| Vineral fuels, lubricants and  | 0000000                   | 4404         |                          |         |                            |             |              |         |              |        |
| related materials              | 9039(28 4)                | 2602         | 5785(23 1)               | 1842    | 28221(23                   | 8438        | 20837(23 2)  | 6636    | 19508(26 7)  | 6219   |
| Petroleum crude and            | 0.135.05.5                |              | <b>****</b>              |         | 7                          |             |              |         |              |        |
| products                       | 8177(25 7)                | 2354         | 5211(20 8)               | 1659    | 25211(20 🖁                 | 7538        | 18613(20 7)  | 5928    | 18045(24 7)  | 575    |
| Animal and vegetable oils,     | 671/1 0                   |              | 201.1.0                  |         |                            | 1           |              |         |              |        |
| fats and waxes                 | 571(1.8)                  | 164          | 291(1.2)                 | 93      | 2186(1 )                   | 654         | 626(07)      | 199     | 168(0 2)     | 5      |
| Chemicals and related products | 3724(11.7)                | 1072         | 3911(15.6)               | 1245    | 18442(15 2                 | 5514        | 13086(14.5)  | 4168    | 9317(127)    | 297    |
| Organic chemicals              | 1492(4 7)                 | 429          | 1291(5 1)                | 411     | 5747(4 <i>7</i> %          | 1718        | 4350(4%)     | 1382    | 2783(3 8)    | 88     |
| Fertiliser manufactured        | 287(0 9)                  | 83           | 863(3 4)                 | 275     | 4422(3 6                   | 322         | 2399(27)     | 764     | 1983(2 7)    | 63     |
| Manufactured goods classified  |                           |              |                          |         |                            | 1           |              |         |              |        |
| chiefly by materials           | 5629(17 7)                | 1620         | 4244(16 9)               | 1351    | 19361(159                  | 789         | 14163(157)   | 4511    | 14619(20 0)  | 466    |
| Pearls precious/semi           |                           |              |                          |         |                            | 1           |              |         |              |        |
| precious stones                | 2313(7 3)                 | 666          | 1495(6 0)                | 476     | 6972(5 <b>7</b> )          | <b>3</b> 84 | 5117(57)     | 1630    | 8294(113)    | 264    |
| Iron and steel                 | 1257(4 0)                 | 362          | 955(3.8)                 | 304     | 4596(3 8)                  | 74          | 3397(3 8)    | 1082    | 2347(3 2)    | 74     |
| Non ferrous metals             | 844(2 7)                  | 243          | 704(2 8)                 | 224     | 3037(2.5)                  | 806         | 2254(2.5)    | 718     | 1504(2.1)    | 48     |
| Capital goods                  | 7161(22 5)                | 2061         | 5754(22 9)               | 1832    | 27865(22 9)                | 8331        | 19989(22.2)  | 6366    | 16630(22 7)  | 530    |
| Machinery except electrical    |                           |              |                          |         |                            | 12          |              |         |              |        |
| and electronic                 | 3694(116)                 | 1063         | 2576(10 3)               | 820     | 13242(10 9)                | \$ 59       | 8565(9 5)    | 2728    | 5902(8 1)    | 188    |
| Transport equipment            | 820(2 6)                  | 236          | 805(3.2)                 | 256     | 3619(3.0)                  |             | 5497(3 9)    | 1114    | 3981(5 4)    | 120    |
| Project goods                  | 1755(5 5)                 | 505          | 1669(6.7)                | 531     | 7528(6.2)                  |             | 5820(6.5)    | 1854    | 5062(6.9)    | 16     |
| Others                         | 3644(115)                 | 1049         | 2836(11.3)               | 903     | 15456(12.7)                | 2           | 10488(117)   | 3340    | 6934(9 5)    | 22     |
| iotal 3                        | 1777(100 0)               | 9146         | 25094(100 0)             | 7989    | 121647(Ì00 0)              | <b>3</b> 0  | 89971(100 0) |         |              | 2330   |
| Exports .                      |                           |              |                          |         | • •                        | 7           |              |         |              |        |
| Food and live animals chiefly  |                           |              |                          |         |                            | •           |              |         |              |        |
| for tood                       | 5436(19 1)                | 1565         | 3087(13.8)               | 983     | 18343(17.2)                | 14          | 12036(14 6)  | 3833    | 10851(15.6)  | 34     |
| Cashewnut                      | 351(1.2)                  | 101          | 278(1.2)                 | 89      | 1231(1.2)                  | В           | 1245(1.5)    | 307     | 1045(1.5)    | 3:     |
| Oil meals                      | 733(2.6)                  | 211          | 419(1.9)                 | 133     | 2351(2.2)                  |             | 1798(2.2)    | 573     | 2324(3.3)    | 7      |
| Marine products                | 770(2.7)                  | 222          | 629(2 8)                 | 200     | 3384(3.2)                  | T.          | 3336(4.0)    | 1063    | 2552(3.7)    | 8      |
| Beverages tobacco and          |                           |              |                          |         | , ,                        | Ŧ           | ( ,          |         |              |        |
| tobacco manufactures           | 32(0 1)                   | 9            | 23(01)                   | 7       | 118(0 1)                   | 8           | 117(0 1)     | 37      | 139(02)      | 4      |
| Crude materials incdible       | •                         |              | ` '                      |         | , ,                        | <b>3</b>    |              |         |              |        |
| oils except fuels              | 2068(7.2)                 | 595          | 1503(6.7)                | 479     | 6624(6 2)                  | 14          | 4895(5 9)    | 1559    | 4901(7 0)    | 15     |
| Iron ore                       | 534(1.9)                  | 154          | 533(24)                  | 170     | 1735(1 6)                  | 14          | 1297(1 6)    | 413     | 1374(20)     | 4      |
| Mineral fuels lubricants and   |                           |              | -,,                      |         |                            | ď           |              |         | • •          |        |
| related materials              | 596(2.1)                  | 172          | 358(1.6)                 | 114     | 1518(1.4)                  | 41          | 1309(1.6)    | 417     | 1248(18)     | 3      |
| Petroleum crude and products   | 596(2.1)                  | 172          | 358(1.6)                 | 114     | 1518(1.4)                  |             | 1309(1 6)    | 417     | 1248(18)     | 3      |
| Anunal and vegetable oils      |                           | - · <b>-</b> |                          |         |                            | 74          | (. 0)        |         |              |        |
| waxes and fats                 | 246(0 9)                  | 71           | 179(0.8)                 | 57      | 798(0 7)                   | 23          | 491(0 6)     | 156     | 357(0 5)     | 1      |
| Chemicals and chemical product |                           | 797          | 2342(10.4)               | 746     | 10210(9 6)                 |             | 8034(97)     | 2559    | 6000(8 6)    | 19     |
| Drugs pharmaceuticals          |                           |              | =                        |         |                            |             |              | - 1     | , ,          |        |
| and fine hemicals              | 914(3.2)                  | 263          | 725(3 2)                 | 231     | 3366(3.2)                  | 100         | 2512(3 0)    | 800     | 2010(2 9)    | 6      |
| Dyes intermediates and         | -, -,                     |              |                          |         |                            |             | (. )         |         | ·            |        |
| coal tar chemicals             | 463(16)                   | 133          | 362(1 6)                 | 115     | 1631(1.5)                  | 48          | 1506(1.8)    | 480     | 1151(17)     | 3      |
| Plastic and linoleum products  |                           | 138          | 470(2 1)                 | 150     | 1946(1.8)                  |             |              | 478     | 1053(1 5)    | 3      |
| Manufactured goods classified  | (- ,)                     |              |                          |         | 2                          | -04         | 1            |         | ` '          |        |
| chiefly by materials           | 13766(48 2)               | 3962         | 12183(54 3)              | 3879    | 56269(52 9)                | 1682        | 46185(55 9)  | 14709   | 38223(54 8)  | 121    |
| Leather footwear               | 283(10)                   | 81           | 275(1 2)                 | 88      | 1951(1 8)                  |             | 1725(2 1)    | 549     | 1436(2 1)    | 4      |
| Gems and jewellery             | 3641(12.8)                | 1048         | 3420(15 2)               | 1089    | 17645(16 6)                |             |              | 4500    |              | 39     |
| Cotton yarn tabrics            | , ,                       |              | ==,                      |         | ,                          |             | 1            |         |              |        |
| madeups etc                    | 2511(8.8)                 | 723          | 1894(8 4)                | 603     | 8645(8 1)                  | 2585        | 7014(8.5)    | 2234    | 4821(6 9)    | 15     |
| Manmade yarn fabrics           | (0 0)                     |              |                          |         | 22:7(01)                   |             | 1            |         | . ,          |        |
| madeups etc                    | 631(2.2)                  | 182          | 649(2.9)                 | 207     | 2483(2 3)                  | 742         | 1928(2.3)    | 614     | 1335(1 9)    | 4      |
| RMG cotton and accessories     |                           | 752          | 2086( 3)                 | 664     | 9478(8 9)                  | _           |              |         |              | 19     |
| Capital goods                  | 2633(9 2)                 | 758          | 1972(8 8)                | 628     | 9105(8 6)                  |             |              |         |              | 19     |
| Metal manufactures             | 838(2.9)                  | 241          | 587(2 6)                 | 187     | 2812(2 6)                  |             |              |         |              | - (    |
| Machinery and instruments      | 900(3.2)                  | 259          | 606(2.7)                 | 193     | 2841(2.7)                  |             |              | 727     |              |        |
| Transport equipments           | 760(27)                   | 219          | 689(3.1)                 | 219     | 3104(2 9)                  |             |              |         |              |        |
| Others                         | 988(3.5)                  | 284          | 786(3.5)                 | 250     | 3478(3 3)                  |             |              |         |              |        |
|                                |                           |              |                          | 139     |                            |             |              |         |              |        |
| Electronic accourt             | 701//11                   |              |                          |         |                            |             |              |         |              |        |
| Electronic goods Total         | 591(2 1)<br>(28534(100 0) | 170<br>8213  | 436(1 9)<br>22431(100 0) |         | 2174(2 0)<br>(106465(100 0 |             |              | 26220   | 69749(100 0) |        |

COMPANIES EPW Research Foundation

**HINDALCO** 

#### **Modernisation Plan**

A CAPTIVE power plant coupled with its own bauxite mines make Hindalco, a Kumaramangalam Birla group company and the country's largest integrated producer of aluminium, one of the most efficient and low cost aluminium producers in the world. The company generates approximately 97 per cent of its power requirements at a coal fired plant located near its manufacturing unit, while excess emergency electricity requirements are sourced from the local state electricity board. Hindalco owns leases for 10 bauxite mines and its subsidiary. Minerals and Metals, holds the mining rights for two mines. The company sources approximately 80 per cent of its ore requirements from these sources. Being an integrated manufacturer, Hindalco's operations cover all major areas of aluminium manufacturing from bauxite mining to manufacture of value added products and since its manufacturing facilities are located close to each other, minimum transportation of raw material and finished goods is involved.

The company closed the financial year ended March with a sales turnover of Rs 1,252 erore, up by 31 per cent from Rs 956 erore in the previous year. Provision for depreciation and tax rose by 6 per cent and 74 per cent respectively, in spite of which the net profit rose by 37 per cent from Rs 292 erore to Rs 401 erore. The boost to net profit came from other income, which rose from Rs 119 erore to Rs 173 erore, a rise of 45 per cent. Dividend payment has been stepped up from 55 per cent to 60 per cent. This has been supplemented by a bonus issue of two equity shares for every one held.

Hindalco's export revenue from fabricated products rose 77 per cent to Rs 39 crore, while ingot exports fetched Rs 67 crore, a rise of 45 per cent. Due to decline in LME prices, Hindalco focused more on the domestic front as price realisations were higher and stable at around Rs 65,000 a tonne. The ongoing modernisation and enhancement of semi-fabrication capacities will enable the company to lay increasing stress on export of value added products in the coming year.

While enhanced smelting capacity saw metal production at 1,75,398 mt in 1995-96 which was 7 per cent higher than the production of 1,64,280 mt in the previous year, a fire in the cold rolling mill saw production decline to 31,373 mt against 38,202 mt in the previous year.

Power generation during the year under review was the highest at 2,986 mm units, an increase of 3 per cent over the output of 2,899 mn units in 1994-95. The company

is also hereasing its captive power capacity by twainits of 67.6 megaunits each.

A mor modernisation plan on the anvil involve an expenditure of Rs 1,750 crore spreadiver a period of three years. In the process the capacity of the smelting plant would e increased to 2.42 lakh tonne per annumipa) and alumina to 4.5 lakh tpa. A 5,000 to a aluminium foil plant is being set up at Swassa. Simultaneously, the capacity of dowstream value added products is also being acreased. Power generation capacity at the tenusagar plant is being enhanced to 575 inv, with another 25 mw coming in from o-generation.

The company has obtained government appropriate for technical collaborations from Kaise Aluminium and Technical Services which is expected to improve smelter cost efficiency.

Dated by the growing emphasis on the autonobile sector, the company plans to set up a aluminium wheel rim plant and a diccasplant for forgings

To finance its expansion plans the company came out with a second GDR issue totalling \$ 00 mn during the year under review when was oversubscribed.

The company was awarded the ISO 9000 foits operations in totality. Two companies, namely, Renukeshwar Investments and Faance and Renuka Investments and Finance became subsidiaries of Hindalco during the year under review.

CENTURY ENKA

## **High Excise Duty**

Polyester filament yarn (PFY), a substitute for natural fibre which, when blended with natural fibre gives almost the same comfort at a cheaper price. Century Enka, a B K Birla group company manufacturing nylon filament yarn (NFY), PFY, polymer resins, engineering plastics and tyre cord fabrics, is one of the oldest and established players in the industry. The company operates on the batch processing system and manufactures polyester yarn from the chips stage, resulting in higher costs compared to other companies in the industry.

Century Enka has moved away from the dismal performance recorded last year and for the year ended March registered a sales turnover of Rs 439 crore, up by 61 per cent from Rs 247 crore recorded in the previous year. Other income moved up from Rs 10 crore to Rs 14 crore, a rise of 39 per cent. Provision for depreciation was down by 10 per cent. A whopping rise in the tax provision did little harm to the bottomline and the company closed the year with a net profit of Rs 28 crore, a major improvement from Rs 8 crore in the previous year. Dividend

payment has been stepped up from 22 per cent in the previous year to 27 per cent

Led by a boom in the automobile industry which translated into a strong demand growth for the company's nylon tyre cord fabrics, the tyre division performed to satisfaction. Sales of polyester industrial yarn increased. A plan for the expansion of nylon tyre cord/fabric capacity and modernisation and renovation of existing facilities are high on the priority list of the company. Capacity expansion of the PFY facility at Mahad is under way at a cost of Rs 150 crore. The plan for capacity expansion of PFY has been dictated by the uncertainty about the availability of cotton at reasonable prices.

Domestic polyester manufacturers are fast increasing their capacity anticipating a substitution of cotton fabrics with synthetics. Fresh addition to capacity of about 5,76,500 tonnes is in the pipeline which by the end of the century is expected to shoot up to 8,30,000 tonnes. Increased production and consumption of polyesters will meet the twin objective of substituting consumption of cotton with synthetics and substitute 1.05 million bales of cotton every year which can be channelised for exports. With textiles constituting 20 per cent of total exports this seems to be an agractive proposition. The budget for 1996-97 has lowered the import duty on purified terephthalate acid (PTA) and di-methyl terephthalate (DMT), inputs for the manufacture of PFY. It has lowered import duty on polyesters by 13 per cent which will result in imports becoming cheap but this has been sought to be counterbalanced by reducing the excise duty on PFY by 10 per cent.

Century Enka has promoted Rajashri Polyfil (RPL) to manufacture partially oriented yarn which can be further processed to make texturised yarn (POY). The company has 19 per cent equity participation in Centek Chemicals which it has promoted along with Century Textiles and Industries and Akzo N V of the Netherlands Centek Chemicals has set up a plant to manufacture polymerisation initiators which are used for manufacture of polyvinyl chloride, low density polyethylene, polystyrene, acrylic polymers, etc. The major users of these products are petrochemical industries and optical lens manufacturers. The plant was commissioned in July 1992, in Mahad, Maharashtra, at a capital outlay of Rs 12 crore and has performed satisfactorily

**DEEPAK FERTILISERS** 

## **Losses Wiped Out**

Manufacturing methanol and ammonium nitrate phosphate (ANP), Pune-based Deepak Fertilisers and Petrochemicals

|     | T                                                                    | Hi            | ndalco        | Centur        | y Enka        | Deeps<br>Fertilises                    |               |  |
|-----|----------------------------------------------------------------------|---------------|---------------|---------------|---------------|----------------------------------------|---------------|--|
|     | Financial Indicators                                                 | March<br>1996 | March<br>1995 | March<br>1996 | March<br>1995 | March<br>1996                          | Arch<br>1995  |  |
| Īu  | come/appropriations                                                  |               |               |               |               | ······································ | 1             |  |
|     | Net sales                                                            | 125181        | 95629         | 43937         | 27374         | 27428                                  | 0664          |  |
|     | Value of production                                                  | 126541        | 97609         | 44118         | 26646         | 27034                                  | 1380          |  |
|     | Other Income                                                         | 17334         | 11932         | 1408          | 1011          | 600                                    | 646           |  |
| 5   | Total income  Raw materials/Stores and                               | 143875        | 109541        | 45526         | 27657         | 27634                                  | <b>2</b> 2026 |  |
| ٠,  | spares consumed                                                      | 28821         | 28857         | 26927         | 15349         | 11175                                  | 37554         |  |
| 6   | Other manufacturing expenses                                         | 24863         | 19999         | 5473          | 4087          | 1201                                   | 1039          |  |
|     | Remuneration to employees                                            | 7515          | 5922          | 1373          | 1528          | 1503                                   | 1105          |  |
|     | Other expenses                                                       | 9244          | 6390          | 2663          | 1315          | 4193                                   | 3280          |  |
|     | Operating profit                                                     | 73432         | 50373         | 9090          | 5378          | 9562                                   | 9048          |  |
| 10  | Interest                                                             | 6156          | 4757          | 1715          | 1726          | 3899                                   | \$019         |  |
|     | Gross profit                                                         | 67669         | 46356         | 7404          | 3919 -        | 5663                                   | \$029         |  |
|     | Depreciation                                                         | 3483          | 3295          | 2731          | 3033          | 2314                                   | <b>2</b> 238  |  |
|     | Profit before tax                                                    | 64103         | 42992         | 4671          | 884           | 3348                                   | 2790          |  |
|     | Tax provision                                                        | 24000         | 13800         | 1900          | 50            | 0                                      | . 0           |  |
|     | Profit after tax                                                     | 40103         | 29192         | 2771          | 834           | 3348                                   | 2790          |  |
|     | Dividends Retained profit                                            | 2979<br>37124 | 2576<br>26616 | 627           | 564<br>270    | 0<br>3348                              | ÷00           |  |
|     | ketaineo pront<br>abilities/assets                                   | .7/124        | 2001C         | 2144          | 270           | J 745                                  | <b>7</b> 90   |  |
|     | Paid-up capital                                                      | 4965          | 4801          | 2326          | 2366          | 7470                                   | 960           |  |
|     | Reserves and surplus                                                 | 251992        | 214179        | 24012         | 23382         | 11306                                  | .900          |  |
|     | Long term loans                                                      | 43277         | 37278         | 4766          | 10588         | 26360                                  | 3380          |  |
|     | Short term loans                                                     | 9546          | 6572          | 5198          | 2224          | 2221                                   | '45           |  |
|     | Of which bank borrowings                                             | 9710          | 5105          | 4727          | 787           | 2221                                   | '44           |  |
|     | Gross fixed assets                                                   | 250455        | 221173        | 56387         | 54792         | 51406                                  | 47:57         |  |
| 24  | Accumulated depreciation                                             | 99615         | 88253         | 37039         | 34466         | 12236                                  | 99)8          |  |
| 25  | Inventories                                                          | 18364         | 16392         | 10247         | 12122         | 4473                                   | 341           |  |
|     | Total assets/habilities                                              | 325188        | 275018        | 48091         | 50013         | 55789                                  | 528'2         |  |
|     | scellaneous items                                                    |               |               |               |               |                                        | _             |  |
|     | Excise duty                                                          | 17041         | 17441         | 16456         | 11434         | 63                                     | .2            |  |
|     | Gross value added                                                    | 67815         | 46803         | 11384         | 7337          | 10786                                  | 1003          |  |
|     | Total foreign exchange income Total foreign exchange outgo           | 10739<br>8593 | 6767<br>6271  | 662<br>3301   | 585<br>2709   | 167<br>7073                            | 154)<br>2123  |  |
|     | y financial and performance ratio                                    |               | (1271         | .,,,,,,,      | 2109          | 7013                                   | 212)          |  |
|     | Turnover ratio                                                       | •             |               |               |               |                                        |               |  |
|     | (sales to total assets) (%)                                          | 38.5          | 34.8          | 91.4          | 54.7          | 49.2                                   | 39.           |  |
| 32  | Sales to total net assets (%)                                        | 40.4          | 36.4          | 121.0         | 71.0          | 57.9                                   | 44.1          |  |
| 33  | Gross value added to                                                 |               |               |               |               |                                        |               |  |
|     | gross fixed assets (%)                                               | 27.1          | 21.2          | 20.2          | 13.4          | 21.0                                   | 21.2          |  |
| 34  | Return on investment                                                 |               |               |               |               |                                        |               |  |
|     | (gross profit to total assets) (%)                                   | 20 8          | 169           | 15.4          | 7.8           | 10.2                                   | 9.5           |  |
| 35  | Gross profit to sales                                                |               |               |               |               |                                        |               |  |
|     | (gross margin) (%)                                                   | 54 1          | 48 5          | 16.9          | 14.3          | 20.6                                   | 24.3          |  |
|     | Operating profit to sales (%)                                        | 58 7          | 52.7          | 20.7          | 19.6          | 34.9                                   | 43.8          |  |
|     | Profit before tax to sales (%)                                       | 51.2          | 45.0          | 10.6          | 3.2           | 12.2                                   | 13.5          |  |
|     | Tax provision to profit before tax (%) Profit after tax to net worth | 37 4          | 32 1          | 40 7          | 5.7           | 0.0                                    | 0.0           |  |
| , 7 | (return on equity) (%)                                               | 15.6          | 13.3          | 10 5          | 3.2           | 17.8                                   | 22.5          |  |
| 40  | Dividend (%)                                                         | 60.00         | 55.00         | 27 00         | 22.00         | 0.00                                   | 0.00          |  |
|     | Earning per share (Rs)                                               | 80.77         | 60.80         | 121 22        | 35.86         | 4.48                                   | 4.68          |  |
|     | Book value per share (Rs)                                            | 517.5         | 309.7         | 1150.4        | 1105.2        | 25.1                                   | 20 1          |  |
|     | P/E ratio (based on latest and                                       |               | **            | ** *          | ,             |                                        |               |  |
|     | corresponding last year's price) Debt-equity ratio                   | 11.7          | 16 1          | 136           | 57.2          | 2.5                                    | 0.0           |  |
| 45  | (adjusted for revaluation) (%) Short term bank borrowings            | 16.8          | 25 1          | 18.1          | 41.1          | 140 4                                  | 271.          |  |
|     | to inventones (%)                                                    | 52.9          | 31.1          | 46.1          | 6.5           | 49.7                                   | 21.4          |  |
|     | Sundry creditors to<br>sundry debtors (%)                            | 147.8         | 169.7         | 74.3          | 93.5          | 44.8                                   | 42.           |  |
| 47  | Total remuneration to employees to gross value added (%)             | 11.1          | 12.7          | 12.1          | 20.8          | 13.9                                   | 11.6          |  |
| 48  | Total remuneration to employees                                      |               | /             |               | 20.0          |                                        | 4 4 . 1       |  |
| _   | to value of production (%)                                           | 5.9           | 6.1           | 3.1           | 5.7           | 5.6                                    | 5,2           |  |
| 49  | Gross fixed assets formation (%)                                     | 13.2          |               | 2.9           | -             | 8.5                                    |               |  |
|     | Growth in inventories (%)                                            | 12.03         | _             | -15.47        | _             | 28.87                                  |               |  |

Corporation closed the year ended March with a sales turnover of Rs 274 crore, an increase of 33 per cent from Rs 207 crore recorded in the previous year. Other income was down by 7 per cent. Interest costs were down by 3 per cent. Provision for depreciation moved up by 3 per cent. Like in the previous year, a zero tax provision helped the company record a net profit of Rs 33 crore, up by 20 per cent from Rs 28 crore in the previous year. The directors have not recommended any dividend.

After wiping out the losses incurred in the previous two years the company's efforts during the year under review were focused on improved market penetration for its ANP fertiliser and popularising the use of ANP as a balanced fertiliser. High capacity utilisation was achieved at the ammonia plant, a major portion of which continued to be captively consumed. On the other hand, plagued by problems in the synthesis section which led to a premature replacement of catalyst in the earlier part of the year and by inadequate domestic demand in the latter part, production at the methanol plant was less than satisfactory.

Deepak Fertilisers, hitherto manufacturing complex fertilisers, plans to add phosphatic nutrient to its product range by producing single super phosphate (SSP). Sources claim that the company is to set up a 1.32 lakh tonne SSP plant at a cost of Rs 20 crore near Nashik.

The company has tied up with a Spanish company to manufacture resins used in the petrochemical industry at an estimated cost of Rs 80 crore. Resins have multiple applications and are used basically in laminations and are used to replace wood in certain low density boards. The plant with a capacity of 30,000 tpa of resins will be fitted with suitable technology consuming less energy. The resin plant will come up at Taloja and will be commissioned in 18 months.

The company's ANP division continued to reel under the impact of the government's fertiliser policy of subsidising nitrogen nutrient through urea, whereas 50 per cent nitrogen nutrient in the company's ANP fertiliser does not receive any price support. Adding to the woes of the company is the recent upswing in global prices of phosphoric acid, a key input for ANP. If this scenario persists, ANP producers in India may find their margins getting further squeezed. Moreover they may not be able to jack up selling prices of ANP since farmers may switch back to urea. The policy of subsidising nitrogenous fertilisers discriminated against the use of other nutrients such as phosphatic and potassic fertilisers thereby leading to an imbalance in the application of nutrients. The government in its latest budget has sought to rectify the situation by giving a price concession of Rs 1,000 per tonne for phosphatic and potassic fertilisers but has left the subsidy on nitrogenous fertilisers untouched.

# Nuclear/CTBT Debate: Japan and India

**Achin Vanaik** 

In no country in the world is popular seniment against nuclear weapons and weaponisation as deep and videspread as it is in Japan. Unfortunately, nowhere else, certainly no in India, amongst that part of the public who think about such matter is there a comparable sensitivity and awareness on nuclear weapons related issues. The debate on the CTBT in India has been very one-sided and extraordinarily ill-informed.

I MADE my first ever visit to Japan on July 30 this year when I was invited for a fortnight by Gensuikin to visit Hiroshima and Nagasaki to participate in the commemoration of the 51st anniversary of the bombings. Gensuikin is the short form in Japanese of the Japan Congress against A and H Bombs, which is financially supported by Japanese trade unions. This year they held an International Conference in Hiroshima where they invited anti-nuclear peace activists and anti-nuclear energy activists from a number of countries - the US, France, Russia, Germany, South Korea and India - to discuss the general state of disarmament and arms control initiatives (including the Comprehensive Test Ban Treaty (CTBT) and the recent verdict of the International Court of Justice) as well as issues of nuclear energy and safety of plants, especially in regard to the situation in Germany, France, Korea, Russia (Chernobyl) and Japan itself.

Apart from this Conference there were mass rallies, peace marches numbering thousands, and open workshops on a range of issues. Several hundreds were present a each workshop. These took place both in Hiroshima and Nagasaki. It was, of course, both an immense learning experience as well as a very moving one for me. In no country in the world is popular sentiment against nuclear weapons and weaponisation as deep and widespread as it is in Japan. It is so powerful that those few in Japan who would like the country to go nuclear sometime soon in the future for the kind of 'national security' reasons that have become standard arguments in India, for example, simply cannot get their way

This is certainly not because the US provides a so-called security umbrella for Japan. Few people in Japan (especially in the light of America having dropped the bombs on Hiroshima and Nagasakı and never yet having apologised for it) are prepared to take this umbrella seriously.

Fel believe America would have in the pat or will in the future commit nuclear sieide in order to protect Japan from say. th former USSR or today's Russia Being th only country to have truly experienced the horror of a nuclear attack, average rablic sentiment is so hostile to the idea d legitimising nuclear weapons in any way to possessing them because the people elieve such a course makes Japan more not ess vulnerable, that it promotes not reduces nuclear hostilities and tensions. This average sentiment is in fact a deeper wisdom, than that which is possessed by arcane nuclear elites in other countries who by justifying nuclear weapons in the name of nuclear security have created the mess we are in worldwide.

In Japan those most vociferously opposed to nuclear arming are the left while it is the far right which most wants Japan to go towards arming itself in this way now or in the future. It is the strongest anti-American and anti-imperialist political forces in Japan. those most strongly against the US-Japan Security Pact who are also the most strongly opposed to nuclear weapons. This is in striking contrast to the situation here in India where many anti-imperialists and leftists have no hesitation in joining the right and centre in either demanding nuclearisation or at least the keeping of the option open. If India has a border dispute with China, Japan has its dispute with Russia over the Kurile Islands. But this never gives rise to the illusion that going nuclear will in any way help resolve the

In 1993, the Russian government released parts of an officially authorised study on Japan. Further sections were released in 1995 and 1996. This report said that if Japan at any point now decided to go nuclear then it could produce bombs in anything between 20 days and two months. The study also stated that the single most important barrier to Japan behaving in

this way was the "extremely impressive" public opinion against any such action. Furthermore, after all their careful investigation, the report stated that there was no evidence that there was even any movement in this direction within the Japanese government.

#### ONE-SIDED DEBATE IN INDIA

Unfortunately, in no other country, certainly not in India, amongst that part of the public who think about such matters is there any similar sort of sensitivity or awareness on nuclear weapons related matters. In India there has been a vigorous but very one-sided debate on the CTBT which has been extraordinarily illinformed. The biggest casualty of this debate has been the 'middle ground' of those who don't want India to sign the CTBT but also don't want India to either foreclose the option or to go ahead to test or exercise the option. This middle ground has been squeezed as never before and the pressure on India to test or exercise the option has grown to heights never before experienced. This is not because there has been any change in the external security environment regarding Pakistan or China but is solely due to the fact that a highly distorted debate in which those holding the middle ground failed to carve out a distinct space for themselves has enabled the hawks to run off with the agenda. A distorted debate has given rise to distorted priorities today.

A small section of us argued for India fighting to make a good draft of the CTBT even better and then signing it. This meant strengthening the preambular commitments to disarmament but not insisting as India did that there had to be a structural or procedural link between time bound disarmament and the CTBT. We also pointed out time and again, that there were powerful domestic lobbies in all the nuclear weapons states (NWSs) against the CTBT precisely because it was a genuine and powerful restraint measure on vertical proliferation, i.e., on obstructing qualitative weapons development. We also appealed in effect to the middle ground (and we did so repeatedly) that if you advocate India not signing the CTBT in the name of national security, do not try to hide the fact that the CTBT is a powerful restraint measure on the NWSs. In other words, pose the issue honestly as a choice between a presumed good (your particular interpretation of what serves national interest) and an actual, universal good which is the genuine efficacy of the CTBT. We also

argued that matters were too complex to be reduced to simplistic notions of the CTBT simply or primarily being a Machiavellian manoeuvre by the US to further its nuclear monopolistic ends. Today, the fact that the Republican Party has come out against the CTBT should alert anyone with even half-a-brain that the party opposes the CTBT not because it is against America maintaining its nuclear dominance but because it sees it as an obstacle to such a pursuit, as a concession to the arms controllers and moderators in their country precisely because the CTBT acts as a serious restraint on the US's nuclear weapons making capacities!

The same Indian elite which is prepared to swallow the IMF/WB structural adjustment programme which is inspired by a specifically Anglo-American rightwing understanding of economics called neoliberalism tries to parade its false anti-American credentials through a distorted presentation of the CTBT issue. The end result of the failure of those of the middle ground to oppose the hawks as well as ourselves means that today they have no defence against the triumphalism and jingoism surrounding India's opposition to the CTBT. It is this chauvinism and distortion of the real issues at stake that has created the climate where more people than ever are now saying that if the CTBT is as iniquitous as claimed then what is the point in India just refusing to sign it and doing nothing else Should it not now defy it by testing or going openly nuclear?

#### SENSITIVITY AND AWARENESS IN JAPAN

At the International Conference in Japan, every attending peace organisation representative argued that the existing draft of the CTBT for all its limitations was a powerful step forward in the right direction and that it would be a tragedy if it failed to go through. All these organisations have been opponents of nuclear weapons and energy policies of their respective countries. In Japan, there is a far more intelligent and informed discussion among experts about the CTBT than there has ever been among the anti-CTBT advocates in India. The Japanese peace movement has many, many more scientists, physicists, engineers, and technical experts of various kinds including those with a specialist understanding of nuclear physics, engineering and energy production. Two among many such prominent figures are Hito Umebayashi (University of Kobe) and Jinzaburo Takagi (Citizen's Nuclear Information Centre). Time and again the same point was made - computer simulation and sub-critical testing cannot enable new generation weapons to emerge without explosive testing. Moreover Fran Teplitz, the representative of Peace etion, the largest anti-nuclear NGO in e US pointed out that it was domestic rotest from many quarters including the peace groups that made the US government "indefinitely postpone" subcriticatests which were to have been held a June and September this year, and the with a CTBT in place they could confider a press in the future for complete abandouncnt of such subcritical testing.

Even more impressive was the extraordinarily high level of avereness among ordinary people about the imperance of the CTBT. Everywhere it was son as a vital step forward, necessary but not sufficient in itself, to move toward nuclear tree world. Perhaps one liking example can get across how pervasit this sentiment and how widespread the jublic awareness of the issues at stake whe. I won't talk about the badges so many were wearing, the banners, the marches the performances by children, the myriadways in which Japan does not allow itself to forget the ugliness of nuclear weapors, or the alacrity with which every step to ease tensions or move towards arms control and disarmament is followed. An ordinary Japanese pub that we happened to valk into one evening in Hiroshima called the Shanghai Renaissance had coasters for placing drinks) spread over all its talles which carried the motif of the CTBT and had reproduced on them published extracts concerning tests by the Americans, Freich and other countries! I kept one of these coasters as a souvenir.

At every public rally including the peace ceremonies in Hiroshima and Nagasati on August 6 and 9 (the dates when the bombs were dropped) the mayors of both cities appealed for the conclusion of a CTBT to the total assent of all Japanese up and down the country. In such a contex and setting, the audacious and utterly cynica claim by the anti-CTBT lobby in India that India's stand was not only necessary for pursuing its own understanding of national security but was also a courageous one in keeping with the interests of moving the world towards arms restraint and disarmament, could not but be seen as nauseatingly hypocritical.

One of the hollower claims made by those in the Indian bomb lobby in the last six months is that the public debate carried out for the most part in the English language print media on the CTBT has been a very open and fair one in which all sides have been able to freely have their say. The pro-CTBTers or anti-nuclearists, so the claim goes, have nothing to complain about when it comes to airing their views. Both

the media and general environment of public debate has been very fair to them.

Only those of us who have been in the virtual forefront of opposing India's nuclear weapons posture for over 15 years up to and including the CTBT issue know the problems and difficulties, the formal and informal pressures, that have been brought to bear upon us for the stands that we have taken. About our only consolation has been that India is different from most third world societies in being a weak bourgeois democracy, and this has certainly given us a space we could never hope to enjoy in most other third world countries.

Those who have some kind of a public profile as anti-nuclear campaigners have never amounted to more than what can be counted on two hands. Two of us, myself and my colleague, Praful Bidwai (who shares this Nuclear Notebook column with me) have been among this small group A brief account of what we have experienced over these years might help in getting across a rather different picture than the one of 'fairness' and 'generosity of democratic temperament' that is purveyed by those who know nothing of the pressures that have had to be faced by anti-nuclearists in this country. It is only to highlight the existence of such general pressures and constraints and not for any other reason that this brief and incomplete personal account is being given - constraints operating in one way or the other on all those who are prepared to challenge in public discourse the two sacred cows of the Indian establishment.

These two sacred cows are, one, the nuclear weapons posture and one, thinking of the Indian government and of the strategic community which in its overwhelming hulk is composed of ambiguists or hawks, and, two, the nuclear energy establishment of the Indian government. Secularism has long since stopped having such untouchable status. Launching the most vicious attacks on secularism no longer raises media and government hackles in the way that criticism of the two sacred cows mentioned above does. Even the left-directed print media is not always an exception.

#### MEDIA AND NUCLEAR QUESTION

For 12 years (1978-1991) I was on the editorial staff of *The Times of India*. Bidwai was with the same paper, also on the editorial staff, for roughly the same length of time, most of his tenure overlapping with mine. For all that period of time, both of us were acknowledged as having expertise on nuclear weapons related matters. We would regularly write editorials on global disarmament, superpower arms talks, etc.

We frequently wrote signed articles on the centre page about the need for global disarmament, on the superpower face-off, on the general problems of deterrence thinking. But not once did either of us write any editorial or signed article criticising directly the Indian government's stand or the mainstream wisdom on nuclear weapons. That was taboo.

Article after article by other in-house writers on the editorial staff and by outsiders, e g, members of the Institute of Defence Studies and Analyses, appeared on the editorial page defending the Indian government's position or even advocating going openly nuclear. Only rarely did The Times feature outsider articles with an antinuclearist point of view. But never was there a single article by either of us despite the fact that we were itching to attack the arguments of our opponents who had a free run of the pages in this regard. The main arena for such debate - the English language dailies - was thus effectively closed to us for over a decade. As members of the staff of The Times we obviously could not write for other newspapers, and we couldn't write in The Times itself. Our abstinence was not self-chosen. It was required of us by the then editor of The Times, Girilal Jain.

Girilal Jain was an editor of a very different kind from those of today. He was a strong editor who knew what he wanted, intellectually more relaxed and self-confident as well as more able than most of the existing breed. Because of his intellectual self-confidence and interest in the general play of ideas he had no difficulty entertaining our very leftist points of view on most issues despite our clear opposition to many of his Hindu nationalist or other rightwing views.

But on the nuclear weapons issue as it pertained to India there was never any such latitude. Since it was the editor's prerogative to decide what should appear, not only in the editorials, but on the editorial page, we had no option but to accept the restriction with as much grace as possible. The point is not that we consider this editorial prerogative to be wrong or misguided but that the objective effect was the reduction of the space available to an already small group with the desire and the ability to present a countervailing view on this question in the national print media.

It was only when I left employment in *The Times* that it became possible for me to intervene in the English dailies and magazines with my point of view on the nuclear question for India. Bidwai could do so only after Jam's reign. Earlier we had to confine ourselves to occasional writings in smaller circulation magazines which were reseen as rivals to *The Times* group. This was a condition of our employment. Stray ritings on this subject in sister publications like *The Illustrated Weekly* were suffect to prior clearance from the editor of *The Times of India*, a proviso which ared as a form of self-constraint.

But own in our career as freelance journalist there was always a problem. Fully awre of the unpopularity of our perspective with the editors of virtually every English anguage daily there has always been a ortain self-censorship in operation. For instance, I have been acutely aware that I hd to be very careful both about the tone I sed and the frequency with which I coust write on this issue. It would be naive the expect equal standards with those pushing the more conventional line. This was not merely because there were many more such writers favouring the government stand.

In ry whole five-year career as a freelance columns I have only ever had two articles turned down for publication. On both occaions this was done by the same national daily and of course both articles had to do with the nuclear weapons issue. One was a direct and aggressive but perfectly legimate response to a very well known Indan nuclear strategist who had mentioned meby name in a previous article for that pajer. I was however, politely informed when the article was returned to me that the paticular debate had been closed for the time being.

The other article was on the CTBT (on witch I, along with Bidwai and some other atti-nuclearists, can legitimately claim a reasonable level of expertise) which was returned without even being read. Earlier the paper in question had published occasional pieces by me on the nuclear issue and even many months earlier, on the TBT. This time apparently (but I have no way of confirming this) it was simply not to be entertained because it clashed with the views of their own in-house journalist on the issue. The major point, of course, is not that a paper does not have the prerogative to decide whether or not to publish specific articles, or that I wish to contest this prerogative. I do not But it would be naive not to recognise that there are different standards operating in very significant sections of the Indian print media in regard to this 'sacred cow' between those who are broadly on the side of the Indian government and those who are strongly against it.

#### DIFFERENT STANDARDS

The operation of such different standards became particularly evident when the debate over the CTBT sprang up over the last two years in the English and national dailies. Language that would have been (rightly) considered intolerable if it had ever been used by us in print was clearly and repeatedly acceptable when used by our political and intellectual opponents to describe those who believe India should sign the CTBT. 'Uncle Toms' and references to those who love 'American hegemony' or were its stooges or handymen, or words to the same effect, were commonplace. There was no direct reference to us but since accuracy and not immodesty presses me to point out that Bidwai and myself have obviously been in the forefront of whatever opposition there has been to the Indian stand on the CTBT we might both be forgiven for assuming that some writers using such language at least some of the time had us in mind.

In many ways such language was amusing. Both of us have been and remain committed socialists and activists of a strong leftist variety while the overwhelming majority of those using such descriptions are certainly not leftists nor for the most part socialists nor political activists. They do not even come close to approximating the record of consistent oppositionists to American or Western imperialism (among whom we count ourselves) but are mostly your average conventional member of the realpolitik school of strategic thinking for whom the taking of principled positions is intrinsically less important than rationalising shifting Indian adjustments to changing power balances - pro-American if need be on various issues, anti-American or the pretence of it if suitable elsewhere. But when so much mud is thrown then some of it in the eyes of some people (sometimes many people) will obviously stick.

That even acknowledged leftists can get carried away by their perceptions of the CTBT issue was brought to the fore by an astonishing attack on Bidwai by the editor of a fortnightly English language magazine for which Bidwai is himself a regular columnist. The editor carried a box item in the column pages where Bidwai was arguing his case on the CTBT, which not only formally dissociated the editor from the view carried in the column but unprecedentedly went on to assert to the reader that the columnist's views on the CTBT were "misconceived".

Usually in situations where the editor wishes to draw attention to the difference between a stated position and the editorial line or to attack the former, it is done in a separate editorial. To do that is at least to argue the case out and let the reader decide for himself or heiself. At most there might appear on the relevant pages a box stating that the views presented herein are those

of the writer alone and the editor does not agree with them. But to use the word "misconceived" and thus throw the authority and weight of the editor and the magazine to bias the reader in this way against the said column represents nothing but the most astonishing arrogance. It is a violation of all journalistic and editorial norms and ethics. It is doubtful if in the said magazine there has been in the past such an editorial disclaimer in this particular or equivalent form for any other issue. If so, it is equally wrong. It is to condemn without deigning to give editorial counterarguments to the precise case being made in that particular column.

Three subsequent letters to the magazine which criticised the editor for this form of disclaimer met with a determined refusal to acknowledge any mistake and only a repeated assertion without substantive argument that the editor was right to do what he did because Bidwai's views were misconceived. This time an unbalanced response and a misuse of journalistic power and responsibility towards a critique of the 'sacred cow' came from a prominent member of the Indian left. To my own amazement, news of this reached peace groups abroad. Out of the blue in Japan, one peace activist in America asked me whether it was true that something like this had happened. He thought it was in one of the national dailies and I informed him it had happened in a fortnightly.

#### RUMOUR MILL AT WORK

Finally, and quite unsurprisingly though perhaps most obscenely and damagingly, there has been the rumour mill. In Delhi it has been hard at work. We can make no direct accusations as to the various sources and sanctions for such rumours against us. That is in the nature of the process of slander by rumour. We can only speculate in informed ways. In this context, to put it most carefully and politely, the hypothesis that such rumours partly originate and have sanction from very high official positions and sources, is unproven and probably unprovable, but should not for that reason be dismissed out of hand as an intelligent and pertinent speculative conjecture.

These rumours enjoy wide currency in journalistic circles in Delhi as well as in other circuits. We hear of them directly as well as through friends and relatives. We have not only been dubbed as paid American agents for our stand on the CTBT but are said to have made a packet of money, and that our lifestyles as a result have been vastly altered.

Our book, Testing Times: The Global Stake in a Nuclear Test Ban was brought out by the Dag Hammarskjold Foundation,

a Swedish Foundation with a long istory of involvement with peace is and problems of the South. It structural connection with the infitutions of the American nuclear ate or establishment. It has covered at costs of production, distribution and avertising (press conferences in Geneva and Delhi, etc.) of the book while neither of us have asked for or received one paisa for our writing endeavours. Of course we would be naive to think that such rungurs will disappear with such a disclaimer. The book (incidentally, no member of the Indian strategic community has ever bothered, despite the prolonged wo-year dehate, to do the hard work required to produce any book of comparabe scope and depth to present their own persective) is only a peg and an unimportat one for these rumours. The fundamental purpose of such rumours and theirspreading is to try and discredit the vews of people like ourselves but withou reference to our arguments or to the legitimate contestation of them according to all normal protocols of logic and rational discussion. It is to attempt to discrelit our views through aspersions on our character and honesty.

For many among the anti-CTBT rowd in Delhi (and elsewhere in India) it reems

impossible to accept that there can be peop who for no ulterior motives (moneta or otherwise) are prepared to argupublicly and insistently that India is wron not to sign the CTBT; who also argue the while there are the hypocrisies and deceif of other countries (particularly of the NW; and of their mainstream strategic expert to contend with, there are also the hypocrisity of our own country and of its mainstread discourse to contend with.

Such people are mistaken. Just mistaken are those who have too ros eyed a view of the democratic and tolera character of the arena of public discour on this issue in India. But to both I can gi an assurance that the commitment presenting an anti-nuclearist view at understanding on nuclear weapons relate issues in the public print media of Ind remains unshaken and unfazed, indeunfazable. Lest I have given a fal impression by writing down this revie of the constraints and pressures some us have faced, let me also say that matter how irritating, offensive and unfi these practices have been, it is a smi and easily bearable price to pay f adopting what I and others believe is principled and strategically wise stand take if we are to have any hope of movitowards a truly nuclear weapons-free wor

# RECONFIGURATION OF INDIAN POLITICS: STATE ASSEMBLY ELECTIONS, 1993-95

January 13-20, 1996

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## The Citizen and Politica Finance

A G Noorani

The Supreme Court's judgment on the petition of H D Shourie on the maintenance of audited accounts by politica parties is a powerful blow for the cause of free and fair elections. The udgment has been rightly lauded, but its nuances need to be better unerstood.

THE citizen is entitled to be governed only by those who truly represent him, who derive their mandate from free and fair elections. This implies necessarily that he is entitled to the guarantee that the elections will be free and fair. Any form of corruption or intimidation vitiates the poll. So does the unfettered play of political finance.

The Supreme Court's judgment on the petition of HD Shourie, director of Common Cause, is a powerful blow for this noble cause. It has been rightly lauded. But its nuances need to be understood. In issue are three statutory provisions. Section 293A of the Companies Act, 1956 prohibits altogether a government company or one of less than three financial years' standing from making any financial contribution "directly or indirectly" to any political party or "for any political purpose to any person". Any other company may, however, make such a contribution not exceeding 5 per cent of its average net profits during the three immediately preceding financial years and if its directors authorise the making of the contribution.

Section 13A of the Income Tax Act, 1961 came into force only on April 1, 1979. It exempts income of a political party from tax only if three conditions are met-namely, it keeps and maintains books of accounts properly enough, keeps also a full record of each contribution of over Rs 10,000 with the name and address of the contributor and audits its accounts. Except the CPI, the CPI(M), the DMK and the AIADMK, no other political party filed returns of its income as required by the law. The BJP began filing returns only on December 28, 1995.

The third provision to be noted is Section 77 of the Representation of the People Act. 1951 on election expenses. On October 3, 1974 the Supreme Court delivered judgment in Kanwarlal Gupta vs Amarnath Chawla in which it ruled that expenditure incurred by a political party, not for "general party propaganda" but directly for furthering the prospects of a particular candidate must be included in the returns of the candidate's election expenses and is, therefore, subject to the limit provided by the law for election expenses. Within a few days thereafter, an ordinance was promulgated which was reenacted as Act 58 of 1974. Explanation 1 was inserted in Section 77 to provide that any expenditure incurred in connection with

the electron of a candidate by a political party or evernly any other body or persons or by any indidual other than the candidate shall not fall within the purview of Section 77.

The upreme Count's recent ruling did not constitute judicial activism so much as sheer enforcement of the law, particularly Section 13A othe Income Tax Act. The Court found "total naction on the part of the government" to enorce it. Justice Kuldip Singh, who delived the judgment on behalf of himself and astice Faizan Uddin, observed:

The political parties have—in patent violation of aw-neither maintained audited accounts ne paid tax since 1979 80. Sub-section (4B) of Section 139 of the Income Tax Act mkes it obligatory for the chief executive oficer of every political party to furnish a rturn of income for each year in accordance with the provisions of the Income Tax Act. section 142(1) provides for inquiry before ssessment. It is not disputed that notices inder Section 142(1) were issued by the ncome tax authorities to the defaulting political parties but despite that the returns of income have not been filed by the said parties. Failure to furnish a return of income has been made a criminal offence punishable under Section 276-CC of the Income Tax Act. It leaves no leeway. The mandatory provisions of the law have to be enforced. It is common knowledge that there is ostentatious use of money by political parties in the elections to further the prospects of candidates set up by them. Display of huge cut-outs, etc. of political leaders on roadsides. crossings, street corners, etc., and setting up of arches, gates, hoardings, etc, at prominent places and printing of posters and pamphlets are some of the ways in which money-power is displayed by the parties...

He added:

We have no hesitation in holding that the political parties who have not been filing returns of income for several years have violated the statutory provisions of Income Tax Act. The income tax authorities have been wholly remiss in the performance of their statutory duties under law. It was mandatory for the income tax authorities to have put in motion the statutory machinery against the defaulting political parties. The reasons for not doing so—as disclosed in the counter-affidavits—are wholly extraneous and unjustified. The political parties are not above law and are bound to follow the same.

A political party which is not maintaining audited and authentic accounts and is not

filing the return of income before the income tax authorities cannot justifiably plead that it has incurred or authorised any expenditure in connection with the election of a party candidate. The expenditure "incurred or authorised in connection with the election of a candidate by a political party" can only be the expenditure which has a transparent source. Explanation 1 to Section 77 of the Income Tax Act does not give protection to the expenditure which comes from an unknown or black source. Such expenditure, therefore, does not quality for the exemption which Explanation 1 provides.

Thus did the Court connect Section 13A of the Income Tax Act with the proviso to Section 77 of the R P Act. Rightly so because both are designed to ensure transparency. But what is the *sequitur?* That the expenditure by the party is *included* in the returns of the candidate? The court did *not* draw such an inference, not even if the party did not keep accounts.

What the Court said was that

A candidate in the election who wants to take the benefit of Explanation 1 to Section 77 of the R P Act-in any proceedings before the court-must prove that the said expenditure was in fact incurred by the political party and not by him. Any expenditure in connection with the election of a candidate which according to him has been incurred by his political party shall be presumed to have been authorised by the candidate or his election agent. But the presumption is rebuttable. The candidate shall have to show that the said expenditure was in fact incurred by a political party and not by him. The candidate shall have to rebut the presumption by the evidentiary standard as applicable to rebuttable presumptions under the law of evidence.

An entry in the books of account of a political party maintained in accordance with the Income Tax Act will suffice.

Construing Article 324 of the Constitution, which vests in the Election Commission the 'superintendence, direction and control' of elections, the court ruled that this would "include the scrutiny of all expenses incurred by a political party, a candidate or any other association or body of persons or by any individual in the course of the election. The expression 'conduct of election' is wide enough to include in its sweep, the power to issue directions-in the process of the conduct of an election-to the effect that the political parties shall submit to the Election Commission, for its scrutiny, the details of the expenditure incurred or authorised by the parties in connection with the election of their respective candidates." Thus, even while the polls are on the EC has the right to intervene. But, the judgment strengthens the EC and election law only up to a point. Explanation 1 to Section 77 of the R P Act still remains on the statute book. The Court's interpretation dilutes it but does not and cannot wipe it out.



would like to highlight the immense growth potential of the tobacco and cigarettes industry, its economic dimensions and related opportunities.

The reduction in surcharge in corporate tax and intended changes in the Companies Act are moves in the right direction. This growth orient ed Budget ments praise for judiciously balancing economic growth with social priorities.

The Honbic Finance Minister, however has chosen to impose what has been termed a "modest" increase in specific duties on cigarettes. The hike ranges between 5% and 7.5% for most categories. However in the case of small plain (micro) cigarettes, duties have been raised by 25%. This will slow down growth of this segment, which was otherwise enabling rapid expansion of the tobacco industry's tax base.

The Gigarette industry is extremely sensitive to excise taxation, which is the single largest element in the price of eigarettes (helt taxes on eigarettes compared to other tobacco products have enseed a decade long simp in eigarette volumes in India. It was only last year that the industry surpassed volumes achieved in 1981-85. The huge potential of the tobacco industry in India remains largely untapped to appreciate the dimensions of the opportunity to improve foreign exchange earnings. Government revenues, farm incomes and their multiplier impact on the rural economy, it is necessary to examine global trends.

#### THE GLOBAL TOBACCO MARKET

There is a widely held perception that globilly tobacto is a declining industry. This is not so. The Food and Agricultural Organisation has forecast an annual growth rate in global tobacco production and consumption at around 1.9%.

Global cigarette consumption has grown by 22% since 1980 and was estimated at 5,422 billion sticks in 1995. Cigarettes constitute the principal form of tobacco usage in virtually every market of the world and account for 85% of global tobacco consumption by volume and 93% by value Tobacco is a major source of revenue to Governments in both the developed and emerging markets and cigarettes contribute the loops share of such recenues.

Consumer sperituring on tobacco products varies considerably among countries and regions Annual per capita spend exceeds US\$200 in North America and Western Europe, whereas in the developing South Asia, including



India, it is less than US\$5. The key trends impacting the tobacco market are a move towards low delivery products incorporating light tobaccos and a confined shift from traditional forms of confimption to cigarettes.

#### THE INDIAN TOBACCO FARKET

India is the 3rd largest paducer of tobacco in the world. A total of \$50 million kgs of tobacco was produced in 196 Only 80 million kgs were used for domeste cigarette production and 55 million kgs expoled as cigarette tobaccos.

Developments in the Indiar tobacco industry have not been in line withinternational trends. The share of cigaretis in the total tobacco consumption in Indials about 20%, compared with 85% hobally. Internationally, there has been a shift frum traditional forms of tobacco. Chewing Bobacco, Snuff, Pipe, Cigar/ Cheroot – to cigarettů, which is recognised to be the modern and more acceptable form of tobacco usage. Qite the opposite, however, has happened in Inda The share of cigarettes has declined to 20% from 23% in 1971, while overall tobacce consumption has grown. In fact, industry viluines of cigarettes declined by 12.5% between 1984-85 and 1994/95 before staging a recovery in 1995/96

Whilst the annual per capita consumption of all tobacco products in India stands a=0.83 kg, about 45% of the world average of 1.85 kg, the per capita consumption in clearette form is barely 1/10th of world levels (

There are approximately 200 million tobacco consumers in India, of which only 25 million smoke cigarettes, whereas 275 million in China smoke cigarettes out of 330 million tobacco consumers.

The United States tobacco industry is perhaps the best example of how this industry should be structured to contribute significantly to the economy. The United States is the second largest producer and consumer of tobacco products in the world. The country has one of the lowest rates of excise duty and still collects over \$10 billion in revenue. It is estimated that on a purchasing power parity basis, cigarette excise intensity per capita in the US is less than 5% that of India. The relatively lower rates of tax have helped the industry invest in brands and quality upgradation enabling the United States to be the largest exporter of cigarettes in the world with a growing share. The quality of tobacco grown there is the best in the world and even though the price of American tobacco is high, exports constitute over 30% of production Exports of tobacco and cigarettes are reported to be the 6th largest contributor to the US balance of payments and rank 2nd in the country's exports to Japan In comparison, even though India is the 3rd largest producer of tobacco in the

world, its economic potential is largely untapped.

#### a) Adding Value to the Rural Economy

Tobacco is grown in India by small and marginal farmers, mainly in non-irrigated soils, on land holdings of less than 25 hectares. About 400,000 small and marginal farmers grow eigarette tobaccos and over 600,000 grow non-cigarette tobaccos. No crop other than cigarette tobacco gives the farmer as attractive a return consistently in similar agro-climatic conditions. Cigarette tobaccos offer returns more than two times those of non-cigarette tobaccos and comprise mostly the flue-cured variety, which are sold through government-conducted aution platforms with a minimum guaranteed price (MGP) to the farmers. As a result, the better the quality of tobacco the farmer produces, the higher his return, with a minimum return guaranteed by the MGP,

The Indian tobacco market is oriented heavily towards traditional forms of consumption. Our tobacco farmers produce larger quantities of non-cigarette tobaccos (which are not exportable), and orgarette tobaccos of low grades, since the bulk of Indian orgarette consumption is not in the upper and premium segments. Measures therefore need to be adopted to

- facilitate transition from non-cigarette forms of consumption to cigarettes in line with consumer aspirations and international trends, so that farmers increase their incomes by producing more cigarette tobaccos.
- upgrade consumption to the higher end, to enable farmers to produce premium quality tobaccos, which can also be exported.

Severe taxation of cigarettes is an indirect tax on tobacco farmers. In 1951/52 farmers growing cigarette tobaccos contributed Rs 4 03 per kg towards excise duty and farmers growing other tobaccos Rs 1 12 per kg. While the burden on other tobacco farmers increased marginally to approximately Rs 11 per kg by 1994/95, the indirect tax on cigarette tobacco farmers increased steeply by 95 times to Rs 385 per kg during the same period. The huge tax increase on cigarettes has inhibited cigarette form of consumption, thereby artificially restricting potential earnings of tobacco farmers and thus suboptimising tobacco's contribution to the rural economy.

#### b) Enhancing Foreign Exchange Earnings

Global demand is restricted to cigarette type tobaccos of specified quality. India's tobacco exports at Rs 421 crores are minuscule, given the size of our tobacco market. Less than 20% of India's entire tobacco production is exported.

In comparison, Brazil with a tobacco market smaller than ours, exports 60% of its production, and is the world's No.1 tobacco exporter with annual-exports averaging more than 3 times that of India's

As stated earlier, the principal reason for our export potential remaining largely untapped is the low quality of tobacco produced.

India is capable of producing the premium grades of Burley semi-flavourful and flavourful tobaccos. While current annual production of Burley for instance is the region of 8 million kgs., is achievable by the turn of the century with the right inputs

#### c) Enhancing Government Revenue

#### i) Excise:

Revenue collection from the tobacco industry by global standards, is modest. The reason lies in the small taxable base of cigarettes. Almost 90% of Government revenues accrue from cigarettes, leaving 88% of tobacco consumers effectively outside the tax net. Any proposal to increase revenues from the tobacco industry must facilitate growth of the revenue contributing sector. The non-cigarette segment of the tobacco industry which accounts for over 80% of consumption, is unorganised and fragmented, thereby making revenue collection from this segment impractical to administer. An increase in the share of cigarettes within the tobacco basket must, therefore, be the key objective of any effort to raise revenue

India's population has a very wide band of income de tribution. High rates of taxation on organettes have artificially kept organettes beyond the reach of a large number of tobac co-consumers aspiring for organetic form of tobacco consumption. The route to optimising excise revenue collection is an excise duty structure that enables marketing of cigarettes for each income segment of tobacco consumers.

In 1987, the Government of India rationalised and modified the excise duty structure for cigarettes. Ad valorem duties were replaced by specific duties based on cigarette length. The objective was to introduce a more lational system of excise levy and to reduce lingation associated with advalorem duties. The Government created 5 excise slabs based on length and type of cigarettes, with rates increasing from plain cigarettes at the low end to international size filter cigarettes at the top end. The change has been highly successful on all counts and the Government must be congratulated on this innovative step of aggregating the advantages associated with both ad valorem and specific duties.

This structure still however left cigarettes beyond the reach of a large number of aspiring tobacco consumers. Recognising this, in 1989 the Government introduced a new excise slab for micros at the low end. The rates of duty, however, remained too high to have had the desired effect. The Government in 1994, therefore, boldly experimented with a sharp reduction in the excise duty on micro cigarettes reducing it from Rs 120 per 1,000 to Rs 60 per 1,000. The industry responded by passing on the entire reduction

to considers. As a result, a dormant segment office cigarette industry was infused with grath. In 1995/96, this segment contributed its 90 crores to the National Excheque up from just Rs 7 i erores in 1993/94

The orise structure needs to be reviewed aeriodically to ensure that the excise slat correspond to income distribution ptierns of tobacco consumers. The structing should provide easy steps for upgradate of consumption to ensure built-in høyancy as per capita incomes increase. Such a structure would eliminate the ged to review excise rates frequently. The rates at the upper end need to be lovered to favour production of cigarettes whin the shores of India and render mecompetitive the smuggling of cigaretts, which denies the National Excheque an estimated Rs 200 crores in revenu annually.

In 19<sup>5</sup> view, the structure is largely in place **'be general** table of excise duty rates bwever, are too high and should ideally be brought down in a phased manner Moreover, the introduction of one c two more slabs would facilitate upgralation of consumption in an orderly manter.

A '48 punitive and rational excise duty structure would enlarge the tax base and increase revenue manifold over the next 5 to 0 years.

#### ii) Local Taxes:

Lane revenue collected from cigarettes is divised between the Centre and the States in a sitio determined by the Central Government. Over the veins, this ratio has progressively increased in favour of the States. As a result, the States share has grown considerably, faster, than overall excise collections.

State Governments have for many years leaved local taxes on eigeneties in spite of the 156 agreement. The States argue that they are only restricted from levying Sales Tax on agarettes by the agreement and are tree to impose other state and local taxes. Such a stand deleats the entire purpose of the store sharing system, which was created to risuite free flow of cigarettes throughout the country.

As our economy globalises, manufacturers in India should be able to leverage the synergistic benefits of our large common market. The proliferation of varying taxes at the local level would negate this. The issue is vital for the tobacco industry and suitable legislation needs to be enacted to make single point taxation fully effective.

#### d) Government Regulation

In the West, tobaccound cigarettes have become synonymous, unlike in India, where nearly 88% of consumers do not smoke cigarettes. Any effort to regulate the tobacco industry therefore must take into account the industry's ability to comply. To regulate just the 12% cigarette.

segment would defeat the very purpose of such regulation.

Statutory health warnings have been mandated by law on cigarette packets and all eigarette advertising material since 1975. The law was extended to chewing tobacco in 1980 and gutka in 1900. Other tobacco prodacts are still not required to carry any statutor ity warning. Obviously, the statutory health warning requirements on tobacco consumption need to be uniformly applicable to all tobacco products.

Regulation of cigarette advertising is a hotly debated subject the world over Contract to general impression, advertising does not necessarily help to expand consumer demand for a product group, especial ly for mature product categories like cigatettes. Not does a ban on advertising necessaidy reduce consumption. The role of advertising is to inform consumers of product differentiation in features and value, intensify competition thereby encouraging quality upgradation, thus providing better value to the consumer. Advertising is a legitimate commercial activity employed for products that are legally grown, processed and marketed. The absence of advertising for tobacco would be a form of unintended social engineering, almost implying that 200 million adults are unable to take decisions related to per-

In as many as 29 countries, Governments permit tobacco companies to advertise their products on the basis of a voluntary code.

Cigarette manufacturers in India have already agreed to evolve and adopt a voluntary code. In the interests of consumer, given the fact that many adults do make personal choices in favour or otherwise of tobacco use and only about 12% of tobacco users sincke organities there is a strong case to adopt a voluntary industry code towards advertising rather than resort to legislation.

#### CONCLUSION

India is a large market. Continued reform of the tax structure and moderation of excise rates for eigarettes would:

- Provide the basis for upgradation of consumption.
- Meet consumer aspirations in line with international trends.
- 3) Enlarge foreign exchange earnings.
- Increase Government Revenues.
- Bring the multiplier impact of increased farmer incomes to the rural economy.
- Provide Indian manufacturers a growing base to invest in brands and technology -> compete effectively.

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**NEW DELHI** 

## **High Cost of Wooing Foreign Capital**

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As the government's wooing of foreign investors has become more arder, the latter have stiffened their terms. The government's own room for manoeuvre has grown progressively restricted because the 'reformer' in the government have chosen to almost exclusively focus on foreign investment as the prime issue in the making of economic policy.

IN SPITE of the vigorous efforts since 1991 to attract foreign capital, the results achieved so far are evidently not at all satisfactory for our zealous economic reformers and globalisers. They find that the 'safety net' of direct foreign investment in particular has failed so far to provide a solid material basis and psychological impact for them to carry on with the IMF/World Bank/WTO reforms. The spate of bilateral treaties with developed countries and far-reaching 'incentives' guaranteed to foreign investors by these treaties and arrangements entered into with IMF/World Bank/WTO has not helped very much either to attract foreign capital on the scale as, for example, China has been able to do, they ruefully say. The Economic Survey 1995-96, of the finance ministry bemoaned that hardly \$ 4 bn of foreign investment could be arranged in 1995-96 as against the supposed need, for direct foreign investment of as much as \$ 30 bn per year for the successful implementation of the reforms. The common minimum programme of the UF government is more 'realistic and modest' with a target of \$ 10 bn of DFI annually, which was set at the instance of P Chidambaram as the barest minimum. The finance and industry ministries have taken up this target as their priority task to achieve. They are making frantic efforts in this direction.

Side by side with approval of the conditionalities attached to pending foreign investment proposals, policy guidelines to boost foreign investment are being further 'liberalised'. Foreign equity has been raised upwards from 51 per cent to 74 per cent in projects for approval in an enlarged list of industries. It is proposed to allow foreign companies to set up their wholly-owned subsidiaries even when they may be already holding stakes in joint ventures with Indian business interests for the manufacture of the same products. It is being argued that foreign investment proposals which have backward linkages with agriculture, generate employment or promote exports will be allowed in non-priority areas as well as the consumer

goods sector. The supposedly fanciful fistinction between priority and non-priority areas is thus being summarily extinguished. Wholly-owned subsidiaries of foreign companies are bound in particular to cut into he business of joint ventures. The manufacture of toffee, chewing gum, oats and soft drinks and setting up of cinema complexes have been approved with great enthusiasm. These approvals make a mockery of the proclaimed priorities of the UF. They cannot be related to either technological upgradation or improvement of international competitiveness of Indian industry.

The small industry sector has not escaped the attention of the globalisers. The investment ceiling for small industry units is proposed to be lifted from Rs 50 lakh to Rs 3 crore because the low ceiling is considered inadequate for attracting foreign investment into the small-scale sector. Further, it is proposed to revise downwards the export obligation of joint ventures on the ground that a heavy export obligation discourages foreign capital flow, especially into the small sector. The reservation of items for production in the small-scale sector is ceasing to be of much value when same or similar items are allowed to be produced by large corporations, specially units which go in for foreign investment and imported technology. These proposals are bound to result in the transformation of the role and performance of the small industry sector. Labour intensity in the small sector will be adversely affected and the sector will produce items which will be costly and serve the upmarket in India or will be exported. Small units will cease, in an increasing measure, to be relevant for the mass market. The fact to be reckoned with in this context is that the Indian market, relative to population, is small. The mass of the people with low incomes cannot generate effective demand for the sophisticated and costly goods either imported or manufactured in India by foreign capital directly or in collaboration arrangements with Indian business, big or small. The attempts to attract foreign investment to satisfy the demand of the middle and upper classes, which hanker after international quality products, mean lower priority for investment to produce goods and services for the mass of the people at affordable prices.

The drive to attract foreign capital on a grand scale has its implications for the balance of payments as well. These implications are obfuscated by the self-styled reformers fired up by the idea of globalisation. The acute balance of payments position in 1991 and the strain of servicing foreign debt exercised a restraining influence for some time. But now the reformers seem to have become reckless and are no longer shy of playing with the 'comfortable' exchange reserves of \$ 17 bn with the Reserve Bank of India. They are now excitedly talking about letting the current account deficit rise to as much 3 per cent of GDP, against 1.6 per cent which had so far been considered the safe and sustainable limit. A current account deficit of 3 per cent of GDP, it has been argued, squares neatly with the target of \$ 10 bn of foreign investment per annum. How and when this target will be reached and the effort and costs - economic, social and political - that will be involved may not be debated at this stage. But it will be foolhardy for the globalisers and their political representatives in the Deve Gowda government and for those supporting it from 'outside' not to pay heed to the words of caution recently spoken by the governor of the Reserve Bank, C Rangarajan. He warned that there should be no further drop in the foreign exchange reserve which had suffered an erosion of nearly \$ 4 bn in the last 12 months. The current account deficit which has already swelled to 2 per cent of GDP should not, therefore, increase further. Rangarajan also drew attention to the piling up of payments obligations for the current year which are likely to increase in the wake of the rising levels of imports, including of consumer goods, and the rising costs of foreign investment, both direct and institutional. A rise in external commercial borrowings, with shorter and shorter maturities, which is being encouraged is not a remedy but a prescription for disaster. The inflow of NRI funds and volatile portfolio investments will add to the uncertainty and pressures. The much sought after direct foreign investment is really no panacea. The experience of the last five years shows that it is geared to strengthening the control of foreign investors, especially TNCs, on the productive assets of the country rather than augmenting them. Reliance on foreign investors, with high rates of return guaranteed to them, for the development of the physical infrastructure of the economy too means and raw materials from their own sources at negotiated rather than competitive prices. It cannot, therefore, help improve the balance of payments and may, on the contrary, strain it to an extent that India may be pushed back into a payments crisis.

It is remarkable, however, that the constituents of the United Front, even its left component, are indifferent to the implications of the Deve Gowda government's policy on foreign investment. They seem to be taken in by the notion that direct foreign investment is 'risk free'. In fact multinational corporations are becoming more and more aggressive. They are demanding high and quick returns and their unhindered repatriation. They enjoy the political-strategic support of their countries of origin and the international financial institutions. Those already in business in India are keen to end any semblance of Indian participation in their operations. They are putting in reverse gear the Indianisation of personnel and are raising their equity stake and tightening the control of the headquarters over management systems, technology introduction, marketing operations and use of brand names.

India's credit rating was deliberately pulled down to 'speculative grade' when the Rao government launched its 'reform programme' under foreign direction. The position in this respect has not changed. The nuch-advertised improvement in the balance of payments and in exchange reserves in the ast five years has not brought about any significant change in the country's relationship with foreign investors. They are not willing to soften their demands. These are becoming more stiff The fact is that there s less and less room for the government to nanoeuvre. Liberalisation and globalisation nave visibly emasculated Indian business interprise. The right of the Indian people to I fair share in the gains from growth too is being sidetracked or openly derided. Populis: gestures and rhetoric cannot under this lispensation carry conviction. The Deve Gowda government is really neither willing for able to extricate itself from the growing network of foreign conditionalities on the firection of economic growth. With foreign nvestors, in particular transnational corporations, enjoying a commanding position n the Indian market, investment is bound o flow into the production of goods and services of elitist interest and generate ninimal new employment and incomes in ndia. The repatriation of high returns on oreign investment will drain away in an ncreasing measure the national wealth. The oreign investors will bring technologies to extract high profits from the exploitation of ndia's natural resources, labour and conumers. Except for what may be called the comprador business interests and a handful

viproressional managers, technicians and mrketing specialists, in the direct employment of transnational corporations or Indian big business, the working people can gain little and will lose a lot as capital-intensive ecolomic growth and labour-displacing techologies make headway. Investment will be gared to developing the market for the satisaction of a thin upper crust of society and production and supply of essential goods and ervices will tend to be limited. These tendincies have already become manifest in the last five years. With the 'deepening' of the conomic reforms the mass of the people are bound to suffer from loss of gainful emiloyment, shortages and high prices.

The forthright 'reformers' in the Deve Gowda government like to focus on foreign investment as the prime issue in the making of economic policy. That there is much

more to any meaningful and substantive reform of the political power structure, social relations and development process than attracting foreign capital is beyond their comprehension. Their exclusive concern is with attracting foreign capital as the basis of economic growth and 'modernisation' of the economy. The economic reforms with the emphasis on open door policies for foreign capital have already enabled comprador business interests and reactionary social forces to gain economic strength. social respectability and political clout. They have to be combated by the mobilisation of the mass of the people and their struggles for equitable and self-reliant socio-economic development which must not be allowed to be subdued by the false pretences of political parties and personalities which still flaunt their progressive commitments.

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## **Army in Nagaland**

The army and paramilitary forces have been in the north-east for four decades now. Over these years their continued presence has undermined the civil and legislative authority over the area and has brought a high degree of uncertainty and insecurity to the lives of ordinary people. The centre's imposition of extraordinary laws on regions by declaring them as 'disturbed' also has serious implications for the federal nature of our polity. The findings of the D M Sen Commission highlight some of these realities.

THE Armed Forces (Special Powers) Act, in force in the north-eastern states since 1958, has provided the basis in law for the virtually permanent presence of army and paramilitary forces in the region. On April 3, 1995, the government of Nagaland constituted a one-man Commission of Enquiry with Justice D M Sen, retired judge of the Guwahati High Court, to probe into incidents of shooting, arson and rape by various paramilitary forces in Akhulato, Kohima and Mokokchung (all in Nagaland) occurring between December 1994 and March 1995. The findings of the Commission, submitted to the Nagaland government on March 16, reveal how the continued presence of paramilitary forces on a long-term basis undermines civil administration, the powers of the judiciary and the importance of the legislature, thus bringing the situation as close to army rule as could be imagined.

On March 5, 1995, a convoy of the 16 Rashtriya Rifles (RR) was going from Bishnupur in Manipur to Dimapur in Nagaland. The convoy had 63 vehicles with five officers. 15 JCOs and 400 jawans, and stretched over five kilometres. According to the RR, its convoy came under sustained attack over that distance at several places, and hand grenades were lobbed at them at three places. They had to fire in self-defence. Seven civilians were killed and 20 injured, including 16 in mortar attack. These, the army claims, were victims of crossfire that continued for 20 minutes.

Six civilian eyewitnesses, including havaldars of the Nagaland police, have a different story to tell. They said that a tyre of one of the convoy's Shaktiman trucks burst, and the RR personnel started shooting immediately, thinking that they were being attacked. They also fired mortar shells in a town with civilian population. It also appears that sustained firing by RR personnel continued from 1.30 pm until after 3.30 pm. The firing included 1.207 rounds of gunfire and five rounds of mortar fire. All six witnesses were absolutely certain that there was no attack by, or exchange of fire with, supposed insurgents. Besides attacks on residents, it appears that RR personnel deliberately attacked property, damaging buildings and houses. They then prevented the injured from being treated. One depanent in his affidavit before the Commission tells of how a two-inch mortar bomb fell ca his doorstep, killing one of his family members instantly and injuring eight others. Later, he was stopped by RR personnel while taking the injured to hospital, as a result of which another member of his family died on the way to hospital. The version of the civilian eyewitnesses is corroborated by two state officials. The then superintendent of police (SP), Kohima, who went around the area with army officials, found no bullets or blank cartridges in the places from which insurgents were supposed to have fired at the convoy. He did however find pieces from mortar shells and splinters from grenades.

Justice Sen is in no doubt whatsoever that the RR personnel, including officers, "acted in a most irresponsible manner", that the firing was "accompanied by cold-blooded murder of innocent civilians, some within their residential houses", and that "mortar shelling in one of the most thickly populated areas of Kohima township was completely unjustified—almost amounting to barbarity." He also finds that some R R personnel "showed utter disregard for civil authority," and asserts that the 16 Rashtriya Rifles personnel were solely responsible for the casualties and damage to property.

On January 23, 1995, at around 3.50 am, some insurgents opened fire upon a post of the 15 Assam Rifles stationed in Akhulato, Nagaland. The exchange continued until 5 am. Then subedar Khelaram and 15 jawans of Assam Rifles went in pursuit of the insurgents. Unable to find them, the armymen encircled some houses, got the people out, poured k-rosene on the houses and burnt them. They had suspected the residents of being sympathetic to the militants and harbouring them.

Hozheto Sema, a farmer, and his wife were asked to put down their children and come out of their house. They refused. A jawan fired at Sema. She died and the hand of her three-month-old child was blown off. Subedar Khelaram was tried by general court

martial and was awarded 45 days rigorous imprisonment, eight years loss of seniority and four years loss of pension. Five others were also awarded rigorous imprisonment.

Justice Sen found this action to be inadequate. He deemed the initial firing by the Assam Rifles "legitimate, preventive and defensive," but asserted that "once the insurgents had broken contact, there was no need for further firing" by the Assam Rifles. The arson was "unjustified" and the killing of Sema "cold-blooded murder". He notes that there was "no state government official entrusted with maintenance of law and order in the near vicinity", and that the conduct of the Assam Rifles personnel in this particular case "was a sheer act of criminality with no nexus to any legitimate operation in aid of civil authority."

On December 27, 1994, a patrol of the Maratha Light Infantry (MLI) near the Police Point in Mokokchung, Nagaland was fired upon by some insurgents. One Jawan of the MLI was killed. One insurgent died in the return fire. Another was chased and shot dead. The JCO died while attempting to charge a house with insurgents inside. The Commission notes that the firing was "started by the insurgents", and that "the preventive and punitive action taken by the Task Force of 16 MLI" was "fully justified and in no way excessive" What followed after the initial encounter was however "completely indefensible".

According to the accounts of several civilian eyewitnesses, the MLI doused woollen balls and other inflammable material with petrol and set houses and shops on fire, while civilians were still trapped inside. Five civilians were burnt alive inside their houses. Three others died despite being able to come out of their houses. Four women were raped at gunpoint. These women were medically examined by the honorary secretary of the Red Cross in Mokokchung, and had the courage to depose before the Commission. Several people were beaten badly. The Red Cross official deposed: "I saw army people beating innocent public until they were unconscious-I heard army jawans shouting and encouraging each other to torch buildings and shops".

The army claimed that the houses caught fire as a consequence of the initial grenade attack and the snapping of high tension wires. They said that the fire then spread naturally in the wind. On the basis of the topography, the distance of the houses, and eyewitness accounts, Justice Sen refuses to accept this version of the army, and finds the arson deliberate. He also finds the complaints of rape and molestation "fully substantiated".

In these three incidents, the Commission recommended that:

(1) Ex-gratia compensation of Rs 2 lakh

be given in each incident of murder and rape; (2) The alleged crimes be investigated and tried under the Army Act; and (3) A technical commission be set up to assess damage to property.

In each of the three incidents above, the army directly prevented the civil administration from discharging its official duties and ensuring the safety of citizens. Justice Sen emphasises that the legitimacy of an army operation under the Armed Forces (Special Powers) Act, derives from its being in aid of civil power, and not in superseding it. On the basis of section 3 of the act and its findings in these three incidents, the Commission indicts the army for bypassing the civil administration completely, and recommended that: (1) The army should not search or raid any premises or detain any person without the prior consent of the local police, and that it should ordinarily be accompanied by the local police; (2) Any person arrested by the army should be handed over immediately to the police; and (3) Interrogation should be carried out only by

The civil administration in the three towns had no prior knowledge of army movements in the area. The Armed Forces Act allows the army to act on its own initiative. Section 5 of the act merely stipulates that the army shall hand over any person arrested to the nearest police station "with the least possible delay, together with a report of the circumstances occasioning the arrest". The act, therefore, does not specify a deadline within which the army has to hand over arrested persons to local police, and submit a report on its operations. In effect, the army is given licence to detain persons indefinitely, and not inform the civil administration at all. This directly contradicts the provisions of S 130 of the CrPC which allows only an executive magistrate "of the highest rank" to summon the army if necessary, to disperse an assembly "likely to disturb the public peace" (S 129, CrPC). Thus, under ordinary law, the army acts under the direction of the civil administration, it can act independently only in exceptional circumstances, and then only for a limited period of time.

Besides undermining civil administration, the Armed Forces Act also allows for wide, virtually unlimited use of force. Ordinarily under the CrPC, a magistrate's warrant is needed to make an arrest. Even when the army is summoned, the CrPC also enjoins minimum use of force, to "do as little injury as possible to person and property" as possible (S 130(3)). It allows only commissioned and gazetted officers to decide the degree of force necessary in each situation. In sharp contrast, section 4 of the Armed Forces Act gives the power to act independently to personnel down to the rank of havaldar. The degree of force allowed is

alo extraordinary: powers to open fire to the extent of causing death, destroy any structure, arrest and search without a warrant. The sweeping powers granted by section 4 of the act, therefore, effectively make section 3-calling the army in aid of civil power-redundant.

The incidents at Kohima, Akhulato and Mokikchung are not isolated events of killing and excesses by the army. There have been and ontinue to be, other attacks on lives. Overthe last year, at least 10 people have died neustody alone, of forces which include the 12 Assam Rifles, the 132 Battalion CRPF, the 5 Maratha Light Infantry, the 3 Artillery Brigade and the 3 Parachute Regiment. At leas 77 others were tortured in camps. People hav: disappeared and women have been rapd, sometimes in the presence of their fanily members. On May 20, 1995 an MLA T (hongo was blindfolded and taken to Mckokchung by army personnel, in spite of identifying himself. He was released only ater the intervention of the DIG and Alditional SP, Mokokchung. And these figures represent the picture only partially, since in many parts of Nagaland as well as oher states in the north-east, it is not even rossible to get information except sporadically.

Since the enactment of the Armed Forces Act in 1958, the army and paramilitary have been present in the north-eastern states for four decades. In certain areas such as Akhulato for example, they even used to administer the area. Their continued presence undermines civil and legislative authority over the area. In 1987, the chief minister of Manipur and his council of ministers sent an extraordinary memorandum to the union home minister, which said: "Civil law has ceased to operate in Senapati district of Manipur due to excesses committed by Assam Rifles with complete disregard shown to civil administration. The Assam Rifles are running a parallel administration in the area."

The centre's imposition of extraordinary laws on regions by declaring them as "disturbed", also has serious implications for the federal nature of our polity. The centre operates under the logic of "national security", which local bodies and legislative representatives are exposed to local pressures that oppose autocratic laws. Thus, in 1972, the CPI(M) government in Tripura opposed the centre's declaration of parts of the state as "disturbed" so as to bring the Armed Forces Act into operation in those areas. And widespread public protests impel state governments to appoint Commissions of Enquiry to investigate excesses by the army in the course of its operations. The Armed Forces Act not only denies such democratic opposition any legitimate avenues of protest, it also makes it extremely difficult to punish any excesses of authority. Under section 6 of the act, the state government is denied the power to prosecute army personnel guilty of crimes, without the prior permission of the central government. This is in keeping with the Commissions of Enquiry Act as well. (S 2a(1)), read in tandem with Items 1 and 2, List 1 of the Seventh Schedule of the Constitution, which decrees that in any enquiry relating to the armed forces and defence of India, the "appropriate government" empowered to conduct an enquiry is the central government.

Put simply, this means that only the centre can sanction or conduct an enquiry into crimes committed by the army. It is in this context that the army's as well as the ministry of defence's responses to the D M Sen Commission need to be seen. As is the regular practice of most authorities whose conduct is being probed, the army attempted to delay and even halt the Commission's proceedings. They challenged the competence of the state government to appoint a Commission that would probe army action. This was rejected by the Commission. The army then got the hearings adjourned to move the high court. Rejected there as well, they again got the hearings adjourned to move the Supreme Court. In the meantime, since the Commission was no longer informed of proceedings in the case, it commenced hearing the evidence on December 15, 1995, and submitted its findings in March 1996. On March 27, as the state government was examining these findings, the ministry of defence applied to the Supreme Court to pass a stay order and maintain status quo.

The incidents of killing, arson and rape by personnel of Assam Rifles, Rashtriya Rifles and Maratha Light Infantry occurred over a year ago. They were widely reported in the local press, demonstrations were held in Delhi, and the National Human Rights Commission was approached to conduct their own enquiry into the incidents. Through this entire sequence of events, the central government has been mactive. They have not even instituted an enquiry. Instead, they moved the Supreme Court to effectively halt action on the findings of the D M Sen Commission of Enquiry. Meanwhile, the Nagaland state assembly has accepted the findings of the Commission. The state government and legislature are, therefore, pitted in direct confrontation with the central government and the army.

Perhaps this is inevitable when the only authority empowered to investigate and prosecute armed forces personnel guilty of crimes, is the very one which has sent them there in the first place. Rule of law demands that an independent body or institution must enquire into an infringement of law. That no agency or persons can sit in judgment over their own acts. In these incidents, the



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state government and state judiciary were prevented from prosecuting army personnel. The central government's inaction thus renders the army accountable to none.

In 1982, the PUDR together with the Naga People's Movement for Human Rights (NPMHR) petitioned the Supreme Court for the repeal of the Armed Forces (Special Powers) Act. The case has moved very little over the last 14 years. The findings of the D M Sen Enquiry Commission point to excessive use of force by the army. These powers are given to the army by the Armed Forces Act. The deadlock over further action

or the findings of the Commission, is also an autcome of the provisions of the act itself.

ipilogue: The Supreme Court has now vacated its stay on the state government's action on the Commission Report. What course events will take now remains to be seen.

#### Note

1 Thescope of each enquiry was to: (1) discover the circumstances leading to the firing; (2) ascutain whether firing could have been aveted; (3) find out the persons responsible; and 4) suggest measures to prevent recurrence of uch incidents.

# **CM's Meeting on Narmada Dam**What Did Not Happen

Sanjay Sangvai

The decision on the height of the Narmada dam, being projected as an outcome of the meeting of the state minsters of the three riparian states of the Narmada, is in reality a decision of the prime minister which, for the moment, papers over the difference among the three states.

IT all started with the innocuous announcement by the prime minister, H D Deve Gowda on August 2 at a meeting with over 500 tribals-peasants from the Narmada valley at Delhi. The people had come to the capital to protest against an unjust and illegal decision to raise the height of the dam up to 436 feet and re-starting the work on the dam which has remained suspended for more than 18 months, since January 1995. After the meeting the newly appointed home minister, Indrajit Gupta, the people met the prime minister and appraised him of the situation regarding the dam, its cost-benefit and the displacement, submergence. The prime minister was accompanied by the three concerned ministers, Janeshwar Mishra, minister for water resources, B S Ramoowalia, minister for social welfare, and Nishad, the environment minister. He assured them that he was in favour of keeping the displacement to the minimum and had announced that a meeting of the four chief ministers and 15-20 representatives of Narmada Bachao Andolan would be convened for discussing rehabilitation and other issues regarding the dam. The NBA had, then, welcoming the initiative wound off its dharna in Delhi to prepare for the proposed talks.

The union water resources ministry had sent an invitation to NBA on August 3, to which the organisation had responded positively.

There was no significant reaction from the Jujarat government or the power-holders and pro-dam forces for the first few days.

The reality of the prime minister's proposition dawned on the pro-dam forces somewhat late this time. And they started rearing up for a showdown. It is interesting to see the evolution of the pro-dam forces in Gujarat through these years. The political lumpen elements from both the main political parties, Congress and BJP, have been clubbed with crstwhile Gandhians like Babubhai Patel and Chunni Bhai Vaidya. There were other organisations like ARCH-Vahini (A-V), who despite their socialist leanings chose to oppose the NBA on very irrational grounds and who now are realising their mistake. It seems that the progressive forces like A-V are no more with the pro-dam forces as they were in 1990-94. The erstwhile Gandhians too, at least, are not vocal to the earlier extent. A substantial chunk of progressives and Gandhians now seem to have distanced themselves from the political lumpens, as Sanat Mehta, the former chairman of the Sardar Sarovar Narmada Nigam (SSNNL) is out of the prestigious post after BJP had come to power in Gujarat. Chiman Bhai Patel, the wily former chief minister and Mehta combined all these forces to oppose NBA in Gujarat. Thus, one could see the officebearers of builders-contractors association, chamber of commerce, Vyapari Mahamandal, Travel and Tour Association, and the pseudo-religious leaders of Swaminarayan sect or those of Moraribapu hob-nobbing with Gandhians, progressives and academics. Now that the cementing factor is no more, these elements do not see eye to eye. Thus, a spokesperson of 'Narmada Abhiyan' K Z Patel could bring out a paper against the apathy of the state leaders towards Narmada Project and that report was criticised by another pro-dam element the Gujarati daily, Loksatta.

However, with the announcement by the prime minister, again the non-government organisations launched their tirade against the NBA and the decision to invite the NBA for the meeting. NGOs like the Gujarat Aids-Cancer and Narmada Bachao Trust (GACNBT), 'Narmada Abhiyan', and umpteen others including the Chambers of Commerce president Dinesh Shah, Traders Organisation, etc, harped on one point-how can the NBA be equated with the state chief minister? That too the chief minister of Gujarat? The chief minister was told not to attend the chief ministers' meeting and he obliged declaring that he would not attend the meeting keeping in mind the 'asmita' and 'swamaan' (pride and self-image) of Gujarat.

Meanwhile, these NGOs had chalked out an agitational programme including a dhama in Delhi on August 13 for which they contacted their MLAs, including the widow of a former chief minister Urmilabehn Patel. They planned a media blitz in Delhi or filing a public interest litigation petition and organising meetings of political parties in Delhi, distributing pamphlets educating the public about the project. (Tol., Ahmedabad, August 7). They alleged that the meeting with Medha Patkar and her collegues of NBA was a way of delaying the construction of the project and the people of Gujarat would not tolerate this, they warned.

Various contradictory statements were made regarding the so-called agreement between the four states on July 16. In fact there was no agreement among the states, but only a decision by the prime minister as was revealed later. Gujarat and Madhya Pradesh had different interpretations regarding the minutes and decisions in the meeting. Yet, the pro-dam elements had presumed that the 'agreement' in the July 16 meeting allowed the unhindered construction of the contentious dam.

To cap it all, the chief minister of Gujarat met the prime minister on August 8 and hau pressurised him to cancel the meeting of August 16. The Gujarati language press carried screaming headlines about the chief minister heroically announcing the gains-or rather the success-to the press. Though, life in Baroda or Ahmedabad was totally unaffected by whatever had (had not) happened on the Narmada front, one gets the impression from the Gujarati newspapers that a fierce battle was being fought. Whenever the Narmada issue, particularly the anti-dam tribal-peasant movement is in focus, Gujarat's politicians and the media create a war-like hysteria and a frenzy, which

has virtually no relation to the reality within that region.

The ruling BJP had a stake in stalling any move for talks on Narmada and showing its enthusiasm for the Project. Of late, the state BJP party has been affected by dissidence in the party and loss of credibility on a number of counts. Also, the work on the dam has been suspended since January 1995. There has been a perceptive slackening of the work on the project as the BJP had come to power and the announcement of another project 'Kalpsar', had further confused the situation-as it was projected as the panacea to provide drinking water to the water a starved Kutch, Saurashtra, thus robbing the Sardar Sarovar of the claim of being the only project for these drought-prone areas. Therefore, it was necessary for the BJP government to get the suspended work on the dam resumed-or make a show of such an achievement. That was done when the Gujarat chief minister claimed that an agreement had been reached on the dam height and resuming the work on the dam, to which the MP immediately disagreed. Another setback would have been ruinous to the credibility of the government. At the same time the Sardar Sarovar Bond is expected at any time and the Gujarat government wants to project the SSP as a profitable proposition. For all this it was necessary not to have any meeting with the NBA.

However, as Medha Patkar said in her reaction to the letter communicating the 'postponement' of the meeting, why did the central government led by United Front easily succumb to the pressure by Gujarat and other BJP ruled states? It is nothing but the convergence of vested interests. What sort of consensus politics is it? Be it the Cauvery, Alamatty dam or the Narmada dispute, the states have never tried to involve the people in the decision-making process; and whenever such an effort seemed to have been made, political leaders try to scuttle the possibility. About the Sardar Sarovar dispute. previously government of Gujarat tried to oppose any move for the review of the project and the appointment of the five member expert group in 1993. There have been only two countervailing forces in this stubborn attitude of the state apparatus-the people's struggle in the valley and the ongoing hearing in the apex court. On August 13, over 1.000 tribal oustees from Gujarat villages held an impressive rally and meeting at Kevadia colony, near the dam and challenged the government to restart construction work on the dam. They demanded their participation in any decisionmaking regarding the dam and their fate. And on August 14, the Supreme Court refused to revoke the stay on the dam construction. Both were fitting replies to the adamant attitude of the state.

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# Managing World Fisheries Third World's Loss

Ramakrishnan Korakandy

The FAO's strategy for fisheries management is aimed at ensuring a steady supply of fish to the developed world and full employment of the fleets of the advanced distant water fishing nations.

THE unilateral extensions and declarations of territorial rights by coastal states, particularly in the early and middle 1970s, largely anticipating the outcome of the third Law of the Sea sessions, had prompted the FAO's search for solutions to the problems of changed global fishing rights, powers and control. The Law of the Sea, even in the making and control. The Law of the Sea, even in the making and finally by its adoption in 1982 of the 200-mile exclusive economic zone, had threatened global fishing fleets of the distant water fishing nations, of their eventual displacement by domestic fishing vessels of local states and of the resulting excess capacity in fishing fleets and installations of the distant water fishing nations. It was also feared at that time that this would eventually affect the global fish supplies and the economies of the distant water fishing nations. The impact of the fall in supply was expected to be severe in the developed countries of Europe and America, which are the major importers of fish from the distant water fishing nations. The FAO, as the watchdog of developments in global fisheries was called upon to checkmate the developed countries' strategy.

The FAO's strategy for fisheries management aims at ensuring a steady supply of fish to the developed world and full employment of the fleets and installations of the advanced distant water fishing nations Any development threatening this prospect was criticised by the FAO. The strategies developed by the FAO since the beginning of the 1970s are clearly illustrative of this. The major components of this strategy are: (1) restraint on development of industrial fisheries in developing countries, (2) emphasis on small-scale fisheries in third world countries, (3) creation of private property rights in fisheries, (5) promotion of joint venture fishing in third world EEZs, (4) development of aquaculture projects in third world countries and (6) promotion of free trade in third world countries.

The FAO has been quite critical of the expansionist policy of fisheries development followed by some of the developing countries [FAO 1983]. The growth-oriented industrialisation of fisheries has been branded as 'fish-oriented', 'anti-people', 'ecologically unsound' and 'economically inefficient'. The slow 'accretion' of mechanised fishing fleets in the developing countries

was deemed to be a potential threat to the freeaccess of the distant water fishing fleets of the developed nations.

The Technical Conference on Fisheries Management and Development held at Vancouver in 1973 under the auspices of the FAO and the Fisheries Research Board of Canada emphasised as a starting point, the need to have a global plan for fisheries minagement and the wisdom to 'operate inernationally'. The keynote address by the assistant director general of FAO noted "..many developing countries are intensely interested in expanding their participation n world fisheries and some have already become significant participants. In doing his developing countries encounter special problems in reconciling the establishment of modern fishing industries with the improvement of their prevalent artisanal fisheries...Today there is a much wider view that management and development must not be thought of separately; conservation is increasingly seen as a subsidiary objective..." Pinpointing the expected outcome of the Conference, the Assistant Director General said "there will emerge some answers that will have at least fairly wide application and will serve as general principles and criteria to guide those responsible in governments and international organisations and in the fishing industry itself in improving management and promoting develoment".

The Conference, articulating the role of FAO in the 'development of fisheries in developing countries', noted that "joint ventures usually involving an enterprise in an economically developed country and a government or other enterprise in a developing country, were a suitable mechanism to effect the transfer of essential components of viable enterprise, including capital, technology and managerial skills". This strategy decried any 'independent' effort by developing countries to develop the industrial fleet as 'wasteful', 'slow accretion' process. In its implication, this strategy only legitimised the interests of the developed world to carry on fishing in the EEZ of developing countries by other means.

The Report of the Expert Consultation on the Conditions of Access to the Fish Resources of the Exclusive Economic Zones published by the FAO in 1983 further carried the thinking of FAO in this regard. In one of the papers presented for the Consultation, Paul Adam sought to defend distant water fishing in foreign EEZs by developed nations. He observed the main

motivating factor behind the new regime of the sea was that it would be necessary for ensuring the protection of the common heritage of mankind. If the implementation of such a noble principle leads to the scrapping of boats which are still operational. even if it is a loss borne by one national only, it cannot be considered as good management of the world resources. Furthermore, and economically more important, if the value of the common heritage is, as regards the living resources of the sea, assessed at the landing stage without any consideration of the processing and marketing chain, it excluded the largest part of the added value generated by the fishing industries taken as

The greatest restraint of FAO on expansion of industrial fisheries by third world countries was based on socio-economic and ecological arguments. The Report of the Expert Consultation on Strategies for Fisheries Development in 1983 noted "in the integrated approach of national and fisheries planning, the development targets of the fisheries sector should be guided by four criteria of global rationality, i.e., social desirability, economic feasibility, ecological suitability, and efficient use of energy".

Many western-aided studies too have subscribed to this rationality. For instance, see Jean-Philippe Platteau, Jose Murikan and Ettinne Delbar's study Technology, Credit and Indebtedness in Marine Fishing – A Case Study of Three Villages in South Kerala, Hindustan Publishing Corporation. 1985. An early World Bank staff working paper (also echoed the same thinking [Emmerson 1980]).

FAO's latest strategy to dissuade the developing countries from embarking on any ambitious programme for the development of EEZ fisheries is to restrain them on grounds of precaution, sustainability and responsibility. This requires that the state intending to develop the new fisheries should establish the possibility of its survival, or rather its sustainability. In other (words, the burden of proof to this effect rests with the state and in its absence it should abandon the plan of expansion. The Convention of Responsible Fisheries promoted by the FAO and adopted by the UN at Cancun in 1992 severely restricts the option available to the developing countries to expand their fisheries to the EEZ.

The central plank in the FAO's strategy for manneuvring fisheries development in third world countries is its programme of assistance to small-scale fisheries. This strategy emphasised the development of artisanal or small-scale fisheries in the fisheries development plans of the Asian and African countries. It was intended to curb the enthusiasm of radical planners in third world coastal states from venturing

into any large-scale modernisation and industrialisation of their fisheries. The activities of the several FAO regional fishery bodies such as the Indian Ocean Fisheries Commission's work and the Indo-Pacific Fisheries Commission are also clearly in tune with this strategy.

One of the major programmes for fisheries development initiated by the FAO in the region, the Bay of Bengal Programme (BOBP) aims at promoting the small-scale fisheries of the region by improving the fishing craft, fish handling techniques and distribution methods. The BOBP's current extension programmes stretch to new areas. to educate the fishermen on the virtues of 'self-management', 'participatory learning', etc. One of its recent publications caricatures a picture of non-involvement of fishermen in the development process initiated by national governments in third world countries and presents the BOBP-sponsored alternative of a new development strategy based on participatory rural appraisal (PRA). To enlist maximum people's participation in the BOBP programme, it plans to organise village groups and "to educate them of their past, their history, culture and economy". In one context it speaks of 're-creating' the history of the village by such methods as "using elders as resource persons for the very early history, with group support for more recent events" (see Peter Colaco and Tim Bostok in Bay of Bengal News, No 51, 1993, BOBP. Madras). It advises the PRA group to ask such questions relating to the village as "when did the community come to live in the village, major events, major crises, major achievements, epidemics, tidal waves, the coming of electricity... and so on". It reminds one that "there is always some offloading of accumulated mental and attitudinal baggage to be done, if we are to be openminded enough for real participative planning". There is a pinch of persuasion to dissent from the nationalist path, in this advice.

#### PRIVATE PROPERTY RIGHTS

One of the coveted principles of fisheries management in the neoclassical thinking, has sought to establish economic efficiency by eliminating common property rights in fisheries. The creation of private property or sole ownership rights has been, however, resisted by fishermen everywhere and it has remained 'commonwealth', particularly in 'ocean fisheries'. But, now the FAO, with the help of the 'expert consultations', has succeeded in incorporating this principle, albeit in a disguised form and through the back door. The FAO has introduced such concepts as 'self management' and 'territorial use rights in fisheries' (TURF). Recent report of the FAO notes "effective management of fisheries is essential. It requires a fundamental institutional change, entailing the creation of forms of use right to the resource... A market for the resources would facilitate the resolution of conflicts on the basis of the amount the parties would be willing to pay to protect their interests" [Christy 1982]

Self-management or management by the fishermen themselves of their industry is advocated by the FAO and its 'consultaits' on grounds of economic efficiency (least cost method) and ease of implementation. TURF involving exclusive use rights to the community is recommended in the case of enclosed fisheries using small craft, gear, pots, etc, in burrows, bays, engulfed regions, etc, in the inshore regions as also on grounds of economic efficiency and administrative convenience. It is best suggested for traditional fishermen communities livingin pockets or enclaves. To promote the TURF or community management of small-scale fisheries, FAO also favoured a programme for development of artificial enclosures for fish, by giving exclusive rights to the fishermen or their community over the area. TURF by vesting private property rights in coastal fisheries has stealthily created a market for fishing rights and a basis for extending the same logic to other fisheries at international levels. Tacitly, it has succeeded indivesting national governments of their constitutional roles and responsibilities for managing their fisheries and bringing it under the control of market forces.

Joint ventures in fishing in third world EEZs has been the most used tool in the hands of the FAO and the distant water fishing nations to perpetuate the control and access to the stock of the EEZ of third world coastal states. Even prior to the passing of the Law of the Sea, the FAO had convened the Technical Conference for Fisheries Management and Development at Vancouver in 1973. One of the outstanding recommendations of the Conference was that "... the FAO should consult with governments regarding the further role it could play in enhancing the participation of

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Promotion of joint-ventures for large-scale exploitation of the EEZ of Asian and African countries has been effectively canvassed by the FAO. In 1974, the FAO published a compendium on Joint Venture in Fisheries [Crutchfield et al 1974] outlining, among other things, the economic climate for joint venture in fisheries, prospects for promoting joint ventures, factors influencing decisions to enter into joint ventures, organisation of joint ventures, elements of success and failure, role of international agencies, monitoring of joint ventures, formation of joint venture companies, their operation and legal provisions governing their operation. The joint venture concept has helped in maintaining the status quo in third world fishing by luring many third world administrations to joint venture and chartering agreements with advanced countries. Many national governments with severe constraints of knowledge, funds, organisation and technology have succumbed to the short-run pressures of international negotiating agencies and fishing companies. It is also feared that corrupt bureaucracy in many of these countries had also behaved like the 'jagirdars' of the medieval period in extracting rent from the resource.

The FAO has promoted the interests of distant water fishing nations through other means as well. While writing on the Options for the Management of Tuna Fisheries in the Indian Ocean, William T Burke and Francis T Christy (1990) noted: "... the Indian Ocean tuna body (should) have an area of competence that includes all waters both within and outside of national EEZs ..." and "maximum benefits cannot be produced if the fisheries in the EEZs are not included. A strong regime for high sea fisheries alone would create incentives for the distant water states to focus their effort within the zones of the coastal states that offer the best deals ... Separate regimes for the EEZ and the high seas are undesirable" (emphasis added).

The FAO has buttressed its arguments for joint venture by pointing to comparative advantage, where the developed countries have the advantage of abundance of capital and know-how to specialise in large-scale industrial fisheries and the developing countries with large-scale unemployment and other problems to specialise in labour intensive small-scale fisheries.

The developed world's hunt for natural resources and the prime need for food has taken it again to the shores of the third world. With stagnating supplies from marine fisheries and the global demand for fish increasing, the developed world's quest is naturally for the inner resources of inland fisheries of the developing countries. Two of the international fisheries organisations floated by the FAO, the Committee for Inland

Fisheries of Africa and the Committee for Inland Fisheries of Latin America, are exclusively to promote the development of mland fisheries of the region.

There has been a more than four-fold increase in the total aid for aquaculture between 1978 and 1983. The World Bank, the Asian Development Bank and the bilateral donors contributed the bulk of the aid given for aquaculture development in third world countries. The world body's (FAO's) support for aquaculture in third world countries is not guided by the growth in demand alone. It has been guided by a variety of factors like the deteriorating environmental condition (water quality) in the developed world, stringent environmental protection measures in these countries, the need to recover the investments already made in R and D for aquaculture by aquaculture enterprises in developed countries and the realisation of the potential gains from exploiting the inland fishery resources of the third world countries. The potential for maximising the net economic yield from these countries is recognised by the FAO. This is in tune with the FAO's concept of global rationality of maximising the net returns (marginal product) from each activity.

Another component of FAO's strategy for manoeuvring the management of third world fisheries is its appeal for liberalisation of trade in the developing countries, which have for practical reasons introduced certain controls for protecting their domestic infant industries in the past. The FAO, like other international trade organisations, now demands removal of all controls on trade and industry. It wants the free flow of goods and services and inputs in the international economy. Fisheries management in the third world are particularly advised to remove all controls on import of components to the industry and to open the industry for foreign participation in aquaculture, deep sea fishing, etc, through joint venture, chartering or other means. State support to the industry in the form of subsidy on investment, working capital (oil consumption), etc, are all advised to be scrapped and the industry asked to grow on the basis of free competition on a global scale in the international market. This strategy, once accepted, is presumed to help the developed world in deploying its surplus capital to the exploitation of the third world natural resources (fish stocks). It favours free trade in fishery products based on global supply and demand conditions directing the flow of fishery products to the advanced countries, where there is an excess of demand and the local supplies are not responding to price stimuli. The evolving global theory of fisheries management suggests that fisheries development in the world should be guided by international market prices and not by arbitrary restrictions imposed by 'national' governments.

The FAO Special Chapter (revised) of the State of Food and Agriculture 1992 noted "for the large-scale industrial fisheries where the proportion of global waste is so large. several policy changes may facilitate the process (of change). The first is to remove the existing subsidies which exacerbate the waste and increase the impediments to change. The second parallel step would be to create use rights and allow the fishing effort to adapt to sustainable levels. The third step would be to allow the real prices of fish to increase thereby improving the earnings of the fishermen so that they would have greater flexibility in adapting to the necessary management measures Finally, national governments can begin to extract some of the rents and use them not only to help cover the costs of management but also to establish funds for the purpose of buying superfluous capital and labour and eventually achieving rationalised fisheries"

The establishment of free trade in the fisheries sector in this manner would ensure the flow of foreign capital, know-how and enterprise to the third world countries to tap the aquaculture potential and living resources of the EEZ of these countries and in maximising the net economic returns and in procuring food cheaper from the third world countries. More importantly, it will aid in sustaining the development achieved by the advanced world and in keeping the third world in the trajectory of 'sustainable development' and 'new economic order'. The net effect of this 'trade off' will be less food, more unemployment and more natural resource depletion for the third world countries. The effects of this 'unequal exchange' are already felt in developing countries like India, where domestic fish prices are rising and ecological imbalances are looming large.

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Bluebird

# Yeltsin: Inauguration in the Shadow of Death

Dev Murarka

Yeltsin's inauguration as president on August 9 marks the real autumn of the patriarch, the end of the Yeltsin era. It also marks the beginning of a new presidential race. Not surprisingly, intense infighting has already begun in the Kremlin.

THERE was something macabre and pathetic about the occasion. People were dying in tens and hundreds in Chechnya under the hail of merciless Russian bombs released on his orders, and here was Boris Yeltsin, the re-elected Tsar of Russia, droning on about his constitutional duties. It was like Nero fiddling while Rome burned, except that it was not Moscow burning but distant Grozny, the Chechnya capital. The man with the fading health, who had broken virtually all his election promises, whose demise is being discussed in whispers behind his back by all his underlings and competitors, was undertaking yet more. His pledge to "respect and preserve the rights and freedom of the individual and the citizen" according to article 82 of the constitution, sounded not merely ironical but positively insulting in view of what was going on in Chechnya at that very minute.

The inauguration ceremony which took place at mid-day on August 9 lasted barely 20 minutes and was in rather poor taste. Apparently designed to be impressive it turned out to be neither well thought out nor very elegant. For one thing, the national flag on top of the dais was hung the wrong way round. Then, right at the start, a special edition of the constitution, and the symbol of the president, a golden necklace with the Order for Services to the Fatherland, was brought in a box to the dais by a platoon of Ceremonial Guards. But it had to be taken from them and put on the lecterns by the chairman of the Constitutional Court, Vladimir Tumanov, as if he was some sort of a clerk, not a high level dignitary.

Next came the turn of the chairman of the Election Commission, Nikolai Ryabov, who made a few remarks before handing over to Yeltsin the certificate confirming his election win. Exaggerating grossly, he claimed that the president had been elected by 94 mn voters. Actually the total number of persons who voted in the second round of the election was 74.8 mn, and only 40.2 mn of them voted for Yeltsin. But this kind of casual boasting and distortion in his favour is routine in Yeltsinite political circles.

Following him, Tumanov called upon Yeltsin to take the oath. His speech and manners somewhat lacked dignity. In a crude fashion, he pointed with his outstretched hand in the direction of the lectern where he had placed the special edition of the

constitution and asked Yeltsin to take the oath on it.

Since July 3, the president had not appeared in public and the invited audience was interested only in observing how poorly or well he looked and performed. At the beginning of the proceedings he had appeared on the scene a little late, causing apprehension that he might not be able to go through even the briefest of ceremonies. But he did walk in, very slowly. Then came the ghoulish moment which everyone was waiting for, the oath-taking, when he had to speak. He pronounced the 33-word oath, resting his hand on the Russian constitution, with "great difficulty" (Segodnya, August 10), his voice quavering, and some of the words slurred. Even this much he did with the help of a teleprompter hidden in the flowers. He was obviously, if not in pain, at least feeling great discomfort throughout.

Those in charge of the proceedings behind the scenes at the Palace of the Congresses, where the ceremony took place, followed his progress with fingers crossed and praying, "Please, don't fall down". They heaved a sigh of relief when it was all over. All this failed to remove doubts about the actual state of his health, which were aroused when soon after the election he went for a rest outside Moscow and later it was announced, as anticipated, that soon after the inauguration he would go for a two month 'vacation'. ('Yeltsin's Last Hurrah', EPW, June 8, p 1388).

Following the oath-taking, the presidential necklace was placed on his shoulders by the chairman of the Council of Federation, Yegor Stroey. The last act in the ceremony was a speech by the Patriarch of the Russian Orthodox Church, Alexei II, comparatively the longest of the show though it lasted only 5-6 minutes. Two points should be made in this connection. First, there is no provision in the constitution for such a religious blessing on state occasions and in spirit the procedure violated the multi-confessional nature of the secular state. Two, the speech by the Patriarch almost appropriated the president for the church, thus continuing the tradition of keeping the Orthodox Church politically subservient to the state. This confirmed once again the growing servility of the contemporary Orthodox Church, if not to the state then at least to Yeltsin, which has been observed in recent years.

Scepticism among the people about the state of his health is such that many believe that some of the appearances on public occasions have been made by his doubles. Therefore, everyone watches out for his damaged left hand, where two fingers are missing, to make sure it is not a double. This time around, too, many people were suspicious, particularly because there was a remarkable contrast in his appearance and manner when some 40 minutes after the ceremony he appeared fresh, vigorous and clear in speech at the reception. It was as if a magic wand had been moved over him in the interval. More likely, he was administered energising preparations in the interval. No one believes in official reassurances about his health.

The initial plans for the ceremony were something out of 'A Thousand and One Nights'. There was to be an ode in honour of Yeltsin and much other fanfare besides. According to Grigory Yavlinsky, a political leader of the younger generation, who based himself on disclosures in a British newspaper, 6,000 very expensive silver place settings were brought by the president's administration for a banquet. However, according to some of those attending the banquet, these place settings were not used. Have they already disappeared in the homes of various officials?

Had his health been better, the ceremony would have been on a grander, magnificent scale, and was planned to be held outdoors, at the Cathedral Square inside the Kremlin walls where traditionally the coronation of Russian Tsars took place. The reduced scale of the ceremony was attributed to cold weather by the Kremlin propagandists. The weather turned out to be tine. On behalf of Yeltsin it was claimed that the ceremony was scaled down because he did not want a huge sum spent on an outdoor show. No one in Russia believed the excuse even momentarily. There was an air of foreboding and uncase hanging over the whole show.

Moreover, the switch in the venue was so sudden that many seats in the hall were either left empty or filled by soldiers, many of whom did not even know why they were sent there, what the function was about. Health was also the factor why Yeltsin did not invite his eternal beloved like "friend Bill [Clinton]", "friend Helmut [Kohl]", "friend Jacques [Chirac]" and other odds and ends of the western world, who would have come running at a whistle from him.

The shadow of death over the ceremony was palpable. In the first instance it was because of the extremely well planned and well timed Chechen attack on Grozny which totally exposed the wretchedness of the Russian army performance, its lying, boasting and corrupt generals, the hungry, demoralised soldiers and the inevitable bloodbath there. Symptomatic, that within 12 hours of the ceremony, before even the sound

of music and gun salutes had quite died down an official day of national mourning over Grozny started.

Secondly, the shadow of death hung over Yeltsin himself, from which there was no getting away, even if a large part of the Russian media has tried hard to look the other way. In contrast, the western media is full of speculation about an impending operation on Yeltsin.

Politics is a merciless business. Regardless of his poor health, the entourage of Yeltsin and beneficiaries of his patronage dragged him to one city after another during the election campaign, like a gypsy drags his performing bear even if it is sick because his livelihood depends upon it. With his indiscriminate and quenchless thirst for power, blind to the consequences for his health and callously indifferent to the future of the country, Yeltsin was only too willing. He is paying the price. Now, in order to exculpate themselves, his incurable lickspittles like Georgi Satarov, an advisor, are claiming that though tired Yeltsin has never been in a better 'intellectual' shape than at present. Since when has Yeltsin anything in common with intellect, people wonder.

The vacation has been postponed a little because of the in-fighting which has broken out among his new or renewed appointees, primarily on the Chechnya issue. On the one side is general Aleksandr Lebed, secretary of the Security Council, presidential assistant on National Security and lastly presidential representative in Chechnya. On the other side are first deputy prime minister Oleg Lobov and prime minister Viktor Chernomyrdin and possibly even Anatoly Chubias, head of the presidential administration.

As far as Lobov is concerned, Lebed has inherited two of the posts which he had held before, the Security Council and Chechnya. Lobov was moved sideways and remained at the level of a first deputy prime minister only after being removed from the Security Council. Moreover, Lebed has openly criticised Lobov for his non-performance in Chechnya.

Similarly, Chernomyrdin also resents the rise of Lebed and perceives him as a threat to his future political career aimed at the presidential chair. The case of Chubias is more ideological since Lebed differs from him on economic policies. Both of them are also against granting him greater powers. Nevertheless, Yeltsin has extended him almost complete authority for dealing with Chechnya and Lebed is making dramatic use of it. It is not only a political plus for Lebed over his rivals. If he can really bring peace to the tortured Chechnya, he will forge ahead in public eyes as a worthy candidate for the next presidency, no matter how hard Chernomyrdin and company try to break his neck in the months ahead.

The delay in Yeltsin's departure from Moscow cannot resolve this tangle completely and it is doubtful if the canny president would want to do so. But he has to establish some kind of equilibrium so that the boat will not be rocked in his absence, which may be a long one, and the power structure is so constructed that no one is in single command.

In reality, all that his victory has achieved is that it has extended the period of political uncertainty and instability in the country and ensured that another divisive and expensive round of presidential election will take place soon. His terrible legacy will be a painful one for the nation. Had he really cared about the welfare of the country and the people, he would have gracefully retired from the political arena. But he worked on the principle: till death do us part.

Thus, the inauguration marks the real autumn of the patriarch, the end of the Yeltsin era. It is also the beginning of a new presidential race, because everyone understands that it could come about any moment. This is the reason why such intensive infighting has already begun in the Kremlin. Only the inexperienced Lebed, who wears ambition as well as innocence on his sleeve, has been indiscreet enough to let the cat out of the bag when asked if he was going to be the president in 2000 and answered "Probably even earlier". He was being frank, too frank and honest for his own good.



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# Chechnya: A Triumph for Russian Orthodox 'Civilisation'

#### A Correspondent

While claiming to be answerable for everything, Yeltsin maintained a deafening silence on the disgraceful ultimatum issued by the commander of Russian forces in Chechnya demanding that the entire population of Grozny abandon the capital city within 48 hours or else face being wiped out by bombing. Alexandr Lebed, who had the good sense to cancel the order, tried to make light of the episode by describing it as "an unsuccessful joke".

I answer for everything

- Roris Veltsin speech at Po

 Boris Yeltsın, speech at Perm on May 31, 1996.

WHERE else in the 'civilised' world - 'civilised' in the current, racist Russian connotation of the term, constantly used by a 'cowardly and criminally silent' intelligentsia, media and politicians, by which they mean the white peoples of Australia, New Zealand, America, Canada and Europe in which they include the Russian Slavs, and exclude all others as beneath contempt - can one find a supposedly ruling president who, unperturbed, spends three days searching for a suitable place for rest, while on those very days his killer generals slaughter one of the minorities of the country?

While claiming to be answerable for everything, Yeltsin maintained a deafening silence on the disgraceful ultimatum by Lieutenant General Konstanin Pulikovsky, the commander ad interim of Russian forces in Chechnya, issued on Monday, August 19, evening, demanding that the entire population of Grozny, the capital of Chechnya, abandon the city within 48 hours or else face being wiped out by bombing. Thank heavens that General Alexandr Lebed had the wit to cancel the order later but not before Pulikovsky had already started bombing the civilisans before the ultimatum expired, afraid that he might not have the satisfaction of seeing thousands of Chechen 'animals' (the term used to characterise Chechens in official pamphlets issued by the Russian ministry of internal affairs) die. However, Pulikovsky had the pleasure of making at least half the population of the city homeless and sending it adrift as refugees and beggars. This great luminary of Slav humanism, of course, confidently relied on the "support of all true Russians and the Orthodox Church". What other convincing demonstration of the achievement of Russian civilisation and the Russian Orthodox Church, higher in quality than all others, is required? No wonder Yeltsin, who likes to attend church functions, holding a candle in his hand when physically able, could not find a single word of reprobation.

For all that, late on the evening of August 22 he did find voice and made a carefully-staged television appearance. Not to condemn Pulikovsky but to heap unjustified criticism on General Alexandr Lebed, his political partner and secretary of the Security Council. Lebed's crime was that on the evening of August 21 he had flown to Chechnya and agreed on truce. On August 23 Yeltsin refused to meet Lebed before his return to Chechnya for further negotiations and curtly ordered him to make a written submission. But capricious as usual, late in the evening, he rang him to approve of his mission, though conditionally, thus leaving the possibility open of rejecting a solution. Perhaps it got through to his betogged brain that his ill-treatment of Lebed was becoming counter-productive and public opinion was rallying behind the swan. Yeltsin does not really want a truce or peace. His conception of peace is extinction of the

The world is greatly at fault too in not noticing how marvellous Yeltsin's killer generals are, sensitive and wise. According to Yeltsin, in the past, he had the best defence minister ever, Pavel Grachev, Unfortunately, due to a little difficulty about re-election he had to part with him. However, like Grachev, his generals purposely do not defeat the Chechen freedom fighters - though they can easily do so in 20-25 minutes, and keep on confronting them, because they want to show the world how variously skilled is the Russian army, how highly competent they are. Time is required to show their awesome abilities fully. The chechens, the born stupid animals that they are, do not understand this. It would be in their interest to surrender fully and thus spare the world the demonstration of the invincible Russian might, which might frighten all of us.

It should not be overlooked also that apart from their great military prowess, Yeltsin's generals are unbeatable geniuses at public relations. They boast, he and threaten as no one else can. They boast in the morning, at noon, in the evening and at night every day. They lie from morning till evening and from evening till morning, and resume lying again the next morning. They have proudly maintained this cycle without break to this day, after 19 months of practice in Chechnya. And they threaten every hour. When one sees their arrogant postures, their eyes dripping poison, their faces distorted with hate, their threatening mien on the television screen in news programmes, particularly Pulikovsky, General Vyacheslav Tikhomirov the commander in charge Chechnya, and General Anatoly Kulikov, the internal affairs minister, supposed to be overall in charge of operations there, one has to make an effort to restrain from vomiting.

One cannot, of course, understand the noble Russian conduct in Chechnya without appreciating their highly subtle sense of homour, incomprehensible to unintelligent people. Take the ultimatum to the citizens of Grozny by the psychopath Pulikovsky. An ordinary person may not see anything funny in it. However, it was left to Lebed, the 'Great White Swan', to point it out. According to him it was only "an unsuccessful joke"! Of course, unsuccessful because roughly only half of the quarter million people of Grozny were able to escape before the ultimatum was cancelled by him. The joke would have been fully successful if all the people had fled the city. A few more such jokes and Chechnya would become empty of trouble-makers. And that is what the Russians really want, is it not? A pity that the kill-joy Lebed has decreed there should be no more such jokes. Otherwise, the Russian objectives in Chechnya would be fully achieved and he could have proudly declared to Yeltsin, see, no more Chechens. How shortsighted can one get? Perhaps he can be forgiven. He too is a general after

Even so, it would be mean and grossly unfair to Yeltsin, the greatest democrat under the sun according to his bank-rollers and god-fathers, president Bill Clinton and chancellor Helmut Kohl, to deny his stupendous accomplishment in finishing off over 50,000 Chechens or more. Not a coincidence that precisely this triumph has been appreciated and celebrated by the World Bank to release yet more credit to Moscow. Clinton and Kohl should learn from his superbexample how to deal with the Negroes and Turks in their respective countries.

Long live the Great Russian Slavic Civilisation and its exclusive achievements!



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# Nature-Friendly Planning of Humanity's Future

### Dialectics and Dynamics of Development Management

V R Krishna Iyer

Planned development is a process with clear goals and means. It is necessary therefore to define our ends first. If the people as a whole are our constituency surely no planning will be purposeful unless it be people-oriented. Primacy must be given to environment-propitious methodologies, not to technology in the abstract. What good are Cadillacs and Jaguars and Mercedez when roads are unkempt, narrow and unmade?

SOMETIME back I participated in an international seminar on environmental planning and management. I have been feeling very unhappy about the grave dangers of callous technology intoxicated with epicurean appetites tempting men and women into inevitable doom. My thoughts are pertinent only to the extent that I, a sombre and sensitive inhabitant of the Earth, am in anguish as I behold the lethal prospect of hi-tech corporate power, inflicting on unforgiving Nature, mortal wounds, leading to the Fifth Act of the Shakespearean tragedy of humanity. Karl Marx once made a poignant remark: "Human projects that ignore the great laws of nature bring only disaster".

How I wish Marxists remembered the pregnant meaning of this observation when in some Indian states, they disdain green movements and environmentalist campaigns, drugged by an ignorant craving for industrialism, oblivious of the new dialectic. in our hi-tech world, of the switchover from 'industrialise or perish' to 'industrialise and perish' since, in the myopic perception and insatiable hunger for maximum profit, the MNCs mayhem Nature in their gold rush. To be addicted to the religion of money. rejecting the long-term needs of humanity and its well-being in the biosphere is to gamble with the delicate balance between life and the rest of Creation. The biosphere is a supreme value and so too is the 'noosphere' which is an expression meaning developmental operation guided by sense and sensibility. Biosphere, so obvious a concept for you, embraces the Earth's surface and atmosphere in which living organisms are found and with which interaction occurs to form the global ecosystem. It is what may be termed biogeochemistry and allied matters. The sphere of life which is the biosphere includes all parts of our planet where life has 'asserted' itself — the atmosphere, the ocean and all land surface where life forms exist. Life is the link between the cosmos and the earth and transforms dead matter, using energy, so as to create the material world. Living organisms in the process of evolution continually change. It is in the rapid march of such changes that *Homo sapiens* emerged amidst forests and beasts. The extraordinary phenomenon of humans with brains became a marvellous landmark in the story of creation. The ability to use reason was part of this development of anthropogenesis.

The biosphere has now another factor of change which has been called 'noosphere'. the sphere of reason. The mankind thus entered the epoch of noosphere whereby further evolution was directed by reason. The collective use of reason thus took over the direction of development. Such wisdom, as a social mariner's compass, was meant to produce harmony between nature and man. If nature is wounded or environment and ecology injured, there would be reprisals where the losing end would be human civilisation. While the biosphere can do without man, man cannot exist if angry biosphere bites him. The task of technological engineering with a vision of global wellbeing belongs to the 'noosphere', taking cognisance of the balance in the biosphere. If technologists avariciously overstep the 'permissible threshold' humanity will have to pay a price too high to be worthwhile. Here comes the creative intelligence of systemic engineers, scientists and technologists for playing a constructive role as artists of change, delicately preserving the limits of sustainable development. The humanist perspective of modern science must remember these guidelines if indignant nature, like a wounded bear at bay, is not to inflict irreparable, irreversible damage to global society.

As we move towards market-friendly marijuana, materialist arrogance and global aggressiveness in production and profit, we reach a contradiction between profit-grabbing indusrialisation 'red in tooth and claw' and a pollution-free society where human happiness in good health and joy of nature is the ultimate promise. In short, here we have to draw the guidelines where the poison of industrialism stops and progressive, sustainable development starts. The parameters of human progress summon the statesmanship of scientists to achieve the goal of benign advance.

Several years ago a study of world conservation strategy revealed:

Forty per cent of humid tropical forests, which constitute the richest resources of the planet's natural environment, have already been destroyed. What remains is being uprooted and razed at a rate of 20 per cent per minute;

Nineteen per cent of the land surface of the planet (or an area of 30 million square kilometres) is in danger of becoming a desert. The degradation of dry landscapes is taking place at a rate of 44 hectares per minute; Humid coastal zones and shallow areas of the seas and oceases, where two-thirds of all the world's fish reproduce, are being degraded or destroyed at the same rate as a result of the extraction of sand and shingle, as well as the burying of waste and the dumping of polluting matter;

More than a thousand species of vertebrates and over 25,000 of plants are on the verge of extinction.

(Grigori Khozen in Big Business Against Nature, Novosti Press Agency, Moscow, 1984, p 13).

Things have become far worse as the Rio de Janeiro deliberations have revealed because the sunset of social justice and sunrise of private plunder have devalued the life of the many, for the pleasures of the few. If the jurisprudence of human justice, together with the natural and social sciences, command balanced development and distributive fairness, future shock can well be averted and prospect of plenty enhanced.

Materialist incentive, labelled capitalist or socialist, is sure to exceed the norms of social justice, unless the imperatives of global survival are accepted by the sensitised engineers of science and technology and managers of planned progress.

Long ago, the pitiless march of profitmaking big business was described by an English trade unionist whom Karl Marx quoted in his Capital:

With adequate profit, capital is very hold.

A certain 10 per cent will ensure its

employment anywhere; 20 per cent certain will produce eagerness; 50 per cent, positive audacity. 100 per cent will make it ready to trample on all human laws; 300 per cent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged. If turbulence and strife will being a profit, it will freely encourage both.

Humanitarian and ethical criteria must create new restraints on the revelry of reckless invasion of nature. Let me quote in support a scientist of note in the former Soviet Union, Nikita Moisseyev:

Our colleagues in the humanities can also play a big role. The fact is that natural scientists can indicate the limitations imposed by nature on human activity, but any restrictions or bans relating to human activity can only be put into practice by people. Here is where economists, sociologists and other scholars should take over and show how the spontaneous solution of contradictions must give way to institutions of accord. They should explain to people that the world today is quite different from what it was at the beginning and even in the middle of the 20th century. This means in effect that mankind faces the onset of an epoch that needs new ethics and new morals (Man, Nature and the Future of Civilisation, p 93, Novosti Press Agency Publishing House).

It is true that the third world, vulnerable to the dictates of the first world, follows, simian fashion, the goal of unlimited economic growth wedded to an obsession with the gross national product, high technology and material achievement prodded by the MNCs which are predators of global resources. Any Gandhian critique of this immoral arrogance of giantism in growth will pronounce the present process as dangerous in the long run.

Environment-friendly advance is best promoted by the Gandhian concept of 'Small Is Beautiful', as explained by Schumacher that great advocate of appropriate technology. What is big often is aggressive and ignores human values. In the words of E M Forster:

It is the voice of vulgar mind to be thrilled by bigness, to think that a thousand square miles are a thousand times more wonderful than one square mile, and that a million square miles are almost the same as heaven.

Development, when operated by huge corporate engines, misses the very purpose of human happiness and in its insatiable hunger of mass production crushes the masses and ignores the central questions. Development for what purpose? Development towards what end? Development on what terms of harmony with nature? Indeed, western corporate materialist gluttony means callous mechanisation and hi-tech chemicalisation, whether of industry or agriculture, pharmeceuticals or macro-projects for power, irrigation or other.

It means modern armies equipped with the most devastating technological weapons

available. It means the endless pursuit of growth, without question as to the goals or even the shape of that growth or whether the sum of human welfare is being advanced (*Third World Tomorrow* by Paul Harrison, p 342).

One of the essential consequences of greed gone mad, implicit in this MNC model, is the pumping in of corruption as a means for gaining darkling ends. In the case of soft states like India, power brokers, actual and potential, are won over by the purchasing power of tycoons. Massive corruption without mass indignation and each one in the assembly line of government having a price, is a systemic pathology of neoglobalisation. The structural sapping of national integrity by IMF conditionalities is an inevitable fall out of the modern scenario when the danse macabre of Multinational Corruption Incorporated (MNCI) becomes the major player in the economic South. Therefore, the moral environment, which forbids aggression on Nature, is emasculated by MNCI. All the countries where corporate power has exercised control over government through money power have destroyed resources of nature like forests, rivers, clean air and pollution-free biosphere.

The sweeping strategy of the global economic roll back unleashed by MNCs, with hegemony worldwide, has resulted in "the most unkindest cut of all", the infliction of wounds on the vital spots of nature contrary to what the vedic wisdom of ancient India taught humanity.

Those who are concerned with environmental planning and management must remember:

We have taught ourselves to create and combine the most powerful of technologies. We have not taken pains to learn about their consequences. Today these consequences threaten to destroy us. We must learn, and learn tast (Alvin Toffler, Future Shock, p 440).

Among the lessons of Earth Summit Conference the world must learn are the following:

- (1) The North, comprising 20 per cent of the world's population and consuming 80 per cent of its reserves (the US consumes the lion's share), is reluctant to take any initiatitive to save humanity from environmental degradation and the adversities of underdevelopment. Have the 'haves' ever in history shared with the 'have-nots' a holistic strategy to make all humanity a global brotherhood in development, environment and ecology save under the soul force of cosmic collective conscience which is the locomotive of history?
- (2) Victory comes once the South stands together and awareness dawns on the North that the Earth is environmentally indivisible.
- (3) The prognosis is bright if the nations, weak and strong, present a united front against eco-imperialism.

(4) Finally, as the Brazilian president underscored on the eve of the Rio Summit: "You can't have an environmentally healthy planet in a world that is socially unjust"

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(5) Have the nations any recipe for success? Such a viable proposal is what Mahathir Mohammed made:

A global fund, financed by national contributions assessed on the basis of population and carbon dioxide emissions, would be created to assure the success of this vast effort at reforestation and new forestation. Such a project would not only solve, at least partially, one of the world's most important environmental problems, it would also exemplify an approach to saving the earth through co-operative efforts that are fair and just for all, not merely for the North.

Environment, ecology, population, poverty and life in luxury, all have an impact on the escalating Global disorder. Compassion towards ecology and environment is a casualty if we jettison the imperatives of environmental preservation prompted by myopic avarice.

With the ideal of power over Nature, demanded passion seeks to programme the technological golden goose for speedier and speedier outputs of whatever we desire. Perfection has limits. Power has none. Need has limits Greed has none. The limits of this biosphere are set by the laws of Nature. In the laws of Nature, we should hail our saviours. Our only chance of resurrection lies in total alignment with them [Animal Welfare and Nature: HINDU Scriptural Perspectives by G Naganathan, p 22]

Our current culture is dominated by knowhow without caring for know-why. Seduced by the North:

We are always seeking a better, more efficient, more powerful, more instantaneous route to carelessly examined ends. Now the most dangerous brand of determinism is the technological. Science began as a human tool; now humans are its victims, and science is dragging us down a path no longer of our own choosing [Ibid, p 22]

Mesmerised by such vulgarity the masses of the south miss the essence of what Gandhiji in India and Masanobu Furooka in Japan taught us. There is a moral obligation on the part of the intellectuals to abandon the greed (of the few) and fulfil the needs (of the masses) as the 'dharma' our our times. Our culture of ancient vintage bears testimony to the wisdom of living in reverence for all of Nature's creations and behold it as a way of life, a necessity of survival and a spiritual value.

These introductory observations of mine, if valid, can be fleshed out beautifully by environmental planners and managers. The philosophy of the Vedas and Upanishads, the sermons of Jesus and the universal brotherhood of Muhammad when lifted to the 21st century, will be a moral monitor

and spiritual teacher to the developmental technologists and advisers of planning.

Planned development is a process with clear goals and means which will advance, not defeat the objectives. So we must define our ends first. If the people, as a whole, are our constituency surely no planning will be purposeful unless it be people-oriented. If the environment is hostile, plans will be frustrated. So primacy must be given to environment-propitious methodology, not technology in the abstract or under totally different conditions or popular milieus. This is too obvious to be emphasised. What would be the point of having Cadillacs and Mercedez and Jaguars where roads are narrow? Fast foods and bar parlours, where people are poor and wages low, are incompatible with distributive justice or socialistic pattern of society. Likewise, management is conditioned by relevant factors of human habits and residential facilities. All said and done, science is at the service of a given society, not the other way about. The democratic commitment and culture are determinants which science and technology must consider. They are instruments to solve problems of a country, not to impose themselves on a community. giving rise to new problems. So it is that exotic arts are not answers where ground realities and people's ethods are incongruous. Progress, to be authentic, must achieve an internal integrity and social morality. These are imperatives of environmental planning and management.

What I have stated above applies to the north as much as to the South. This caveat of ecological consequences of the private entrepreneurship was uttered by president Theodore Roosevelt. In a special message he warned his countrymen:

The natural resources of our country are in danger of exhaustion if we permit the old wasteful methods of exploiting them longer to continue... The time has come to inquire seriously what will happen when our forests are gone, when the coal, the iron, the oil, and the gas are exhausted, when the soils shall have been still further impoverished and washed into the streams, polluting the rivers, denuding the fields, and obstructing navigation... It is time for us now as a nation to exercise the same reasonable foresight in dealing with our great natural resources that would be shown by any prudent man in conserving and wisely using the property which contains the assurance of well-being for himself and his children (quoted in Big Business Against Nature by Grigori Khozen, pp 17-18).

Look at the contradictions of progress in the US which must dialectically educate us. Stewart Udall, ex-secretary of the interior, described the situation in 1960 thus:

This nation leads the world in wealth and power, but also leads in the degradation of the human habitat. We have the most automobiles and the worst junkyards. We are the most mobile people on earth and we endure the worst congestion. We produce the most energy and have the foulest air. Out factories pour out more products and our rivers carry the heaviest loads of pollution (Ibid, p 18).

Nixon, as president, pledged that "environmental quality would be the third great goal of the New American Revolution".

Ronald Reagan, while he was governor of California, told his electorate:

There is no subject more on our minds than the preservation of our environment and the absolute necessity of waging an all-out war against the debauching of that environment (lbid, p 19).

Market friendliness is a euphemism for open sesame to big business whose focus is on quick bucks, even if it makes public good bankrupt.

In the early 1970s the influential weekly US News and World Report revealed that as a result of a continuous deterioration in the quality of the working environment and of increased pollution at US factories, at least 1,00,000 people were dying every year and another 3,90,000 were being seriously disabled. In the Federal Republic of Germany, the number of people suffering from hearing defects due to factory noise in the 1960s rose 13.5 times compared with the previous decade; and the number of industrial workers suffering from skin diseases has been growing fast. In Sweden, an examination of workers employed in copper smelting works showed an increasing number of deaths due to cancer of lungs, blood disease, cirrhosis of the liver and cardio-vascular disease. Medical men are alarmed at the continuous growth of hereditary diseases and even deformities among working-class children.

There is no evidence that the corporations have radically changed their attitude to environment protection. Between 1974 and 1980 the US Environmental Protection Agency (EPA) investigated 340 cases of violation by major corporations of the laws concerning air and water pollution. The lines for these violations exceed 55 million dollars The biggest fine - 18 9 million dollars - was imposed on the United States Steel Company. One American voluntary group calling for more rigid control over the use of nuclear energy has calculated that in 1979 alone there were 2,300 breakdowns and accidents at atomic power and nuclear fuel plants in the US Many of them caused considerable ecological damage (Big Business Against Nature by Grigori Khozin. pp 19-20)

We thus find the world's corporate controllerate dominating the processes of production in our planet, degrading environment and damaging ecology. We thus discover that globalism in the hands of corporate terrorism makes nature a graveyard and a junkyard. With all the promises the MNCs may make, there is no code of ethics

for them, no legal hand cuffs and measures of punishment in case of violation. Ralph Nader, long ago wrote about ineffective application of laws when the culprit is a corporate. He tartly observes.

Rarely is the law invoked against corporate violence, but when it is, the prosecutional penalty or equitable remedy is applied to the corporate shell and not to those officials who make corporate policy. It is almost axiomatic that irresponsibility toward public interests becomes institutionalised whenever the making of decisions is so estranged from any accountability for their discernible consequences...

Unsafely designed automobiles, pollution, harmful food additives, and other contaminants embody a silent kind of violence with indeterminate, unpredictable incidence per victim. That impact does not provoke immediate sensory response of pain or anguish directed at the source of the harm Such harm does not come in the anthropomorphic form that is apparently so necessary to motivate action. Corporateinduced violence illustrates in compelling fashion the biological obsolescence of human beings toward machine, chemical, or other injurious exposures emanating from the technology of corporate groups. Our sensory apparatus, adapted to cruder and older forms of visible hazards, cannot detect carbon monoxide or radiation until it is too late Soon, this widening gap between the obsolete mechanisms of man's physiology and the multiple, cumulative impacts of his technology may mark the confines of the struggle for planetary survival even should peace between nations prevail. The mind of man must abstract what is happening more rapidly, for the body of man provides few early alert signals. Corporate fraud and other economic crimes similarly escape the normative perception that would be applied, for example, to a pickpocket by most people From educational to media systems, people are not afforded adequate opportunities to learn about and ethically evaluate pricefixing, adulteratex citrus, juices, hams, and poultry, deliberately fragile bumpers, unperformed but billed for services, suppression of life-giving innovations, and many other crimes which bilk the consumer. in Senator Philip Hart's estimate, of some 200 billion yearly (in the introduction to the book America Inc by Morton Mintz and Jerry S Cohen, pp 12-13)

All these fundamental flaws and systemic failures are a menace to whole populations. The hazards to health, life and property are escalating, because of reckless industrialisation. Scientists know perfectly well that built-in safeguards can prevent pollution, careful planning can pre-empt community calamities, toxic industrial effluents and the like.

But corporate behaviour and the corrupt clout hold the law at bay and corporate crime rarely comes to light as Bofors the security scam and the hawala outrage et al demonstrate undetected business crimes, tycoon culpability and communities being held to ransom in the economic field—the new AID syndrome are ballooning, what with the new economic policy showing undue hospitality to dubious industrialists a la Enron backed by almighty dollar. The legal process is too weak and dilatory; so much so, blue-chip corporate recidivists are rarely caught and more rearely convicted. Why? Because obiquitous corruption is the master of every situation. We need a jurisprudence with better invigilative capacity, finer social sensitivity and stronger, prompter punitive processes.

Is the only solution to make science and technology the vanguard of social advancement? What we need is universalism in blessing humanity as a whole with the basics of a good life, not abundance for small affluent oases and appalling indigent deserts for the rest world. A transformation of consciousness which indivisibly bind us all is the desideratum. Here, it is here, environmental planners and global technological managers have the role of planetary patriotism to play.

Markets make no meaning, luxury goods are but illusion, five star culture has no relevance, if science and technology are not humanised to benefit the humble and their blessings universalised. Alas, although formally socialist, the new trend in India is geared to survival of the fittest in competitive cannibalism. I see a degeneracy from the days of Gandhi and Nehru to the later Moghuls in Delhi, whose cults of epicurean 'affluenza' and 'west is best', have inhibited the creativity of the common people putting all the developmental eggs in the M N C basket. The M N Cs have no body to be burned, and no soul to be damned. Therefore, scientists must be the custodians of development where common people matter. Unfortunately, those in power are pachydermic. An apt quote which spells out the patrician pathology of the power elite runs thus:

We have numbed ourselves so that we do not feel the pain. We have to be asleep in order to protect ourselves from the horror of knowing that twenty-eight people, most of them young children, are dying this very minute—twenty-eight people no different from you or me or our children, except that we have food and they do not

We have closed down our consciousness and aliveness to a level where it doesn't bother us. So if you wonder if it costs us anything to allow millions to staive, it does it costs us our aliveness (*The Aquarian Conspiracy* by Marilyn Ferguson, p 456)

The scientific talent of the South, especially of India, is a large resource which can, if developed, accomplish self-reliance, indigenous initiatives and meet the needs of populations cheaper and better. Food self-reliance without imported fertilisers and

pesticides, industrial development pressing into service material available within the country and organising 'appropriate technology' for generation of power and avoidance of pollution are the new lines scientist-humanists must follow. Distributive justice, not isolated opulence, freedom from colonialism, not dependency syndrome, are the route to material salvation of third world humanity. World hunger is big business for MNCs, liquidation of the public sector and people's sector the policy of the IMF so that our national economics may drag on crutches. Trade traps, chemical traps, debt traps and death traps are the portents if the reservoir of scientific talent and genius cannot be motivated by a patriotism committed to the abolition of privation so as to go into concrete action with a focus on the specifics of each country. We need, therefore, a new world science-technology order, a new world economic order, where human solidarity prevails over kilkenny cat competitive market ideology. This is a summons for a new faith in the universal happiness of humanity. Walden Beilo, in his book Dark Victory, has a concluding paragraph which emphasises:

that human rights, peace, and environmental welfare are indivisible and transcend the boundaries set by state-limits supported by corporate capital in the name of 'national sovereignty' when it suits its objectives. It is the universalising logic of labour solidarity, community, equity and ecological sustainability that confronts the increasingly destructive combination of corporate expansionism, political counter-revolution, and tribal retrogression in the North While the former still has to attain a critical mass, it is by no means preordained that the future belongs to the latter (p. 115).

The foremost principle is reverence for environment and ecology. Growth that does not respect the natural world, its complexity and its sensitivity, limits itself. Resources are exhausted, ecosystems collapse, species disappear and our own physical and mental health and even our survival are threatened.

Mankind has reached a point where it is not enough to develop material wealth. It must now learn how to distribute that wealth fairly, and how to develop all humans to their full physical and psychological potential, in harmony with nature. West, East and South should be engaged in a process of learning from each other the concrete ways of achieving this (The Third World Ton prow by Paul Harrison, p 350)

Sensitive researchers, with a sense of accountability to humanity must fight the destructive diversion of natural and human resources for nuclear and other killer purposes and arsenals of weapons. Likewise, our wastes must be converted into wealth, our fifth turned to good use by a Midas touch, and our native resources exploited to serve better than imported glitter.

Let me cite a Kerala instance. Eco-friendly botanical pesticides must be tried seriously. Pesticides, often add to the problem of pests. For example, Kuttanad (Kerala):

faces the threat of a resurgence of pests and diseases in its paddy tracts, as the management of pest and disease control affairs has fallen into the hands of pesticides companies. What is worrying the agricultural scientists is the ruthless marketing techniques adopted by some of these companies (P Venugopal in an article titled 'Pesticides Add to Problems of Pests', *The Hindu*, dated February 8, 1995, p 5).

Our industries can put waste water to use. Our food processing can be designed with effluent treatment plants. So too our breweries, tanneries and instant coffee manufacturing plants. Our drug companies must be convicted of environmental guilt but can be given probation if only they adopt neutralisation methods. Health from bacteria, aquatic plants and other innovative wastes must be pressed into service. Our native pharmaceutical wealth has much to offer to healing humanity's suffering. Let us not patent away our ancient recipes and betray our treasury of herbs and pharmacopea evolved over millennia for a few pieces of silver.

We must be guided by the values of a moral order, not the appetites of a sensual system. Martin Luther King Jr rightly stressed:

The means by which we live have outdistanced the ends for which we live. Our scientific power has outrun our spiritual power. We have guided missiles and misguided men.

Loony industrialism may visit mankind with punitive justice, unless we change our development course. Regrettably, the victimology flowing out of distored technology may well visit misfortune over the innocent vast. There is no Noah's Arc even for the North. All will perish and none survive if the scientists' sector, exercising autonomy and swearing by humane convictions and liberating its conscience from corporate temptations, does not assert itself with spiritual authority and refusal to bend before political-military-corporate domination. Winston Churchill once said:

The dark ages may return – the stone age may return on the gleaming wings of science; and what might now shower immeasurable material blessings upon mankind may even bring about its total destruction. Beware, I say! Time may be short.

In the present world crisis, the collective call to all humanity, especially the scientists and researchers, teachers and technologists is 'do or die'

The woods are lovely, dark and deep, But I have promises to keep, And miles to go before I sleep, And miles to go before I sleep.

# **Preferring the Lie**

#### **Nigel Harris**

China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism by Peter Nolan; Macmillan Press, Basingstoke, UK and St Martin's Press, New York, 1995; pp 360 + bibliography.

COULD the Russian reform programme have been managed with the gradualism that occurred in China, thus avoiding the disastrous decline in Russian output and standard of living? This is the central question examined in this work by Peter Nolan.

The book covers a comparison of both economies during the respective reform periods, an outline of the pressing need for reform in both countries, an account of the nature of the transition process to a market economy, a discussion of the respective benefits of 'catching up', and then a historical resume of the transition in each economy, with some final conclusions. The book is excellently documented and referenced, and clearly presented (although it could have benefited from closer proof-reading and editing).

The contrast between the two countries during reform could hardly be more striking. China, after Botswana, has, according to World Bank estimates, had the highest rate of growth in the world since 1978 (when the reforms began), approaching an average of 10 per cent annually (and nearly 12 per cent between 1980 and 1991). There has been a huge increase in popular consumption, especially of consumer durables, a major decline in infant mortality (by 46 per cent. 1981-91, compared to India's 26 per cent, although China in 1981 was much better than India in 1991), and in poverty (the population below a constant poverty line, again according to the Bank, fell from 270 million in the late 1970s to 100 million a decade later). For the rural majority, the real rate of growth of farm output increased by 1.4 per cent annually (1957-78) and 5.4 per cent (1978-92; 8.5 per cent, 1980-85), while the share of cultivation in village gross income fell from 69 (1978) to 36 per cent (1992) with rural industrialisation. China's progress in the 1980s must be a historically unprecedented transformation for such a large proportion of the world's population - never before have so many people experienced such sustained improvement.

The period for Russia is much smaller, but the decline in that time has been little short of catastrophic – a 44 per cent decline in gross output between 1989 and 1996 [EBRD 1996]. Unemployment on the official figures has not been significant, but there seems to have been a sharp increase in poverty, a general decline in the standard of living (by possibly up to a quarter of net income), and a sharp increase in inequality. Perhaps the most horrifying symbol of long-term decline (as opposed to the immediate effect of reforms) has been the decline in the average expectation of life at birth for males – from 65 in 1989 to 57 in 1993.

Thus, Nolan's argument is of great importance. The Soviet Union, he says, could have emulated China, in which case it would still exist. In terms of the conventional wisdom, it is a perverse argument, and for that we should be grateful and applaud the courage of the author in presenting an unpopular positio. He forces us to rethink the case, now reiterated in some detail in the latest World Development Report [World Bank 1996]; an earlier presentation of a similar case occurs in Sachs and Woo (1994). Furthermore, if Nolan is right, he offers a partial vindication of the old social democratic orthodoxy that the state can (and should) be employed today as in the past both to decisively restructure the domestic economy and to determine the pattern and pace of economic growth. Nolan runs up a banner for the old reformist left, and in these troubled time, that is worth noting.

However courageous the attempt may be, ultimately it is not convincing, and at various points, the argument is, if not confused, confusing. There are a number of key points in the arguments worth examining separately; they are presented here in no particular order of importance.

### (1) Is gradualism in government action invariably good?

One of Nolan's key arguments is that society is so complex, no government should undertake rapid comprehensive reform, only piecemeal, cautious and experimental change. It is a curious argument for a pragmatist (which Nolan counts himself) – as opposed to an ideological conservative – since the speed of a process needs to be determined by the aims and circumstances concerned. Wars, emergencies and crises, for example, usually require speedy and comprehensive reactions, and gradualism as a reaction constitues iresponsible complacency. As Tawney is said to have observed: you can

skin an onion leaf by leaf, but not a tiger claw by claw. Was Russia in the late 1980 an onion or a tiger?

Nolan doest not answer the argument for speed in the Soviet reforms, as presented for exmaple in Aslund (1991: 221): "If the economy is in steep decline, gradualism equals the prolongation of economic suffering. Therefore, a swift change of system is necessary for the population's welfare." Nor does he respond to the additional argument that the crisis in the Soviet Union provided a rare opportunity for retorm that would not last long before being stifled, as all the other reform efforts were, by vested interests. Indeed, by implication, he does not seem to believe there was such a crisis (even though elsewhere he well describes the growing difficulties of the Soviet Union), so that the behaviour of Gorbachev and his followers becomes inexplicable.

## (2) Does the Soviet/Russian reform programme constitute 'shock therapy'?

However, analysing the Soviet/Russian reform programme as an example of rapid reform is somewhat bizarre. There was no Polish-style 'Big Bang', and the programme, still far from complete, has so far run for seven years. Gorbachev, the target of much of Nolan's ire, introduced only limited reforms before retreating to defend the old establishment, to the fury of the rest of Russia (now reflected in his derisory share of the presidential vote). Under Yeltsin, there have been four phases of reform, each defeated by political events and leading to the fall of the reformer (Gaidar in December 1992. Federov in January 1994, and Chubais in January 1996). The Russian case was, for those western advisers who favoured rapid comprehensive restructuring of the economy, a failure. The much better cases for assessing rapid reform would be Poland or the Czech Republic. After twp years of severe decline, they have now made a strong recovery in terms of growth - with Poland reaching a 6 per cent growth rate in 1994 and 1995, with something similar projected for 1996 [EBRD 1996]. But those cases would defeat Nolan's argument that rapid reform leads necessarily to disaster. However, of the 26 countries in eastern Europe and the former Soviet Union, the diversity of performance is immense, so restricting our view to Russia is seriously distorting. The World Bank is arguing that swift reform - in Poland, the Czech Republic, Slovenia, Slovakia, Hungary, - has been followed by rapid recovery; slow reform in the Ukraine, Belarus, Turkmenistan, Tadjikistan, Uzbekistan, has gone with continued decline. However, the diversity is so great, such simple deductions encourage sceptism on the argument of Nolan and the World Bank (from opposite sides) that speed per se is the key explanatory variable.

# (3) Could the Soviet Union/Russia have been reformed gradually?

Nolan argues that the possibility of gradual economic reforms in the old Soviet Union was sacrificed to Gorbachev's obsession with the primacy of political reforms - as a result, the state collapsed and the possibility of any reform disappeared. He sees great potential wasted: "There were large possibilities in Soviet agriculture as in Soviet industry for releasing surplus labour to undertake labour in other sectors" (p.125). Or again: "The introduction of a suitable incentive system could have released a greatly increased intensity of labour and hugely raise output from existing resources" and "relatively simple institutional changes had the potential to produce large improvements in efficiency and release labour and a much increased share of investment for employment elsewhere in the economy" (p 149).

Why then did the government not pursue these simple options? Nolan does not really explain why the leadership was so apparently irrational, except in terms of some enslavement to 'American ideas'. He does not accept the conventional explanation that the institutional structure of the old Soviet Union neutralised any economic reform efforts that might reduce the power and privileges of the bureaucracy. He replies: "It is not obvious that it would have been impossible for Gorbachev to devise a coalition of reformers at the top of the Party" (p 242) This is not good enough because the evidence does suggest just this - or at least, even with this coalition of reformers, Gorbachev's writ would not have extended beyond the politburo.

It is here that Nolan's account cries out for a detailed examination of why the 30 years of previous reform efforts failed, or at least, could not be sustained. As Yeltsin (1994.147) notes, "Russia's trouble was never a shortage or abundance of reformers. The trouble was an inability to adhere to a consistent reform policy". The inability derived from an institutional structure, dominated by the great central ministries and the military industrial complex which stifled reform. Here Nolan's view appears bizarre,

"I ne Gordachev regime innerited a country that was politically stable... it possessed a powerful administrative apparatus in the shape of the Communist Party" (p 256). With the benefit of hindsight, we can see that this just was not true - the speed of the collapse of the party indicates how decayed it was, as partly admitted by Nolan elsewhere, "It can now be seen that the communist system was brittle...there was no possibility for careful, controlled reform, gradually releasing the 'safety valve' of political control (p 300). The choices, according to Nolan. were either the continued rule of the Communist Party and an authoritarian state or chaos - there was no possibility of democracy. Of course, we have just seen 108 million Russians deliver an apparently fair and open election, 55 per cent of them opting for Yeltsin, so Nolan's judgments here have been, for the moment, rather overtaken by events.

Somehow, although Nolan presents the data accurately enough, he leaves out the peculiar character of Russia - a heavily industrialised urban society, with a large and sophisticated middle class (compared to China); a war economy, dominated by a set of very powerful centralised ministries, with little potential for commercial reorientation, and held in place by a global military contest with the US (the role of Reagan's Star Wars initiative in breaking the Soviet state should not be underestimated); and a society characterised by growing shortages, a deteriorating economic performance (with a disastrous decline in capital productivity) and an increasing incapacity to meet its central rationale, the ability to match the US

The capacity to reform, gradually or swiftly, started to die with Stalin. The general secretary's regime of terror was the precondition for moving the bureaucracy, the 'incentive' in Nolan's terms. There was a moment for a change of direction after Stalin's death - as illustrated in the Liberman proposals on the reform of plant management or Khrushchev's Twentieth Congress speech -- but this period was the height of the cold war, so external terrors immobilised radical reform. Notan sees the death of Stalin as allowing the Communist Party to move "towards increasing pragmatism, routinisation and steady progress towards the emergence of a better educated technocratic clite". This is not the right formulation without terror, the bureaucracy could settle down to entrench its position to control all, including the general secretary; it led to stasis if not sclerosis, under a "relatively autonomous state". Under Brezhnev, stasis threatened to become paralysis. The only thing holding the whole together seems to have been the cold war, the external fear, and even that was growing weaker.

Ciorbachev's achievement was not so much domestic reform as in changing the relationship of the Soviet Union to the US, removing the lynch pin of the Soviet order and thus directly threatening the positions of the military industrial complex, the central element of the bureaucracy. In doing so, he began to reveal how little legitimacy the Party still retained; restoring its legitimacy, he calculated, required a reduction in - but not the destruction of - the great centres of power. Too late he learned that he himself and the Party would hang together - as Mao learned in 1968 and swiftly drew back from 'Bombard the Party headquarters' to the safety of the army - but Gorbachev left it too late to stop Yeltsin and a new Russia overtaking him.

Thus, Nolan's optimism that economic reforms in the old Soviet Union could have succeeded without prior political change does not seem justified - although equally his belief that political reform was impossible without the destruction of the Communist Party seems well - founded, although no one could know that in advance. The state needed to remove – or reduce – the external pressure of competition with the US and restore the political legitimacy of the Party as the precondition for undertaking successful and far-reaching economic reforms, a package which, with the benefit of hindsight, now seems impossible. Gorbachev succeeded in the external change and the destruction of the central ministries without being able to provide any effective alternative to the central allocation system - both CMEA and the Soviet Union were casualties, without taking into account the severe hardships imposed on the population. In initial conditions of great scarcity, the collapse of the allocation system led to very severe shortages, ameliorated only by the swift growth of the black economy, factory-to-factory barter systems and imports, Nolan, underestimating the scale of the crisis, deplores the use of imports to meet current consumption needs instead of 'growth-enhancing' investment. not remembering perhaps that the miners struck (thus hitting exports as well as domestic supply) not for increased pay but increased goods. In the short-term, imports were an indispensable incentive to keep people at work.

Privatisation in these conditions was not so much a means to increase efficiency, but a way to create new control mechanisms and dissolve a social order – much as in England Henry the Eighth's dissolution of the monasteries dissolved one social order and created another more local one. In both cases the change opened up great resources of wealth for private spoliation, creating a new heavily-bribed social class to support the new status quo. Sutela (1994:418) notes "breaking the ownership position of the

ranch ministries was the overwhelming riority if the irreversibility of the transition was to be ensured... the speed deemed necessary could not be attained without bribing the insiders'.

Thus, it was the politics of the reform process which was paramount, not - pace he foreign advisers - the economics. It is his political dimension which is strangely missing from Nolan's account. The 'stake-nolders' (or 'those in positions of authority aking the capitalist road' for those with nemories of 1966) reshaped the reforms in he interests not of economic efficiency but o maintain and extend their power.

#### 4) Was China Stalinist?

Nolan's account of China is better leveloped than that of Russia, but in order o support his argument, he is obliged to exaggerate the similarities between the two countries—"It cannot be said that the Chinese pureaucratic apparatus or tradition of centralised rule was weaker than that of Russia" (p 154). But indeed it can and should be said—and Nolan says it, "These features of the setting in China helped produce a high degree of 'self-reliance' at every level of the economic system far beyond that normally characteristic even of a command economy" (p 132)

China was necessarily always much more decentralised than the Soviet Union and Russia. The great central ministries with a sectoral reach from Vladivostok to Vilnius, overriding the supposed constitutional rights of the Republics, had no parallel in China cf White, 1993:22]. From the days of guerrilla warfare through to the role of the provinces in the Great Leap Forward or the Cultural Revolution, the Chinese system stood in marked contrast to the Soviet Indeed. t was the reality of provincial party leaders unning 'little kingdoms' which was such a cey target in both the Socialist Education Campaign of the early 1960s and in the Cultural Revolution. In 1968, Mao gave up he task of reforming the party through the mobilisation of extra-party forces (the uckless Red Guards), and empowered the regional commands of the People's Liberation Army to restore much of the old leadership of the provinces, that is, restrengthening exactly the forces which were supposedly the obstacle to Mao's aspirations. The defensive reactions to the armed clash with the Soviet Union on the Amur river in 1969 likewise legitimised and strengthened local self-reliance and provincial power - leading to the 'cellular order' so well described at the time by Audrey Donnithorne (1972) and cited by Nolan. Of course, as a party of supposed orthodoxy, the Chinese leadership invariably described the party and administrative structure as if it were Stalinist, highly centralised, and for

a brief moment under the spur of the Korean War, it was, but in general it is strikingly contrasted with the Soviet model. It was lucky for Deng Xiaoping that it was – can one imagine a dissident Russian leader, with Moscow seeking his death, fleeing to the Ukraine or Siberia, surviving and then inheriting power?

By the time we reach the reform period, the degree of decentralisation was extreme, and China was held together by annual bargaining between province and centre, locality and province. The World Bank (1994: xiii) notes that "individual provinces are tending to behave like independent countries, with an increase in external (overseas) trade and a relative decline in trade flows with each other". And Nolan himself observes that "Chinese townships (xiang) governments resembled mini nation-states" (p 216).

If the central bureaucracy was very much smaller—indeed, notoriously so—the degree of industrialisation was relatively much smaller and the urban middle class tiny (relative to Russia). Even more important, China was not locked into a military competition with the US, not aiming to match every increase or change in US defence policy—a relationship which enslaved the Soviet military industrial complex, the heart of both the old Soviet Union and the CMEA, to external imperatives. China was part of a local arms competition, but economically, it could be no more than a distant echo of the global play.

Furthermore, when reform began in the Soviet Union, it was over 30 years since the death of Stalin, since the scourge of terror had been removed, allowing the bureacuracy to entrench itself as an apparently immovable easte. In China, it was only two years since the death of Mao and the bureaucracy was still exhausted from the unstable and arbitrary scourging of the later years of the Cultural Revolution - most were perhaps just quietly grateful for a bit of peace and stability. They still had to be bribed with opportunities in the new market economy, but they were in no position to obstruct the reforms. The Cultural Revolution made possible the programme of gradual reforms - as Liu Binyan, the dissident Chinese journalist, observes: "most Chinese would probably agree taht the reforms since 1979 under Deng Xiaoping would never have taken place without it [the Cultural Revolution (cited Financial Times, May 17,

As for political legitimacy, the political class, the urban middle class, was too small to be able in 1980s to change the Chinese balance of power. The dissidents were able to go as far as they did in 1989 only because the leadership was divided – and when an effective coalition of the military and political

leaders could be engineered (and it took quite a time), they rode roughshod over the opposition, indifferent to the effect of this domestically or abroad in damaging their claim to rule. With a majority peasant population, in the short-term the regime settled for silence and obedience if not respect, let alone love.

Nolan notes many of these differences, but still maintains that the central direction of China was as effective as that in the Soviet Union, even though by now it is not very clear any longer exactly what Bening controls (it will take a systemic crisis to test the reality of its power). For Nolan, the central party leadership is benevolent and wise, rather like Plato's fictional Guardians, and graciously concedes decentralisation on pragmatic grounds - "The granting of increased autonomy to localities as market forces grew was arranged in a planned fashion, gradually spreading out .." (p 178). This omits all the messy struggles of reality in which power is seized by the provinces, prized out of the hands of the centre by bullying and blackmail, stubbornly defended and extended in the face of central opposition or disapproval. We have no sense of the arguments and deals struck in smoky rooms, the permanent fights between centre and provinces (and provinces and localities), and the straight refusal of lower echelons to obey central directives. Government as organised chaos is missing.

Nolan gives the Chinese regime an extraordinary blank cheque - the "national interest was unswervingly placed above individual interest" (p. 179) or again, "Repeatedly, the interests of the individual and different social groups were subordinate to those of overall national prosperity" (p 225). This daydream world is not apparently an official government hand-out, an echo of ancient Stalinist lies. Would not Yeltsin - or indeed, John Major or Bill Clinton or any other head of government - make exactly the same claim? How does Nolan know what China's 'national interest' is? The suppression of Tibet or the 1989 Tiananmen Square campaign?

### (5) Is democracy compatible with industrialisation?

Nolan argues that Gorbachev was in grave error to raise the issue of human rights in Russia. In his view, the right to work, to eat, live safely, have access to education, housing and health facilities are more important than the right to vote, speak freely, publish what you will and own property. If material welfare is accepted as the top priority, then Nolan says we should favour those political arrangements which are most likely to lead to this outcome—and in his view, that means the Chinese Communist Party, not the Russian Duma.

He broadens the case, arguing (p 64) that democracy is incompatible with industrialisation founding his case in the history of both Europe (developing before the arrival of voting, etc) and the Newly Industrialising Countries(NICs). The key to NIC growth, he says, repeating a currently fashionable doctrine on the Left, was a "relatively autonomous state", which was committed, like the Japanese, he continues, "to the profit motive and the market mechanism". Now this embodies an interesting confusion. Was the Japanese or South Korean or Taiwanese - state committed to these things? The historical evidence would suggest that it was not so - profits and markets were tolerated by the state, with a certain amount of contempt, as means to build national economic and thus military power, the power to deter or kill those seen as enemies; economic development was a by-product not the aim. Thus, the 'relative autonomy of the state' has in itself no significance for economic development without the primary motivation, in this case the drive to develop the means to kill. After all, there have been a large number of 'relative autonomous states' that have devoted themselves wholeheartedly to robbing their luckless citizens. Indeed, one might include Brezhnev's regime as a relatively autonomous state ensuring stagnation in the Soviet Union.

The broader argument, so favoured by tyrannical regimes everywhere, is at best confused. India's slow growth, Nolan believes, is because the country is democratic. But is there evidence that mere voting afflicts the economy? Or is it rather that clusters of interests, large private business, public corporations, groups of politicians and government departments have colluded of secure profits and low competition? And that can equally well happen under an authoritarian as a democratic regime

Nolan is for democracy but not for industrialising countries: the material conditions must be created first: "the best way to establish firmly rooted democratic rights is to first ensure the development of the productive forces and increases in income" (p 68). He accuses the Western powers of hypocrisy because they refuse to acknowledge their own histories where forces and authoritarianism were employed to ensure economic growth and national unity.

However, the fact that historical circumstances change cases seems to escape Nolan. He remains an historicist where the 'country' is the dominant character in the historical drama, and the country, like an individual, presumably goes through stages of maturation, independently of historical circumstances: the past repeats itself. However, the significance of voting and civil

rights today has nothing at all to with that in 1750 or 1850 (any more than the computer has), and this is true in all countries (as is the significance of the computer), the British army will not invade Scotland if the Scots vote for independence, nor the Canadians Quebec, but they may have done a century ago. They will not repeat Chechnya or Tibet. The dissolution of Czechoslovakia shows that the way of the dissolution of Yugoslavia is not inevitable.

The argument about democracy is naive because it ignores the fact that the state, its departments and its officials, have their own agendas which do not necessarily coincide with the interests of the citizens, and indeed may contradict them. Do the majority of Chinese want to continue killing Chinese young men and Tibetans in Tibet? Does the majority of Indians wants to continue killing Indian young men and Kashmiris in Kashmir? Neither are oftered the choice that is exclusively appropriated by the state. Nolan's argument is subject to the same reproach he directs at foreign advisers - he does not have to suffer the tyranny he applauds. The inconsistencies do not deflect him - he reproaches the Soviet and Russian reform programmes for being imposed on the population without democratic consultation.

The problem with the state is not only does it despose of immense resources, it monopolises the legitimate use of physical force, it aggregates major information resources (including an alarming capacity to he), and it makes, or changes, the rules to suit its convenience – and whatever it does is neatly redefined as 'the national interest'. Once an authoritarian order has secured its power, the immense machinery of rentseeking, it is extremely difficult to remove or reform it. Why is Nolan so sure that the order in China is the best that can be hoped for, Gulag and all?

Opposition to democracy for the poor goes with Nolan's defence of the existing political map, without reference to the wishes of the inhabitants. He much regrets the breakup of what he persists in calling the 'nationstate' of the Soviet Union (in contrast to the Soviet order which identified itself as a union of nationalities). It had, he argues, established a solid historical existence and was "part of Imperial Russia since at least the middle of the 19th century". It is a curious Burkeian argument that the passage of time itself creates legitimacy - presumably on that basis India should still be part of Britain or Algeria part of France. Nolan resists the right of people to national selfdetermination, and so is driven to quite reactionary implications. We must presume he approves of the Russian action in Chechnya, the Chinese in Tibet or indeed the repression of the 1989 Tiananmen

Square dissidents. He does not say why people should be obliged to accept the existing distribution of power unless it is that any state is better than instability, nor what the interest of the world is in the integrity of existing states.

Perhaps he feels that a state is the necessary precondition of economic growth, which in turn he - like the World Bank and Karl Marx - sees as dissolving the desire to break up the state on ethnic grounds. He says that Soviet state economic growth, "providing opportunities for different ethnic groups and through the homogenising power of the market, could have been a powerful force reducing ethnic conflict" (p 71); or again, "successful market and income growth is a powerful force leading to the disintegration of ethnic differences" (p 156-57). This is heroically economistic, and should be drawn to the attention of the Quebecois, the Irish, Scots and Welsh nationalists, Sikhs. and Sri Lankan Tamils, the Basques, the Catalans and many more. The evidence might suggest the reverse-economic growth may exacerbate ethnic divisions, pushing the more prosperous to seek to shake off the less - political fission may be the result of economic fusion and growth.

For Nolan, everything which might conventionally restrict economic growth is to be opposed, and here he comes precious close to the conditioned reflexes of small employers. Trade unions must be prevented from establishing a monopoly of the labour market. Yet apart from a few craft unions for temporary periods and outside the fevered imagination of some business associations, is there any evidence that trade unions have been able to conquer the labour market? Slump and unemployment give the lie to the thesis. Only with the active collaboration of the state can a monopoly be established over the labour market - and that is organised by the power of the state rather than the workforce. Nolan also approves of the Chinese refusal to give legislative protection, minimum wages or the right to organise trade unions to rural hired labour - in contrast to the situation in India - because, he says, frequently' this encourages the substitution of capital for labour (p 181). Again, what is the evidence? Can the government of India implement its aims in this field, and if it could, would the effect on costs be so dramatic that it would produce a significant cheapening of capital?

Circumstances change, and this is an irritating obstacle to the abstract general theories in which economists delight. Democracy may be becoming more important in many poorer countries both to sustain social unity and develop some sectors of high productivity that require the full psychological participation of the labour force. If this is so, the steady

democratisation of the NICs would not be taking place because they had arrived at a given stage of national development where the masses could be rewarded with a voice for their loyalty, but because the circumstances of modern global capitalism makes higher levels of popular participation important for all countries, something the Chinese government will have to learn painfully in the future if it is to do all that is required to protect China's unity.

## (6) Is policy and planning decisive in the development of economies?

Like the World Bank and others, Nolan believes policy is invariably decisive in the behaviour of economies, that governments can freely choose their policies in the light of pragmatic considerations (especially if they are not required to hold elections or present a favourable image), and that if they apply the same policies in different countries, the effects will be the same. Even stating these assumptions - so common in economics - exposes their implausibility. Policy is only one component in the picture and may be much less than decisive. Governments are reactive rather than initiating (which is why so often parties with supposedly different political persuasion behave identically in office), and since each economy is in important senses unique, the same policy rarely produces the same effects. Circumstances change all cases.

Nolan also inclines to the view that, in principle, governments are distinterested and benevolent. The Russian government had it within its power to plan privatisation in order to prevent the growing inequalities occurring, as China did without privatisation However, as mentioned earlier, it is not clear what the role of government is in China, and it would be heroic to suggest that it has had clear influence on the distribution of income. Nolan accuses the Russian government of abdicating from the process of privatisation when it clearly did not - it colluded with the managers to secure its own power. He argues that if the process had been slower and more experimental, favouring the insiders could have been avoided, but this may be true only if enhancing efficiency or equity had been the intention of the government.

It is the absence of the political dimension which is so worrying in Nolan's account. There is a good illustration of this in his discussion of the importance of preserving large concentrations of capital to protect the economies of scale. He approves of the Chinese policy of seeking to foment industrial groups of major size, perhaps 50 in all, as models to the rest. He urges the Russian government to try to keep the giant corporations in key sectors of the economy, otherwise the losses to the economy, he says,

would be very high. The planners, he suggests (p 101) should undertake "careful studies" (a typical planners' phrase, as if anybody favoured careless studies) to see which corporations could be competitive, employing import protection to sustain them. "The government must try to reorganise large-scale industry into structures that can benefit from economies of scale but also behave competitively rather than in an oligopolistic or monopolistic fashion" (p 101). What can this imply? The government hires management consultants to turn the corporation round, awarding them draconian powers to implement their proposals and ensuring the corporations cannot mobilise its friends and clients in government to block the changes?

There is no way in which planners can accurately assess the economies of scale except by submitting the corporation to the full rigours of competitive markets, careful study or not. The reason that it is difficult to so expose them is that they are great concentrations of political power, great means to fix through the state the economic context of their operations. Consider Gazprom in Russia, among the largest corporations in the world, protected from paying taxes by Chernomyrdin, its founder, major shareholder, last Soviet minister of energy and now again Russian prime minister, and its army of clients. It is estimated that if the corporation were obliged to pay its full taxes, this would equal 2-3 per cent of the gross domestic product, and would cover the budget deficit. It is the politics of the great corporations which is the problem - and there is no way to find out whether there are economies of scale while their political power is capable of controlling the economic environment. Nolan feels that with the right stable legal, political and administrative framework, Russia could attract substantial foreign capital into the extraction of raw materials - but not in circumstances where Gazprom and the other raw-material giant corporation block entry. How does one move on gradual reforms faced with such obdurate resistance - and such political support for the corporations within government itself? How will the Chinese government cope with its 50 giant industrial groups, combining political privilege and thus market domination? Nolan is aware of the political problems of the size of the private multinational corporations, but at least they are exposed to open markets; he is strangely insensitive to the problems of the political weight of state corporations.

The political order provides crucial constraints on anything planners can offer. Notan is good on outlining the failures of planning in the Soviet Union – not planning at all in his view, but 'administration' – but

he does not speculate how far the problems are intrinsic to state action. Even the failures need qualification since we need to specify the overriding aim before we can evaluate this. Soviet planning was very good in building and, for long, sustaining the military capacity of the country (like planning in Nazi Germany in the 1930s) – and that central rationale supposedly justified tailures elsewhere.

Nolan reserves special fury for the foreign advisers, the International Monetary Fund and the World Bank, in the evolution of Russian economic policy. Indeed, if he has any explanation for the apparently irrational behaviour of Gorbachev, it is that these foreign forces led an inundating wave of western opinion, swamping Russia's flimsy intellectual defences. It is they, he argues, who defined the programme and the speed, the sheer brutality of the reforms - and they did so, knowing that they, unlike the hapless Russians, would not have to suffer the consequences of their choices. As for their Russian governmental creatures, the "intellectual 'compradorer" (p 252), they were bribed with the possibility of foreign academic fellowships and other perks to do the bidding of the foreigners. By 1994, when the bulk of the book ends, the government had, says Nolan, "ceased to have an independent economic policy... [and was] forced to comply with the conditions imposed by international institutions" (p 286). Steeled by international agencies, the Russian government prepared to face the inevitable wave of bankruptcies as they obediently tightened credit for "its policies were constructed at the direct instigation of the major international capitalist institutions" Of course, the foreign advisers argue that conditions in Russia were completely different from those in China in order to avoid the charge of their own failure.

This is an entertaining if slightly paranoid account. But if taken seriously, it is bizarre. At one stage (p 251), Nolan admits we do not know the degree of influence of the foreign advisers, but then quickly affirms that "at the very least, they played a large role in bolstering the confidence of those in government who favoured 'progress', 'radical solutions'". But then again he is obliged to admit that the programme was suspended because of political opposition (p 252), and the government returned to "cautious reform" - even so, he stoutly maintains the foreigners constituted a group so powerful it would have taken great strength by their Russian counterparts to resist "the seductive line of thought presented by the 'experts'".

The style is equivocal, indeed, contradictory, precisely because it is a fantasy account. There were no waves of bankruptcies

(soft budgets saved the day), there was no 'Big Bang'. The foreign advisers do indeed have an interest in proving they were effective, but all the evidence suggests they were not. The central battle in the foreground was the political one, not the economic, and it was between people who represented something in Russia, not those with nothing but good ideas (or had ones) to recommend them Whenever serious political issues were at stake, foreign advice counted for nothing. More impressive than the positive influence of the IMF was its impotence, its incapacity to sustain the commitment to reform, to hold public expenditure - even down to the failure to prevent the immense expansion of military spending as a result of the Chechnya war, or the extravagance of Yeltsin's presidential election campaign

The substantive point is not important, except that 'blame the foreigner' is exploited by every government in a tight spot to avoid responsibility, and the Left has played the same nationalist game. Responsibility for Russia's reforms, warts and all, rests squarely with the Russian government, and Nolan should not seek to assist it to avoid that responsibility by wildly inflating the role of favourite international bogies (whose failure to influence events is so much more impressive than their successes).

#### (7) Is market-socialism feasible?

At several points (for example, p 55) Nolan is scornful of those who argue that it is impossible to reconcile markets and 'socialism' (by which he seems to mean, not mass liberation, but state direction). But he does not show why this scorn is valid, he does not reply to the argument. In the same way, he attacks the 'doctrinaire' approach to privatisation without confronting the argument that for competition to work, those who direct firms must risk their own capital and be subject to the 'incentive' of avoiding real bankruptcy. In principle, of course, there is no reason why governments should not emulate in the public sector such sanctions (Stalin was not above shooting managers who failed, a sanction stronger than mere bankruptcy). But in practice, the social linkages between bureaucracy and state managers as well as the political vulnerability of the state to failures in the public sector usually means managers cannot even be sacked for losses. The importance of privatisation is that, in principle, it removes bankruptcy (Nolan's "release of capital and labour' for other sectors of the economy) from the possibility of political intervention or blame.

China is now a market economy. Indeed, so powerful is its market drive, it seems often to be outside the control of government. But Nolan sees no more than a redefinition of

socialism — "planning for economic growth through the use of markets and combining individual incentives with preventing the rise of a dominant capitalist class with a large concentration of individual wealth". But this is a fudge, for China does indeed have a 'dominant capitalist class', even if its base is in the state-owned enterprise sector, and it has a large concentration of individual wealth (have a look in the Shanghai Hilton, as ridiculous a display of ostentation and extravagance as any society, and packed with China's new rich).

Nolan does not answer the question: what is the central drive of the Chinese economy? Do state decisions or market imperatives driveit on? The evidence suggests the second, with the state being essentially reactive (as it is in most other countries) to changes generated elsewhere. If this is so, 'market socialism' is an ideological fudge to allow capitalism to continue without inciting opposition.

There are many other points in Nolan's book which deserve comment, but this review has already gone beyond the limit of patience of the reader. The sole justification for the length is that in the reconstruction of the Left, there are dangers of retreat. Circumstances in the world have changed decisively - and the Left, for so long the leader in radical or revolutionary progress, dedicated to daring new thought and rapid social change, has been overtaken on the right. It is on the free market Right (as opposed to the corporatist Right) that wildeyed idealists are in a hurry to change the world, to shake the mountains and think the unthinkable. The Left has too often become no more than the defender of the past, opposing change or allowing only gradual change. The argument for universal liberation degenerates into a defence of public rent-seeking, of the war-making state.

Under the impact of a shock that destroys a conceptual framework, people often respond too little and too late, thus avoiding the impact of defeat but at the price of growing irrelevance - like the devotees of a dying religion. It is only possible by sacrificing the spirit to the letter, by refusing to learn new things. What was being created by the students and others in Tiananmen Square or on the Berlin Wall, throughout eastern Europe and the Soviet Union, was indeed liberation, the essence of the old struggle for socialism; we reject it at our peril. The world has seen aging Leftist dictators, now become tyrants, mouthing the old slogans while filling the prisons. Consider the sad comment by Nolan on, for him, a symbol of Russia's deterioration, the 1990 May Day Parade, "the Hare Krishna religious sect and anarcho syndicalists, social democrats and anti-Stalinists, and, at the front, a monk from the Russian orthodox monastery at Zagorsk" (cited p 237) instead Nolan says, of "the annual well ordere review of Soviet military might". Does he really prefer a parade of fearful Soviet means to slaughter people, staged as a shout of frighten, to the unruly, messy reality of real liberated Russia? Does he really prefet the lie?

History has by no means ended. Pete Nolan is brave in trying to draw up a balanc sheet so early. What will we say in 2005 i Russia is growing economically and Chin wracked by political divisions because th old order left it too late to create the publi mechanisms to mediate conflict?

More important, the issue of mas liberation, of the democratic control of th material conditions of life in a workeconomy, remains, and will return as a ke element in world politics. The Left will need its courage if it is to be relevant to that question, not, as has often happened in the past few years, hiding behind the crumbling fortifications of the national state. Rese assured that the Chinese government, like all the other governments of the world (including the Russian), will be firmfor opposed to any such movement, trying to uphold the old order.

Nolan has provoked much thought. Fo that, much thanks.

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# Marriage, Sexuality and the Female 'Ascetic' Understanding a Hindu Sect

#### Prem Chowdhry

An analysis of the Brahma Kumari sect in its initial years enables us to unravel certain hidden aspects of Sindh society which account for an unprecedented but successful patriarchal attempt to regulate and restrain female sexuality or stimulate its self-restraint under the all-encompassing claims of reforming society. In the later years, with the coming of the partition and subsequent migration to India, this sect, confronting a greatly changed social milieu, assumed a somewhat different focus and identity. Despite this shifting of emphasis and consequent contradictions, the core doctrine of celibacy has remained and its advocacy of female sexual control continues to find receptive echoes.

The author's analysis highlights the multiplicity of motives, both obscure and apparent, behind the acceptance of the sect in the contemporary period. Faced with yet greater intricacies of socio-economic issues, the central thrust of the sect continues to contribute to its success in breaking out of its high caste and class complexion and in carving out a committed middle class urban following.

IN the late 1930s, a Hindu sect popularly referred to as the 'Brahma Kumari' had a highly controversial beginning in colonial Sindh. As is clear from its nomenclature which means 'daughters of Brahma', or more appropriately 'virgins of Brahma', it focused almost exclusively upon women. Although initially known as 'Om Mandli' it soon changed into Brahma Kumari to signify the preference accorded to females reflected in the sect's central doctrine and the following it commanded. This female centred exclusivity touched upon important questions of female sexuality and marriage, which were extremely problematic in the colonial Sindh society. These social tensions and undercurrents not merely moulded the contours of this sect and accounted for its initial popularity but also made for a vehement and violent hostility to its existence. These dramatically opposite reactions drew upon the unorthodoxy of the sect which extended the principle of purity and spiritual salvation to women based upon the concept of celibacy. The consequent attempt of the sect to control female sexuality and/or its sublimation brought to the forefront the contradictions within the sect and the colonial Sindh society in dealing with matters sexual. In fact, this concept came to hold different meaning for females of different status and age groups and manifested a duality of sexual control on women: one which suggested a patriarchal control outside the institution of marriage and therefore repressive in nature and reactionary in ideology; and the other, a selfcontrol of sexuality which had a liberating potential for women and enabled transcendence of sexuality for higher spiritual gains. In this the sect provided a socially recognised space outside domesticity and marriage, which incorporated elements of both repres-

sion and sublimation for women. For providing this space the sect posited itself as a family outside the family: a spiritual, non-sexual family as a 'safe haven' for its female followers against the normative sexually reproductive family; an attempt which fell between the polarities of the world of the householder and that of the renunciator an attempt which simultaneously proved to be its greatest weakness and a source of strength in different time periods.

An analysis of this sect in its initial years of formation enables us to unravel certain hidden and unknown aspects of Sindh society which account for an unprecedented but successful patriarchal attempt, however limited, to regulate and restrain female sexuality or stimulate its self-restraint under the all encompassing claims of reforming society. In the later years, with the coming of the partition and subsequent migration to India, this sect, confronting a greatly changed social milieu, assumed a somewhat different focus and identity, highlighting the social dynamics which has its own logic in different situations and periods. Despite such shiftage of emphasis and consequent contradictions, the core doctrine of celibacy has remained and its advocacy of female sexual control continues to find receptive echoes. Seen through a series of case studies, the analysis highlights multiplicity of motives, both obscure and apparent, behind the acceptance of the sect in the contemporary period. Faced with yet greater intricacies of socioeconomic issues, this central thrust of the sect continues to contribute towards its success in breaking out of its high caste and class complexion and in carving out a committed following from among middle class urban-based constituency of postindependent India.

# Initial Years of Formation: Concept of Celibacy

The Brahma Kumari sect in its original manifestation of Om Mandli was established in mid-1937 in Hyderabad (Sindh) by Lala Lekhraj Kriplani, a rich jeweller by profession. In establishing the monastic order primarily for females, Lekhraj clearly drew upon the highly developed ascetic tradition of Jainism which flourished across the border in Rajasthan where Jainism had special monasteries for its female followers. Ideologically located within Hinduism, the sect however remained highly eclectic both in its transplant of a heterodox monastic order and in the enunciation of Hindu doctrines. Simplistically speaking, it foretold of an impending catastrophic end of this world and final destruction of the 'Kaliyug' in the very near future. The existing time was declared to be an interim period when human beings were to radically purify themselves to be reborn in the 'satyug' as enlightened souls. Purification therefore was the basic tenet of the sect.

Central to the concept of purity was 'brahmacharya' (celibacy), which in fact emerged as the core doctrine of the sect and was the strongest and most inclusive value of the Brahma Kumaris.' The Brahma Kumaris made a direct connection between sexuality and fall of the world. According to them transition from satyug to kaliyug occurs when sexual intercourse becomes part of the human scene. With intercourse arises the body consciousness – the root of all other human evils and the primary cause of present miseries. This was a situation which came suspiciously close to that of Christianity, as sexuality or sexual

in Hinduism.

In Christianity virginity was ranked higher than married life and it is only relatively late in the early history of Christianity thought that marriage came to be considered a sacrament. Moreover, the concept of 'original sin' also comes closer to the Brahma Kumari thought than the Hindu concept of 'pap' (sin) which is a much wider category embracing hordes of sins. For this 'original sin' women were held responsible and were accepted by the Brahma Kumaris as the source of all sexual lust. Therefore, the onus was on women to rise above their inherent sexual selves to stem the downward slide. Male sexuality on the other hand was not primarily implicated, but it was certainly considered a contributor to the moral decline of the world. The only answer to this decline was the practice of celibacy.

The concept of celibacy has a particular rooting in Indian cosmology and culture. It belongs to the mainstream tradition of sages and ascetics who practised and preached celibacy as a pre-condition to the achievement of self-realisation. It was also a prerequiste to the monastic order of Buddhism and Jainism. Both male and female ascetics renounced their sexuality along with and as a part of the renunciation of their reproductive and productive activities. The Hindu tradition which essentially applied to males, emphasised the control of sexuality or more accurately that of semen, and equated its conservation to 'shakti' or energy and empowerment. It is this empowerment concept of brahmacharya which operates among the male wrestlers of north India in the context of body discipline.4 Gandhi, a contemporary of Lekhraj, was the one who applied Brahmacharya on a widescale both for males and females.5 He used brahmacharya as a personal and political means of conserving energy and transforming it into power. Gandhi's theory of controlled sexuality was integrally connected with his search for shakti and national regeneration as a part of his theory of politics.6

Instead of shakti, Brahma Kumari sect emphasised purity. There was no equivalent in the Brahma Kumari sect of the Hindu belief, also accepted by Gandhi, that sexual self-control (withholding of semen by men), itself was energising. Instead, the brahmacharya of the Brahma Kumaris was primarily located in the Hindu concept of purity and pollution. Brahma Kumaris considered sex as dirty, demeaning and poisonous, indulging in it was like carrying a "basket of filth" on one's head; intercourse was compared to wallowing in "sewer".7 Except in her pre-pubertal state a woman was considered to be highly polluting. Celibacy therefore meant renunciation of sexual activity which was the basis of her polition, signified in ner marriage and children, which bound her to this world and created a position of inferiority as compared to the 'devi status' in her pre-pubertal manifestation.\* This purification alone allowed her to follow a course of enlightenment and spiritual salvation. Brahmacharya in the Brahma Kumari sect was therefore part of her cleansing process from pollution to purity to enable her to realise her spiritual self.9

This concept of celibacy with its overwhelming onus on women was to create an immediate impact upon the Sindh Hindus. And the Om Mandli was met with a most enthusiastic reception specially from the Bhaiband community of rich merchant class. In fact, in a very brief span of time Om Mandi came to have fairly noticeable female following estimated to be around 300 at the time. All these females had the express sanction of their families who were known to have encouraged them to join the sect. They were in fact admitted into the sect only after procuring written permission from their father or father-in-law, or husband or any other male member of the family who held the position of a guardian.10 The family members (specially mothers were greatly supportive of this move), took the decision on behalf of minor daughters or other females to join the sect. Interestingly, the male followers, although wholly insignificant in number, were never asked to procure any such permission. Moreover, unlike the females they were interviewed extensively and 'tried out' before they were admitted inside the sect.11

Quite clearly, the female exclusivity of the sect was preferred. The female following was also not confined to the middle aged or the old or primarily widows, who are known to provide the principal constituency of such sects and 'gurus'.12 It was drawn overwhelmingly from among the youthful; both married and unmarried as well as young widows.13 There were also a whole lot of 'very young impressionable girls', according to Dadi Manohar Indira and Dadi Nirmal Shanti (two of the oldest Brahma Kumaris who joined the sect in its formative years), who initially came with their mothers and were allowed to stay put in the sect itself. These minor girls with their ages ranging from six to fourteen provided, according to the Dadis, 'the loundations' of the sect.14 Their growing numbers necessitated the opening up of a boarding school in Hyderabad.

The following of the sect came to consist of two kinds: the lay and the fully surrendered. Both took vow of celibacy as this was the basic doctrine of the sect. The lay members continued to live with their 'worldly' families but participated in all the activities of the mandli. The surrendered ones were those

who left their family life to reside in the mandli itself. The separate number of these two categories of followers cannot be estimated but the fully surrendered formed the real core of the sect. Initially it comprised of the immediate family females of the founder along with a few young unmarried girls in their teens. The bulk of them however was formed, as indicated above, by the young female children who had been made over to the sect by their families.

In fact, within a couple of months of setting up the mandli, in October 1937 Lekhraj created an all women managing committee of the Om Mandli, comprising of his earliest disciples. It included his daughter-in-law Radhika, later known as Brijindraji; a young girl named Gopi, later known as Dadi Man Mohini, who came to occupy Brahma Kumari's chief administrator's post; a 16-year-old girl Rama, now known as Dadi Prakshmani, who runs the Brahma Kumari organisation at Mount Abu. 15 In keeping with the youthful character of its followers and this committee, Lekhrai appointed a young unmarried girl of 20 years of age called Radha, renamed Om Radhe, who later came to be known as Jagdamba Saraswati, to head this committee As the head, although a nominal one, it was she who gave the formal permission to female aspirants who wished to join the sect. This permission sought in the name of Om Radhe read: "we give permission to our daughter willingly that she may come to Om Mandli to drink the water of knowledge from Om Radhe, and for her to donate that nectar to others also".16

The sect had obviously created a 'space' for females. This space did not go uncontested and unchallenged as I shall discuss later, yet it accounted for its immediate popularity, for it was carved out of the widely perceived religio-political and social requirements of colonial Sindh.

#### II Syncretic Tradition: Breaches and New Emphasis

Religio-politically, the sect was given shape at a time when the bid for separate identities and growing communalisation of Sindh were at its height. The deeply rooted syncretic tradition of Sindh, where beliefs and rituals were shared by Hindus and Muslims alike, stood seriously threatened. Popularly known as the "land of pirs" some 1,25,000 "saints" were said to be buried here. Both Hindus and Muslims of Sindh shared for centuries the worship of pirs and holy spots which had mosques and temples built side by side. The pirs also had both Hindu and Muslim names. For example, Jinda pir was Khwaia Khizr, Udero Lal was Sheikh Tahir, pir Mungho was

#### Muggar pir, Raja Bharthari was Lal Shahbaj Qalandar.<sup>17</sup>

Yet, Sindh could not escape the growing community consciousness which several parts of India were experiencing in the 1920s. By 1930s, Sindh was a fertile field for various reformist activities ranging from that of the Singh sabha, Brahmo samaj, Arya samaj, shuddi movement, Tabligh movement, Ahmedias, theosophists and Mira movement. Thirties in Sindh were also witness to frequent Hindu-Muslim clashes and their exclusive claims to different places of worship. The growing resentment of sections of Sindh Muslims against Hindu moneylenders led to severe outburst of reprisals and confrontations.

These were also the years when the demand for a separate Sindh state was raised. <sup>20</sup> Hindus fearing a Muslim majority state which would play havoc with their numerical strength without the prop given by Bombay Hindus, resisted it. The demand was conceded by the British in the Round Table Conference 1932, and was given shape under the 1935 Act which took effect in 1937. This was also the year in which Om Mandli was born.

The genesis of Om Mandli has therefore to be located in the socio-political vulnerability felt by the Sindh Hindus at a time when there was a breach in the syncretic culture of Sindh showing greater community self-awareness and emphasis, as also the sharpening of communal divides. In this not merely the Hindus and Muslims, but also the growing numbers of Guru Nanak followers who belonged to different tradition within the pluralist framework of the Sikh faith, played a part.

The Guru Nanak followers in Sindh were mostly Nanak Panthis. According to the 1911 Census, the majority of them were lohana by caste.21 Yet, their religious identities were fluid and equivocal and they frequently returned themselves in the census, as Hindus. However, due to social and cultural factors unleashed by the colonial government along with the work of the Singh sabha (a wide ranging religious movement, activated in the closing decades of the 19th century). a 'Sikh identity', purged of the great diversity in Sikh tradition had begun to be formed.22 This was brought to a head in 1931, when the census authorities insisted upon statistical tabulation based upon separate religious identities and a clear distinction was made between the Hindus and Guru Nanak followers.23 This strengthened the existing perception that there were steady inroads into the strength of the Sindh Hindus and that Hinduism was in danger of being encroached upon from different

It is in the perceived threatened position of Sindh Hindus, who never had very strong brahmanical religious influence,<sup>24</sup> being far

away form the centres of brahmanical orthodoxy, that the emphasis of this sect (as shown later), on certain identifiable aspects of Hinduism and 'Hindu' identity specially for its female followers, has to be located. Moreover, women were considered more vulnerable to outside influences. In Sindh they were the greatest followers of the pir cult, which catered to their emotional and physical requirements stretching from quarrels in the family to curing ill-health and barrenness. The folk-tales of Sindh are replete with amorous Hindu women who were enamoured of the Muslim saints and wanted to run away with them.<sup>25</sup>

In fact, not only in following the pir cult but also in their sartorial habits, there was nothing to distinguish between a Muslim and a Hindu woman of upper caste and class. The Sindh Hindu women in the 1930s were given to wearing very loose payjamas with a short blouse on top and had their faces veiled. This regional variation was shared by Muslim and Hindu elites.

One of the first visible changes towards 'Hinduism' that the founder of the sect introduced was a dress-code for the sect's female followers which could effectively establish their Hindu identity as opposed to the one shared with Muslims. Lekhraj who was a regular visitor to Calcutta in connection with his jewellery business was aware of the changes that had taken place in the sartorial habits of the 'bhadramahila' (Bengali middle class gentle-woman). His close contact made him realise that sari and blouse worn by them was a distinguishing mark depicting 'national cultural identity' which in fact was a predominantly Hindu one.27 This sartorial change was introduced for all the female followers of Om Mandali in preference to their traditional dress. Even the 'ghunghat' (veil) was not retained.

Significantly, this was also the dress in which the Hindu goddesses were visualised. Raja Ravi Verma's paintings and oleographs had played the most significant role in popularising this imagery. Even now no other dress except the sari and blouse can be worn by the Brahma Kumaris. A more recent innovation however seems to be the wearing of a long undergarment beneath the full sleeved blouse which covers the midriff, otherwise exposed to the view. In the oppressive heat of summer, this extra garment obviously becomes very uncomfortable. When I inquired about the possibilities of a convenient change of dress to a more comfortable and loose 'salwar kameez' I elicited a shocked response from a Brahma Kumari. I was informed that it was the sari blouse, the dress worn by the goddesses, and not salwar kameez that they would be wearing in the coming satyug.

For this dress code, the adoption of the colour white although clearly in emulation

of the Jain 'sadhvis' is not without significance. Adopted in preference to the acknowledged saffron of the renouncer, the emphasis seem to be on celibacy, purity and control, a rather than on renunciation, a point which I shall elaborate later on. This choice was to arouse criticism as wearing of white remains traditionally associated with widows. However, as the Hindu widows in Sindh were generally known to wear red with black print, but this criticism assumes the form of a veiled attack on certain aspects of the sect which, although not articulated openly, were causing great offence.

Criticism not withstanding, the change of dress not only established an outward visibility of 'Hindu women', it also gave their collective presence in the city of Hyderabad a visual impact far greater than their numbers.

# III Sindh Society: The Caste/Class Structures

The number of Hindu women or indeed that of the Hindus in Sindh was not very significant as they formed a very small portion of the total Sindh population. In Hyderabad, however, where the sect was founded, Hindus were more concentrated, constituting nearly 30 per cent. Among these Hindus also it, was the lohana caste cluster constituting 47.12 per cent, which provided the social base of this sect. 40

The derivation of lohana caste is somewhat obscure. The colonial administration classified them under the trading caste of the banias. They themselves traced their origin from the kshatriya lineage. Whatever their grouping in the traditional caste hierarchy, they were professionally primarily a business community. 11

Among the lohanas, the two major groups were those of amil and bhaiband. It was from the latter, the larger group, that this sect's followers were primarily drawn, thus making this sect both class and caste based. The amils were the hereditary caste group of government servants who through their ability had established themselves as indispensable class of administrators to the Muslim rulers and had gradually entered all state departments as clerks and officers.32 Bhaiband community was the leading community of lohang traders who rose from the position of hawkers of various goods. The earliest trading articles they dealt in were the Sindh arts and crafts like calico prints, embroidery, specially in silk and gold threads, inlaid work in silver and gold. lacquer-ware, glazed pottery, etc., for which Hyderabad was rich. Since these artefacts were also known as 'Sindh Works', this subgroup of lohanas also came be known is 'Sindh Workis'.

In the colonial period, the Sindh Workis carried their wares to the European habitation centres and were known to make heavy sale and enormous profit. Their trading network outside India which were expanding rapidly during this time, ensured them huge profits. It is this network which gave rise to the popular saying that a Sindhi is found anywhere in the world, even in the remotest corner.

Lohanas however did not remain confined to trading alone. They invested heavily in moneylending and landownership. 35 As a caste group they formed a sizeable number of landowners among the Hindus of Sindh who unitedly contributed 40 per cent of Sindh's land revenue. They were also major contributors to Sindh's export trade in foodgrains. This export trade formed a much larger proportion of total agricultural output in Sindh than of most other parts of India. 7 With the result that when the world market collapsed in 1930s, they were much harder hit, specially as the public irrigation system was opened in Sindh only in 1932. The enormous fall in prices in the wake of depression created a slump in the market affecting all trading activities. 48 The recovery of Sindh was slow and the market slump took a lot longer to lift in this region. Consequently, in the late 1930s, the earlier growing prosperity of this otherwise upwardly mobile group of lohanas was still constricted and hazardous.19 This fact substantially added to the socio-political crisis they were facing in Sindh.

In such a crisis, women became the primary focus of interest and attention, as the maintenance of status and rank remained associated with them. Symbolic of this erisis was the abduction of Hindu women (and children) for the purposes of forcible conversion from late 1920s onwards.40 This reinforced the extreme vulnerability felt by the lohanas. Their declining position made them conscious not to slide into a lower rank, which seemed inevitable in relation to their females, specially in case of their marriage into a lower status group in this prolonged crisis period. Safeguarding of females, their virtue and chastity, therefore, not merely created a great anxiety among lohanas, it also assumed an urgency at this time as they became a crucial index of signifying the distinction between upper and lower class

Structurally, Iohana's social system divided them into various sections and made them extremely status conscious. Like certain other high status and aspiring groups, specially in north and north-east India, Iohanas followed hypergamy which came closest to the kind existing among the patidars of rural Gujarat, as described by David Pocock. 41 Hypergamous classification in the caste, severely affects the marriage relations.

For example, amil lohanas who formed a hypergamous subdivision of the caste, would take brides from but would not give brides to other lohanas. The result was that while amil parents were in position to stipulate for a substantial dowry with the bride selected for their sons, they found the bestowal of their daughters increasingly difficult and expensive. Expectedly, therefore, when a bhaiband wanted his daughter to make an hypergamous alliance by marrying into an amil family, he had to pay very substantial dowry.

Moreover Sindh was further traditionally divided into three parts.43 The cultural differences among the people of these regions in habits, manners, custom, dress and even the dialect were varied. These distinct regions determined the limits within which marriages were normally contracted. This also meant that there was a classification and creation of various strata of places and people with who and where marriage could not be contracted without losing one's status. Another such criterion established was in the urban and rural areas as well as between Hyderabad due to its hallowed position and elsewhere: Hyderabadi lohanas would not contract marriage with outside lohanas, notwithstanding their status category. Hyderabad therefore possessed even town endogamy.

Town life was perceived to be more comfortable and civilised. Its inhabitants therefore did not like to marry their daughters in villages. A resolution of the panchayat of 52 villages passed in 1886 reveals the extent of limitation on selection of matches created by the difference between village and town life.

We the panchayat of this Pargana (social district Nawab Shah) have resolved that no person shall contract marriage with a person of the town of Halani, Bhilani, Kandiaro, Noshahro, Bhina, Tharushah, Dabhro, Ranipur, Gaubat, Khairpur, and Lukman, as the people of above town felt it contemptuous to give their daughters to the people of villages.<sup>44</sup>

This was undoubtedly a move to repudiate inferiority associated with villages by withdrawing from an asymmetrical exchange which defined them as inferior, same as the lower rung of Rajputs of Kangra were attempting between 1930 and 1955.45

# IV Marriage Patterns: Class and Caste

All these considerations and social restrictions not only made marriage difficult to arrange, they also had a direct bearing upon the dowry system which came to acquire elephantine proportions. Dowry was not merely a single transaction at the time of wedding, but embraced pre-marriage,

marriage and post-marriage transactions. Many people paid cash equivalent to avoid payment in kind. The highest amount in money equivalent was considered to be Rs.20,000 in 1930s. The rough estimates put it higher as "rates of different grooms, according to their profession and socioeconomic status were fixed. Moreover, the number of ornaments given in dowry indicated the status of different families.

In fact, during the colonial period, lohanas (both amils and bhaibands) came to be classified according to 'Pahrani', which denoted a particular standard of dowry adopted by a particular family.48 A specific amount was prescribed by each village for single Pahrani and a family of the standard of three Pahrani paid by way of dowry thrice the amount paid for one Pahrani. The society was divided into classes of 3, 5 and 7 or double: 14 Pahrani; and each section generally contracted marriages with a section of its own standard. The practice of Pahrani not merely showed the institutionalisation of dowry but also an attempt to control it through imposing certain norms for dowry.

Among the lower strata of lohanas, marriage by exchange was common. However, once a family adopted a form of marriage by exchange, it was considered a family of low status and stamped with degradation which would take quite a few generations to pass off. Other families among lower classes of lohana as well as other castes, who had no girls to give in exchange, generally resorted to marriage by purchase even from non-Sindhi families.<sup>51</sup>

The result of this whole system was that the wealthier sections ultimately were unable to find hypergamous matches for their daughters and showed a scarcity of 'desirable' groom but a bride surplus. The lower classes, on the other hand found it difficult to procure girls. They resorted to marriage by exchange or purchase and showed growing scarcity of girls. Most folk-tales of Sindh depicted the low class/caste situation in which the marriageable girls were few and it was considered an achievement to win over a girl in marriage. In terms of actual numbers also the female population among the Hindus of Hyderabad fell far below the total number

of male population:89,078 females to 1,09,606 males.<sup>53</sup>

Consequently, among lower class lohanas in many villages, males remained unmarried owing to wide prevalence of hypergamy and scarcity and purchase of women. Similarly, females from upper classes due to hypergamy and demands of dowry were finding it more and more difficult to marry at all. They either married at a very advanced age or remained unmarried.54 These two 'trends' which became glaringly noticeable among the lohanas during the colonial period, however, appeared to have been established much earlier during the 16th-17th centuries. 55 For when a caste was divided into sections of different status, the parents were obliged to marry their daughters into an equal and higher section. If they married her beneath themselves they were reduced to the status of the section in which their daughter married.

The situation among the lohanas was aggravated by the number of females which overwhelmed that of males (unlike in the total Hindu population): out of a total population of 93,625 lohanas in Hyderabad, there were 46,171 males and 47,454 females. This fact also reinforced for females an unmarried status or at best a very late marriage. Although total number of such females cannot be estimated, the interviews revealed the existence of unmarried daughters who were a constant source of worry to their parents. It

The number of such single women was increased by the existence of widows in the family, whose number again cannot be ascertained. The lifestyle of Sindh Workis constantly travelling to different lands and exposure to all sorts of climates and diseases, not infrequently, proved fatal leaving widows of different ages. Widow remarriage as an institution did not exist among the twice born castes of which lohanas were a part and very rare instances aroused caste indignation and a lowering of status. However, in lower castes, it was a common custom for the widow to marry her deceased husband's younger brother or even an elder brother. <sup>18</sup>

# V Female Sexuality: Folklore, Myth and Control

Unlike the lower caste groups, among the lohana bhaiband community, the lot of women left behind by their migrating male members for considerable periods of time in pursuit of trade and business, spoke for a very repressive system in which female movements were greatly restricted outside the home. Such male migration left their households either headed by old parents or just the old matriarch. Female hierarchy and a close control led to frequent domestic quarrels among women themselves creating

the stereotype of a Sindhi woman who quarrelled all the time. The innumerable stories of mother-in-law and daughter-inlaw quarrels are also common, though not exclusive to this region.

High caste and class seclusion of woman in conjunction with migrating males of a joint family placed a more pronounced emphasis on female sexuality and the need to guard it. Women who had to be controlled sexually were not merely the wives but also daughters whose virginity had to be guarded The latter assumed an urgency in view of their advancing ages and late marriages or no marriages at all. Significantly, the betrothal of girls was at 6 or 7 years of age and marriage at 12 or at the on set of puberty. " Therefore, once a girl crossed puberty, she was already considered in an advanced age group. The following of the sect among the mid-teen unmarried girls, as given above, is therefore very significant.

It is to be noted that the question of sexuality of high caste/class females assumed an entirely different form among the lower classes and castes; which may explain why the sect's popularity remained limited to the upper classes only. This was despite the fact that these groups shared with the lohana caste group a high degree of male migration outside Sindh in connection with trade and business activities. In fact, the ever growing business of the lohanas had meant employment of managers, clerks and even ordinary servants from among the Sindh Hindus of lower castes and classes, who were recruited from all over Sindh. Talking about them, R Huges Thomas wrote in 1855:

... it is not unusual for a husband to return back after a long sojourn in foreign lands and find his wife with a small family of her own. The offended party, however, seldom allows these incidents to interfere with the domestic tie.<sup>60</sup>

Instances of this kind also existed in colonial Haryana, among the peasant and lower castes, where the essential productive and reproductive role of women had assured them a liberal sexual climate. But among the upper caste and class lohanas of Sindh, where women's productive functions were not important, the universally important reproductive functions had to remain licit and of socially recognised father.

In Sindh therefore lohana women's noninvolvement in any productive process (except home) put a great deal of pressure upon her reproductive functions. The social pattern of three years absentee husband who came back for six months only, meant that women must be able to perform her reproductive role within this period: she must conceive during this time or a barren three years period would follow. Moreover, the fact that this conception must be of a son became an overriding concern in the society as girls in this socio-economic milieu were a burdensome presence in more than one way.

These pressures and demands upon a woman's reproductive functions, only increased the suspicions regarding her sexuality. The insecurities of migrant males had reinforced a familiar stereotype of a sexually starved woman out to satiate herself at the first opportunity. This inherent fear of female sexuality, not exclusive to Sindh, was nevertheless enhanced manifold in the social milieu of absentee husband/male in colonial Sindh.

This sexually promiscuous woman who could not be controlled was also reflected in the mythical folklore surrounding the popular cult of pirs. For example the myth surrounding Lal Shahbaz Qalandar, the foremost pir, worshipped by Sindh Hindus reflected and strengthened this belief greatly.

Lal Shahbaz Qalandar was in fact the first important sufi saint in Sindh to be worshipped. Along with Jhooley Lal, he was the most revered pir for the Hindus of Sindh. Known as Mast Qalandar he was born pir Usman Shah in Marwand in Atghanistan in 1143 and later on came and settled down in Sehwan in Sindh. The Hindus of Sindh regarded him as the incarnation of Bharthari, the saintly brother of king Vikramaditya who is believed to have worshipped Lord Siva

The story of Raja Bharathan is widespread in the whole of northern India and forms a part of the stories included in Simhasan Battisi and Baital Pachisi, which recount stories of Raja Vikramaditya of Ujjain. This story forms a part of the general theme of stories dealing with 'triya charitra' (women's wiles) and goes back both to the folklore as well as the Indian narrative literature.

There are two popular versions of the story, both of which show deceit and treachery of the wife. In one version, Raja Bharthari gives the fruit of immortality to his wife Pingala. The wife gives it to her lover. The lover gives it to a prostitute of whom he was enamoured. The prostitute hoping for a big reward gives it to the king. Bharthari then renounces the world and becomes a 'sadhu' (mendicant) leaving his kingdom to his brother Vikramaditya.<sup>63</sup>

The more popular version of the two shows Bharthari to be away and in his absence his brother Vikramaditya observes his sister-inlaw (Bharthari's wife) in the embrace of another man The wife in self-defence accuses Vikramaditya of sexually assaulting her. Bharthari expels him. Later through a strange set of circumstances Bharthari discovers her infidelity. He calls back Vikramaditya who forgives his elder brother's wife Bharthari however renounces his kingdom and becomes a sadhu.<sup>64</sup>

organised. Existence of this power structure has blurred the distinction between the 'worldly' and the 'spiritual family' even more. A recreation of this power hierarchy has meant a greater surveillance and control over younger female adherents, not necessarily in matters of spiritual growth, but essentially in sexual ones, as celibacy remains a pre-requisite to spiritual growth.

#### VII Use of Hindu Imagery: Resultant Tension

In the colonial period, the attempt to sublimate female sexuality proved problematic. The sect in a bid to resolve this sexual tension carried it inside, only to be condemned and prosecuted for it later on. This contradiction between the need and attempt to control female sexuality has to be understood in the socio-cultural traditions it drew upon, with its diversity of conflicting symbols and meanings. These could be interpreted in a variety of ways and therefore contested.

The sect used the Hindu mythological symbolism and imagery in a most revealing way which highlights the contradictions of this society in dealing with matters sexual. The sect emphasised Hinduism by adopting the Hindu triad of Brahma, Vishnu and Siva, however with a significant difference. There was an amalgam of the three gods into the person of the founder. Brahma was identified with Lekhraj to the extent that he was called 'Brahma Baba'. Like Brahma, who in Hindu mythology created the world, so did Lekhraj. His followers called Brahma Kumaris and Brahma Kumars were reborn through the knowledge he enunciated. Vishnu in Lekhraj's vision had already announced himself as identical with Lekhraj. Moreover, as mentioned earlier, it was Lekhraj who was to be reborn as Vishnu in the satyug. Finally, the visual manifestation of the founder was an illuminated Siva-'lingam'.85

Approach to these theological symbolism was through 'bhakti' or devotion. A throw back to the medieval period, bhakti stressed the emotional and personal worship of Krishna to achieve complete union with the divinity, through unconditional surrender, which was sexually symbolic. Brahma Kumaris, in keeping with the 'raslila' tradition of bhakti, engaged in ecstatic dances and songs. Based upon voluntary self-denial and renunciation of one's sexuality, it elicited a kind of cathartic bhakti exemplified by loud singing and dancing in which Brahma Kumaris were but 'gopikas' in the bhakti tradition of northern India, who established an idealised relationship with the divine other by an orgasmic shaking of the body. In this raslila it was Vishnu in his Krishna avtar (incarnation) who was the focal point of devotion. Yet in the Brahma Kumari sect, it was Lekhraj who personified Krishna. See Even in popular memory, it was Lekhraj who performed raslila with himself as Krishna and the Brahma Kumaris as gopikas. See Significantly, Lekhraj, in keeping with the other male bhakts did not constitute his body as a feminine one, see but retained a masculine one. He was clearly not acting from the position of a devotee but had got elevated to personify the god himself.

This identification was to create enormous problems for the sect. In its symbolic celebration of non-marital sexual relationship, the two roles of the father and lover got assimilated into one. Symbolically, the object of bhakti was attainment of union with the deity/lover. Yet with Brahma Kumaris this place was appropriated by the pita (father). The father transgressed and became the lover. This at once took on a strong Freudian overtone as the female bhaktins were assimilated into the sect symbolically with a figure representing both her father as well as her lover. This was a clear transgressive notion of the sexual avoidance and acceptance role patterns and relationships. The explicit centrality of these two roles as one did not translate into benign and protective presence but rather of a menacing sexuality of essentially humankind.

So what was for the sect, a way to Hinduisation of the 'masti' of the pir Mast Qalandar<sup>89</sup> by drawing on bhakti tradition and an attempt at channelising sexual energy from the physical to the symbolic level (through raslila), became in the lay eyes, an overt display of sexuality and therefore a very potent reason for its opposition. Moreover, the upper class north Indian society, despite a strong tradition of bhakti, had remained suspicious of ecstatic dances and singing which in their minds remained associated with degenerate practice and with low castes. 40 Understandably, therefore the raslila invited a lot of public flak and censure. Consequently this aspect of bhakti had to be given up by the Brahma Kumaris. And once the sect shifted to other parts of post-independent India, the raslilas were no longer heard of. The Brahma Kumaris (except the Dadis) now firmly deny that raslilas ever took place or were an intrinsic part of their bhakti observance in the colonial past.

Apart from the raslila, iconographically, the yogic concentration point of the sect was the lingam, showing a sexual symbol of their birth that was not only the progenitor of the daughters but also the ultimate unifier. These two were mutually interacting images which portrayed the ambivalence of the sect, unable to successfully project a solution to the control of female sexuality.

In the hierarchy of the three gods: Brahma, Vishnu and Siva, it was Siva who was placed at the apex, specially as Siva was the most important deity among the Hindus of Sindh.

Although, Siva is certainly the divine archetype of the sexual renouncer, the ascetic among the gods, he also imbibes in himself the two extremes: ascetism and eroticism. This focus again created a kind of amophorous understanding of the core revered deity, thus opening the sect to varied implications specially those concerned with sexuality.

In fact, the sexual motif of the sect along with its central doctrine of celibacy emerges particularly strong. Located as it was in the socio-mythical context in which women were accepted as sexually promiscuous, the exercise of self-control under the authority of a 'three-in-one' father became highly suspect. The ambiguity of the sect contributed largely towards this perception which was greatly strengthened by freely circulating rumours centring upon licentious living inside the 'ashram'. 92 These rumours signify the perception of the sect registered at the popular consciousness, which may or may not have a relationship with the reality of its existence, ideology and belief system." Nevertheless, the image of the sect which percolated down contributed substantially to the opposition of the sect which mounted even as its membership arose.

# VIII Growing Opposition: Contradictions in the Sect

Underlying the perceived sexual overtones of the sect, which provided the major thrust of opposition against it, were other socioreligious contradictions. For instance a restraint of sexuality could be valorised only in a morally acceptable structure. In order to create this structure the sect attempted to reconcile two separate and somewhat contradictory worlds: world of the householder and that of the renouncer. The heterodox tradition of ascetics which the founder had adopted for his sect, posited the householder as opposed to the renouncer. In these ascetic sects the renunciation was essentially a negative state constituting an anti-structure to life-in-the world.44 The renouncer, renounced both his productive and reproductive activities, which led him to be truly independent of the familial/social ties and structure and separate him from his opposite, the householder.

The Brahma Kumari sect, while adopting the former did not entirely negate the latter. As a 'true family' outside the family, it did not reproduce the totality of a monastic order and thus assumed a threatening rather than a non-threatening presence. For instance, although the followers renounced their natural families, sexuality, reproductive and productive roles for the 'true family' of Brahma Kumaris, they retained an inexplicable attachment to their material assets

available as jewellery or property or other forms of wealth which they possessed as 'stridhan'. According to the Hindu law operating in Sindh (Bombay Presidency), Stridhan was an absolute estate and as an absolute owner, a woman could dispose it of as she liked.95 The instances of women having gone over to the mandli with all their jewellery, \*\* showed a materialist contradiction in the otherwise spiritually ordained ascetic sect. Significantly, the high class Hindu women of Sindh, both married and unmarried, were as a rule kept loaded with jewellery.97 This had not only acted as a status symbol, but in the case of married ones, as a compensatory gesture of the migratory husband.

There were also widows who having joined the mandli were demanding a division of property to claim their share.94 In colonial Sindh, a widow who succeeded to her deceased husband's estate (in the absence of a son, a son's son, a son's son's son), had the right to claim a partition of the joint family property. However legally she was barred from making over this property, known as the widows estate, which was essentially a limited estate, over to the sect. Alienation of property specifically for religious purposes was specially allowed only in relation to the performance of essential and obligatory ceremonies of the deceased owner or to conduct his spiritual welfare. There could be no alienation of property for a widow's sole spiritual benefit or as a gift to her guru. 44 But she could, certainly make over the income of her estate to the sect; she had full legal right on it.

This self-assertion of some females in financial matters created a great deal of tension and strife for their family members, specially as the sect placed the female followers outside the controlling hand of the family. Consequently, Lekhraj was approached by the affected families to remedy matters relating to assets and property, but he refused to intervene in what, he declared, was an entirely private matter. (10) It was seen as the failure of the sect to honour the ethical code of ascetics. Opposition gathered strength as the financial demands were put down to the influence of the mandli itself, which was to be the benefactor.

These financial contributions to the sect were direly needed as the housing, clothing, feeding of the growing number of followers of the sect demanded more and more money. Lekhraj, although a rich man, had stopped his lucrative business in jewellery to devote himself full time to the sect. There was also no other source of income. The sustenance came from the contributions of the followers' families. The rich bhaiband community was well known to set aside a certain percentage of their business profits for purposes of charity <sup>101</sup> The donations through 'gupt daan'

(secret charity) are openly acknowledged by the Brahma Kumari even now. A large number of rich Sindh families are known to contribute considerable amount of money to the sect, in keeping with the tradition of giving daan, maintained conspicuously by the trading/commercial and business communities of India. 102

I was however, informed that the real source of the sect's financial asset comes from the contribution of the lay members which merely amounts to 10 paise to one rupee per month. Collectively this is claimed to run into lakhs of rupees. According to Lawrence Babb, financial contribution also comes from the Brahma Kumaris who join the sect along with the 'equivalent of their dowries'.103 This dowry can be assumed to be a financial contribution which a natal family can afford to make rather than the market demands of dowry satisfied by the bride-givers. Although some financial contribution from the followers or her family are expected and accepted, it is not clear whether those families who make over their girls to the sect in their childhood also make some financial contribution, or any contribution, if at all. This aspect involves unravelling the internal structure of the sect specially from an insiders point of view, which I was unable to penetrate. This view may very well remain elusive given the high secrecy of the sect on matters relating to its structural existence.

Although, no satisfactory answers to the ostensible wealth of the sect may be found, what is obvious is that a lot of it went into providing a very comfortable living to its inmates.104 In the spiritually ordained supposedly a-social world, these inmates were not exactly living an austere lifestyle. To the joyous life of singing and dancing was added the attractions of a sumptuous cuisine which had become the talk of Hyderabad. 105 Interestingly, these sumptuous meals, which are retained still, have become an asset which attracts rather than repels the potential followers and their families specially among the lower middle class the major recruiting constituency of the sect now.

In the late 1930s however, the opposition to the sect kept on mounting. Most violent reaction came from the side of the husbands whose young wives had been given permission in their absence to join the mandli, or attend its 'satsang' as lay followers. A great deal of noise was made that under the influence of the sect and its doctrine of celibacy, those wives were refusing to have sexual intercourse with the husbands. Clearly, the concept of celibacy was welcome for the unmarried and widows but not for the married, whose sexuality needed to be controlled and withheld but not from the legitimate consumers. In the stubborn cases

this resulted in women being turned out of the house by their husbands and/or the husbands eventually remarrying One husband was also known to have instituted a law suit for the restitution of conjugal rights. The official biography tends to valorise such cases where women refused to go back to their husbands. 10h This was clearly done as an ode to the sect itself, as the account remains ambiguous on the fate of such women. The refusal of women. whatever their number, certainly indicated an active agency stipulated among them. From pliant consenters, who came into the sect through the permission of their male guardians, the self-assertion and self-control surfaced at least among some of its members.

Cases relating to the widows and unmarried females are far more clear and unequivocal. There was no such vociferous opposition from the families of the widows or unmarried females which was officially recorded. A few voices raised in relation to the latter were declared to be due to the pressure exercised by the opponents of the sect. Some of the minor girls as a result, were recalled by their families, but later sent back. <sup>107</sup> Other families refused to oblige or get pressurised. They were consequently threatened with social boycott, but without any success.

The community pressure however kept on building up. 10x The opposition ultimately galvanised in an anti-Om mandli committee. This was followed by a direct controntation between the mandli and anti-mandli followers. Picketing of the mandli followers was affected; the building housing the organisation was put to fire; media was roped in to denounce the mandli activities; local newspapers like the Sindh Observer wrote critically against the mandli and its founder.

When the situation got out of control, Lekhraj decided to shift the mandli headquarters from Hyderabad to Karachi, where he purchased five bunglows to house his followers. The opposition to the sect continued in Karachi but in an apparently abated form, as neither was the concentration of Hindus nor their articulation as strong as in Hyderabad. Moreover, the whole issue was overtaken by events which were throwing up socio-political convulsions. In fact, not much is known of the sect after its shiftage to Karachi except that the low keyed mandli kept on expanding slowly, although Karachi itself was left untouched. It was Hyderabad which remained its recruitment base as Lekhraj adopted the practice of sending his most committed and trusted Brahma Kumaris back to their home town and even to their own families to make fresh recruits. Even structurally therefore, the break of the sect has never been complete with the lay world The sect remained in Karachi even after the partition. It was only in 1950 that they came to India to make its headquarters in Mount Abu, Rajasthan.

#### IX **Contemporary Concerns:** A Continuing Relevance

Mount Abu showed an entirely different soil and society. In fact, there was no replicating of the Sindh society anywhere in India. The Sindh diaspora had removed the major constituency of the Brahma Kumari sect. This realisation compelled a change in emphasis of the sect's preaching and stand. The three years that the sect had remained in Sindh after the partition had introduced a new dimension in the sect. This sect, selfconfessedly born in opposition to the effects of westernisation, Islam and Christianity, which had 'corrupted Hindu way of life', 109 came to incorporate the 'Paigambar' in the fold of divine beings. 110 Religious differences and guards were being obliterated. Once the sect was in India, yet greater accommodation became visible with the inclusion of Christ within the fold of the sect. So much so that designation of each year, carmarked for celebration represents different religions. For example, 1994 was designated as the year of 'the angel' or the 'farishta'."

More importantly, the oft-repeated phrase, 'samay ki mang' came to possess different connotations: the Brahma Kumari sect started to be projected as an answer to the problem of a run away population and that of ensuring the much needed peace in the world through sexual self-restraint and concept of brotherhood. This new orientation of the sect neatly dovetailed with the national and international concerns. The projection of world peace in the aftermath of second world war holocaust, the traumatic partition of India and the onset of the cold war situation, was self-evident. The population control similarly was a dire need. Indeed, it was on the national agenda of an independent India. A population which ate up resources and outstripped any national growth rate was seen as destablilising Indian society and polity. Anxiety about population explosion, specially in the third world consuming earth's limited resources and creating a world crisis, soon assumed an international dimension. In such a situation, the Brahma Kumari sect not merely projected this concern but also a strategy of population control through a control of female sexuality; a strategy which echoed the onus put on women in all the national and international population control programmes and planning. This shiftage of emphasis has proved highly beneficial to the spread of this sect and its internationalisation which began in 1971.112 Currently it is reported to have more than 300 centres abroad in Hong Kong, Japan, the UK, Germany, Australia, Canada, the US, Brazil, well. It also boasts of 1,500 branches in India. Details of this shiftage and consequent expansion are outside the scope of this paper. Yet it may be mentioned that the substitution of world peace as the chief goal of the sect has introduced a contradiction in the Brahma Kumari's essential philosophical premise of imminent destruction of the world as a prelude to the heralding of the satyug, for which the Brahma Kumaris have been preparing themselves since 1937.

Contradiction notwithstanding, the concept of celibacy, as the core doctrine has remained an intrinsic part of the sect. It has even acquired a new acceptability in view of the growing problems of population and AIDS. In relation to the control of female sexuality also it has remained relevant. This continued relevance necessitates a comment on the contemporary existence of the Brahma Kumar, sect, which has undergone a spectacular growth rate in post-independent India. The real expansion of this sect is among its lay followers calculated to be anything from 3 to 5 lakhs though far less among the still small number of 1,000 to 1,500 surrendered Kumaris. This following is drawn from all the segments of urban middle class. Clearly the sect has broken away from its limited high class and caste complexion of the colonial past while retaining its urban base but without opening out to the lower castes.113

It is difficult to pinpoint the motives which are prompting such heterogeneous sections in joining the sect or forming its lay following. Their motives are admittedly complex and throw up different aspects of control of sexuality which were also visible in the colonial period. To sum up, the core doctrine of celibacy, for instance, assumes a different meaning: (a) for single woman, where it institutes a control outside the natal family which either acts as a repression or offers a space which allows them to honourably stay chaste and single, permanently or temporarily; (b) for young married women, where the denial of sexuality can cause tension with the husband; (c) for older women or widows who have fulfilled their reproductive roles, where celibacy may index growing spirituality, where society approval is gained and (more recently), where husband seek similar goals of sexual self-control and sublimation.

In the contemporary period, these complexities not merely remain, they also deepen. I propose to show this by taking up certain case studies which throw up intricacies of issues involved and their hidden and not so hidden dimensions even more sharply to the

The first case is that of the wife of a police station officer, Sardar Singh, in Delhi, who I came across more than two decades ago.

West Indies and more recently in Russia as: She and her minor daughter were avid lay followers of the Brahma Kumari sect. She was most enthusiastic about reaching out to the other mothers of daughters as potential followers. It was in contact with her that I first realised that the sect emphasised the no-sex but not necessarily the no-marriage concept. My recent field work also confirmed the current attempt of the Brahma Kumari to project the sect merely in its anti-sex and not in an anti-marriage image. This antimarriage thrust is blunted apparently in deference to the existing widespread criticism of the sect on this ground. She also repeatedly negated the anti-marriage stand of the sect. Perhaps to appease any such fears. Her own daughter was somewhat handicapped, having been affected by polio in her childhood. This daughter eventually went on to marry, though a little late by her family and community standards, having been provided with a huge dowry.

> Clearly, till the daughter married, her sexuality was safeguarded and contained through the sect. It was ideologically controlled in the days when middle classes are finding it difficult to talk about sex to their children; when the age of marriage is going up; when the problems of dowry are increasing and the difficulties of getting a suitable boy are enormous. If perchance the daughter had not married, her single status as a potential or full Brahma Kumari, as in the case of a rich industrialist family of Sindhis in Bombay,114 would have been understood and accepted by society. Here is a sect which assures females a space, temporary or permanent, as the case might be. The ultimate goal of marriage may remain tantalisingly intact, yet suspended, till such time as 'passing of the marriageable age' or rejection of it by the female concerned, as I shall show in other cases. In a way the sect also provides a useful way of socialising of young girls specially towards their marriage. in making them pliant, obedient and nondemanding, both in sexual as well as in nonsexual matters.

> In this early socialisation, mothers play a crucial role. Significantly, mother and daughter/daughters are an important combination among the lay followers of the sect. I saw a lot of young children mostly girls with their mothers or as part of a family unit, including the father, attending the Brahma Kumari centre's activities in Delhi. The boys. if any, are either toddlers, or just above that age. On being questioned about the whereabouts of their sons, the general answer was that they were out playing.

> Yet, one of the more troublesome and fluid category of the Brahma Kumari lay followers is and has been that of young married women. At one level, she is undoubtedly supported by her husband, as seen in the mother-daughter combine or the

whole tamily becoming in members of the sect. But so far as her vow of celibacy is concerned, it may still be contested by the husband, as in the colonial past. A recent occurrence in Agra narrated to me in the Brahma Kumari camp held at Mount Abu showed one such case, where a lay female follower prompted by a Brahma Kumari, attempted to tie a 'rakhi' on her husband. The husband reacted violently and had the inmates of the Brahma Kumari centre beaten up. This led to the withdrawal of the woman in question from the sect itself. Clearly, unless the husbands are a party to the vow of celibacy or acquiesce to it willingly in relation to the wife, the sect is known to sow discord in the family life on matters of sexual rights. In very rare cases the women are able to assert themselves and that too at the cost of constant strife or even the break up of marital life.

In most other cases, either the vow of celibacy is not observed, as I discovered in my informal conversation with the younger visitors to the camp or it remains a bone of contention leading to a state of permanent strife, as in the case of a rich businessman in Calcutta (name withheld on request).115 This businessman's wife became a lay member of the sect soon after the birth of her four children, three girls and a boy. She also started to take her daughters to the Brahma Kumari centre. This lay membership of the sect remained a constant bone of contention between the husband and wife and the wife and the mother-in-law, till the husband's death recently. The daughters grown up now, who were resisting marriage even earlier, have firmly refused to marry after their father's death. So far however, none of the females have opted for the surrendered status in the sect. Significantly, the boy has remained outside the influence of the sect.

Another interesting case involving rejection of marriage is that of Usha, a middle class girl and an anaesthetist by profession who accompanied us to the camp held at Mount Abu in June 1993. She joined the sect out of her own volition and preference for staying single/celibate and carrying out her chosen career. Only in passing did she mention the 'ashanti' at her home-front. It was not clear whether this ashanti was between her parents or Usha introduced it by disclosing her intention to join the sect. It could very well be on both counts. In her case also, it was her mother who was a lay follower and Usha used to accompany her as a child to the Brahma Kumari centre in north Delhi.

After attaining her majority, when the pressure for marriage mounted, Usha made her intentions clear about formally joining the Brahma Kumari sect. It still took her a number of years after she was through with

neer medical degree that her parents consented. The social sanctity which the sect provided to the single woman came handy for Usha to withstand the pressure to marry. The option exercised by her was thus greatly facilitated by the Brahma Kumari sect and its central doctrine of celibacy. It is significant that opposition to Usha's move came not only from her father but also from her mother who was a lay member of the sect and committed to celibacy herself.

Usha's case may not be in isolation. There are a number of young females and indeed males who feel genuine anxiety and fear regarding the physical aspect of marriage or even their own sexuality, give the continued premium on virginity in the case of females and on experience and 'mardangi' (masculinity) in that of males. It is well known fact that sexuality and marriage can be traumatic for many. 116 The sect offers such cases a 'safe haven' where such demands will not be made on them.

Yet, as opposed to self-control of sexuality, there is always the 'patriarchal control' exercised over female sexuality, outside the institution of marriage. Indeed, as opposed to Usha's case who willingly opted to join the sect and exercise sexual self-control, there is the case of Indira (assumed name) in Kalyani, district Nadia, in West Bengal whose sexuality came to be controlled and repressed in the sect. This case was communicated to me by Sarbani Chaudhary, a teacher of English in the Kalyani University. Sarbani was a witness to the tragic episode which stretched from 1987 to 1992.

Indira belonged to a low middle class family. Her father was a clerk in the railways and her mother was a nurse in the government hospital. A sensitive and hard-working girl, she was eager to study further after passing her 'Madhyamik' (class ten) in 1987-88. At this stage however she disclosed her distinct unease and even resentment about her father's desire to place her in the Brahma Kumari sect as, what she termed, a 'devdasi'. 117 Yet her feelings about the sect were ambivalent. Once attached to it, she came to take pride in her ability to abide by its rules and regulations including its early morning prayers and congregational activities. Simultaneously she remained interested in the opposite sex, television, films, etc, like any other young girl of her age. In 1988-89, she entered the Kalyani University to graduate. By this time she was fully into the sect. She followed its strict regimented life with all its social taboos.118 She even took pride in pointing out that she was different from others; and how this fact evoked the respect of her peers. In Sarbani's words: 'This seemed to be an inverted kind of reaction to her repressed desire to be normal', as at the same time 'she showed herself acutely uncomfortable with her sexual, emotional and psychological desires'. By now, however, her earlier confidence to handle her university courses had been severely eroded and she shifted from one course to the other. By the end of 1990, she had started to show severe psychological disorder. During such several stress periods she would throw off her clothes. She even took to assaulting her younger brother who she had always resented as being given more importance and attention in the family. Her mother wanted her to be under psychiatric care but was prevented by her father who had full faith in the sect to cure her. In fact, the mother held her father responsible for her daughter's nervous breakdown.

By this time a Brahma Kumari centre had been established in the house itself. There was also a visible accretion to the family fortune made by the sect. The earlier single storey structure without even the cement work was turned into a double storey cemented whitewashed building by the Brahma Kumari sect. The new structure had Brahma Kumari symbols all over the place. The family moved to the first floor to two small room accommodation. With several women housed in the lower portion, the sect members became more visible than the family itself (except the father).

By now Indira had started to wear the white dress of the Brahma Kumaris. At this time she showed a deep hatred of her mother and inordinate idealisation of her father. The mother also seemed resigned to the fact that she would not be allowed to do anything for her daughter. Yet, unexpectedly in July 1992, Indira was married off, perhaps to effect a popularly believed cure to her continued mental state of ill health. In this respect it was also a belated recognition that control of sexuality was actually a repression causing grievous harm to the victim.119 This decision however culminated into tragedy. By October 1992 she had committed suicide.

Usha and Indira's cases are diametrically opposed to each other. The agency assumed by one to remain in the sect was assumed by the other to negate it. The initial consent however reluctant, given to the dictates of the father was replaced by severe internal resistance and revolt. In other words the sexual self-restraint for one was sexual-repression for the other and when lifted it had disastrous consequences.

It is without doubt that similar such cases of both willing and unwilling following can be traced to the Brahma Kumari sect. What perhaps emerges significant is the motivation of the patriarchal family operating behind taking such decisions with regard to placing their females in the Brahma Kumari sect. These may range from personal benefit to escaping the responsibility of providing for their daughter in a situation of economic

scarcity. What emerges even more important is the impact of such a decision on females, specially minor, who are unable to even know the full import of such a decision made on their behalf. In certain cases a willing conformity to the sect takes place in other resistance and revolt are inevitable. In this connection, I cite yet another case which throws up these aspects of motivation, repression and revolt, even more sharply. The following case is of Lata Mittal, as recorded by *Manushi*, in 1985:

Lata is one of six brothers and five sisters. When she was about thirteen, her mother sent her and her younger sister away to Brahma Kumari ashiam in Calcutta. Her father's protests were not heeded.

Lata says that she was exploited in the ashram and made to do manual work like washing utensils, cleaning, ironing and cooking for 25 people. She was not educated so she could not participate in the daily discourses. She was not allowed to study although she was keen to do so. Not even a newspaper was allowed on the premises so she had no access to the outside world.

After five years, Lata returned home but her mother told her that she had been sacrificed to god and must stay at the ashram. After another five years there, she could not bear it any longer so she finally left the ashram.<sup>120</sup>

Lata came back after spending ten years in the ashram but her mother never reconciled to her and was not even willing to give her food from the family kitchen. Lata had to struggle hard to find a clerical job in the post and telegraph department and be on her own. By this time her father and two of her brothers had died. Lata's other sisters were married off and had been persuaded to sign a relinquishment deed of the property in favour of their brothers. Encouraged by her sisters Lata moved court to claim her share of ancestral property consisting of four shops and a house which had been appropriated by her brothers who refused to give her any share in this. Following Lata's example, her younger sister also wanted to leave the ashram and claim her share in the property. This was in 1985; nothing is known of the case now as Manushi has not followed it up. Lata has remained outside the sect, but she has firmly rejected marriage for herself.

Lata Mittal's case highlights one significant way out of many adopted by the patnarchal families to subveit women's equal right of inheritance. <sup>121</sup> Indeed it may be seen as a most successful resolution of different problems: of conserving its inheritance in male heirs; of escaping from bearing the expenses of marriage or even maintenance; of handling sexuality of daughters and finally an honourable way of dealing with females which had the time acclaimed societal approbation. As a 'sacrifice to god' it perhaps earned them religious ment as well.

This case also highlights that the surrendering of girls in their childhood to the sect, initiated in the colonial period, has retained its popularity even now. Babb's investigation similarly shows the current surrendered kumaris to have been attached to the sect from their childhood. 122 According to him, they become fully surrendered in their teens with the permission of their families. They are drawn heavily from among the lower middle class which has its own compulsions to opt for the sect. This surrendering of girls in their childhood, shows a collusion between families and a religious institution in organising a space where legal notions that a candidate has to be major to make a decision are being subverted. Even among the lay followers the early acclimatisation of girls in their childhood may not unoften act as a prelude to their possible surrendered status.

Apart from the lay followers and the surrendered ones, there is yet another category of lay-plus-surrendered kumaris. In creation of this, the Brahma Kumari concept of the 'true family' located between the polarities of the householder and the renunciator, which had aroused severely negative and even violent reactions in the colonial past, has become a positive asset. This concept has allowed people like Usha to carry on their profession outside the sect, while still being members of the 'true family', intercepted with frequent and regularly scheduled visits to the headquarters at Mount Abu. Such followers are not given to preaching, which remains reserved for the whole timers.

Professionals like her have also been given a greater freedom in terms of dress. They are required to wear the Brahma Kuman dress only when they came to its headquarters. In all other situations they may dress in a sari and blouse (without the undergarment) in white or in white associated colours. This of course has been possible only under modern situation where education of women and urban employment, not available in colonial Sindh, has become a reality. The acceptance and even encouragement of this reality has certainly added to the sect's following. This category has been very useful and in fact popular even among the sect's male followers who invariably maintain and are encouraged to maintain the outside employment, without taking full residence in the ashram. 123

The emphasis on increasing the sect's following in post-colonial India has been a remarkable one. In fact, Brahma Kumari sect is a highly propagating sect.<sup>124</sup> The structural link-ups which it allowed its inmates to maintain with their families, as given above, shows a distinct method of propagation adopted even in its initial years. Now this propagation is evidenced even more

' forcefully in the huge yearly camps organised by the sect, once every year in the month of June at Mount Abu. This is attended by four to five hundred potential followers from all over India. These invitees are offered a free holiday in Mount Abu for 3 to 4 days; which includes boarding, lodging, sightseeing, medical care if needed, along with the orientation discourses of the sect. The amenities offered are according to the status and class of the potential follower. These camps are organised on certain principles. Different categories of people are clubbed together for a particular camp. For example, when I went to such a camp, the categories consisted of professionals, teachers and businessmen (along with their spouses). The medium used for discourses is a mixture of Hindi and English, except when the older 'dadis' are involved who by and large use Hindustani.

In the categories of people, the emphasis on intellectuals/teachers is specially marked because currently the sect has a great need of them. I not only felt it personally, but also my retired academic friend who accompanied me. Many times, this anxiety and need to . recruit has not been at all subtle as witnessed in the case of Anjani Mehta of Baroda.125 Anjani Mehta, an about-to-retire principal of a local college, still unmarried, with her soft but highly articulate ways, was 'repeatedly tempted' by the sect with offers to visit Germany free of cost, as a member of the Brahma Kumarı delegation. This offer was rejected by her. Yet it underscores the sect's great need of educated articulate followers who perhaps can be coopted temporarily in the sect, if not permanently.

This need and desire of the sect to expand is also connected with the sect's response to the deep changes in the post-colonial industrialised India, which have revolutionised certain social spheres and placed new emphasis on population control through easy availability of birth control and family planning. These social changes, which noticeably surfaced in the late 1960s and early 1970s (coinciding with the expansion of this sect), stretching from greater female mobility, education and employment, urbanisation, consumerism and modern day living, deserve a closer scrutiny and entirely separate treatment, than is possible here, since many of them have an inherently ambivalent character. 126 Yet it can be said that these increasing pressures have generated anxieties in relation to females and female sexuality in a variety of new ways. The Brahma Kumari sect offers in such a situation a socially acceptable resolution of this crisis and identity. So far as women are concerned, religion continues to provide a legitimate space, time honoured and tested.

#### Notes

[An earlier version of this paper was read at a workshop on 'Re-examining the Indian Family', held at Calcutta, July 7-9, 1995. A great deal of discussion which followed has been incorporated in this paper. I am grateful to the participants who generously supplied me with a lot of new information in the form of case studies, all of which has enriched this paper. I am also most grateful to Uma Chakravarti and Patricta Überor whose comments on various aspects have helped me to etch out my arguments more sharply and focus on certain aspects which may have remained marginal.]

- The official name is: Prajapita Brahma Kumari Ishvariya Vishv Vidyalaya (The Prajapita Brahma Kumari: Godly University).
- 2 For an indepth analysis and description of how sexuality, specially female sexuality was accountable for all worldly ills, highlighting the concept of celibacy as the only redeemer and solution see Lawrence A Babb, Redemptive Encounters: Three Modern Styles in Hindu Tradition, Oxford University Press, Delhi, 1987, pp 140-45.
- 3 Ursula King, 'Women and Religion: The Status and Role of Women in Major Religious Traditions' in Alfred De Souza (ed), Women in India: Traditional Images and Changing Roles, Manohar Publications, New Delhi, 1975, pp. 110-128.
- 4 Joseph S Alter, 'The Celibate Wrestler. Sexual Chaos - Embodied Balance and Competitive Politics in North India' (forthcoming), Contributions to Indian Sociology
- 5 Gandhi's conception of brahmacharya differed in one crucial aspect from the ancient ascetic tradition which held women responsible for the pnenomenon of lust and temptation Gandhi by and large saw women as passive victims of male sexual urge. Lekhraj on the other hand followed the theology and mythology of the ascetic tradition. For details see Madhu Kishwar, 'Gandhi on Women', Economic and Political Weekly, October 5, 1985, Vol XX, No 40, pp 1691-1702; October 12, 1985, Vol XX, No 41, pp 1753-58
- 6 Bhikhu Parekh, Colonialism, Tradition and Reform: An Analysis of Gandhi's Political Discourse, Sage Publications, New Delhi, 1989, pp 172-206.
- Babh, Redemptive Encounters, pp 142-43.
   Jagdish Chander, Ek Adhut Jivan-Kahani (Hindi) Prajapita Brahma Kumari Ishvarya Vishv Vidyalaya, Mount Abu, nd. pp 56-59.
   This is an official biography of the founder of the sect.
- 9 In this Lekhraj was pursuing a more traditional goal for women as compared to Gandhi, whose aims were more political Gandhi's ideas on control of sexuality served to create a favourable social atmosphere for women to come out of their houses and participate in social and political struggle; to be able to live away from home without fear, shame or exploitation. Gandhi's upholding of ceilbacy as a higher ideal than marriage also made it possible for many women to live unmarried and yet be respected in society. Lekhraj, on the other hand, sought

- to control female sexuality by withdrawing them both from their domestic as well as political-public space offered by Gandhi without really handling public censure in any effective way. In a way, the Brahma Kumari sect sought to contain rather than advance the liberalising effects of the control of female sexuality as posed by Gandhi For details see Kishwar, 'Gandhi on Women'
- 10 Chander, Ek Adbhut, pp 97-98.
- 11 Personal interview with Dada Anand Kishore, Mount Abu, June 7, 1993. Born in 1918, he is among the few males who joined the sect in its first year itself.
- 12 Fordetails see Manisha Roy, Bengali Women, University of Chicago Press, Chicago, 1975
- 13 Chander, Ek Adbhut, pp 32, 62-64.
- 14 Personal interview with Dadi Manohar Indira (born 1920), and Dadi Nirmal Shanti (born 1917), Mount Abu, June 7, 1993.
- 15 The average age of the committee members ranged from 16 to 20. See John Mitchner, Guru: The Search for Enlightenment, Viking, New Delhi, 1992, p 110
- 16 Chander, Ek Adhhut, p 56.
- 17 R Hughes Thomas (ed), Memoirs of Sind: Selections from the Records of the Bombay Government, Vol II, first edition, 1835, reprint, Karimsons, Karachi, 1979, pp 650-51.
- 18 K R Malkani, The Sindh Story, Allied Publishers. New Delhi, 1984, pp 74-87 However, none of these reform movements were so popular or deeply entrenched in Sindh as in Punjab
- 19 Sarah F D Ansari, Sufi Saints and State Power: The Pirs of Sind, 1893-1947, Cambridge University Press, Cambridge, 1992, pp 12-19, 117-19.
- 20 The demand for a separate state for Bombay had initially been raised by a prominent Sindh Hindu at the annual session of the Congress held in Karachi in 1913 Later on it became the battle cry of the Muslims with the Hindus resisting it. Ibid, pp 111 12
- 21 Census of Bombay Presidency, 1911, Vol VII, Part I, report, Government Central Press, Bombay, 1919, p 56
- 22 For details see Harjot Oberoi, The Construction of Religious Boundaries: Culture, Identity and Diversity in the Sikh Tradition, Oxford University Press, Delhi, 1994.
- 23 Census of Bombuy Presidency, 1931, Vol VIII, Part I, general report, Government of Bombay, Bombay, 1933, pp 314-16
- 24 An interesting description of the social structure of Sindh in the late 19th century shows the brahmins to occupy a position just above that of the Muslims, who occupied the lowest rung of a four-fold social hierarchy. The first three were occupied by amils, Bhaibands and the non-Sindh Hindus, including the brahmins. Description given in Daya Ram Didoomal's biography of Hiranand, the founder of Brahmo Samaj in Sindh, cited by Claude Markovitz in his paper on 'The Sindh Works. A Worldwide Trading Network from Hyderabad (Sindh) circa 1860-1995', read at Nehru Memorial Muscum and Library, Teen Murty, August 17, 1995,
- 25 C A Kincaid, Folk Tules of Sind and Gujarat, first edition 1925, reprint, New Order Book Co, Ahmedabad, 1976, pp 18-30

- 26 Personal interview, K.R. Malkani, New Delhi, May 20, 1993. Malkani was 16-17 years old and in Hyderabad during the crucial years when the Brahma Kumani sect was being formed. The 'ghunghat' was worn in such a way that only one eye was visible. Because of this women came to be called 'ek ankh ki akhani' (one cyed women).
- 27 For details of Bengal see Hernani Bannerjee: 'Attired in Virtue The Discourse as Shame (Lajja) and Clothes of Bhadramahila in Colonial Bengal' in Bharati Ray (ed), From the Seams of History: Essays on Indian Woman. Oxford University Press, Delhi, 1995, pp 67-106
- 28 It is because of the association of a woman with these qualities and the fact that such a woman is out of reach for a man that the colour white has come to have strange sexual attraction for men. A male point of view suggests that in white colour 'autat ka roop khil ata hai' (a woman becomes sexually attractive).
- 29 Personal interview, Dadi Manohar Indira
- 30 Out of a population of 38,87,070 in 1931 in Hyderabad, there were 198,684 Hindus, 4,60,920 Muslims and 2,205 Sikhs. The lohana caste among the Hindus numbered 9,325. Census of Bombay Presidency, 1931, Vol. VIII, part II, statistical tables, pp. 404-05 and appendix.
- 31 Helen B Lamb, 'The Indian Merchant' in Milton Singer (ed). Fraditional India Structure and Change, Rawat Publications, 1975, Jaipur, pp 25-34
- 32 Census of Bombay Presidency, 1931, Vol VIII, yart 1, p 38
- 33 An interesting account of this is given by Lady Lawrence who wrote in her biography about a 'box wallah' called Ram Chand. He came to her with a box full of silks. Benarsi silk saris worked with gold threads, short silk from Surat, tussine silk and China, silk from Bokhara. Her husband, Henry I awrence, commissioner of Sindh, 1914-20 explained that this man was a 'Sindh-Worki' whose head, the Mukhi lived in Hyderabad-Sindh; who shopped in Aden, Malta, Gibralter, London, Paris and Singapore as well as other parts of the world. For details see Lady Lawrence, Indian Embers, George Ronald, Oxford, nd, pp. 45-53.
- 34 Thomas, Memoirs of Soid, p 653
- 35 E. H. Aitkin, Gazetteer of the Province of Sindh, Karachi, Government of Bombay, 1907, p. 186. Many Johanas provided the crucial link between agriculture and agricultural trade. In fact, even Lekhraj started his career as an agent of agricultural produce like wheat. It is only later that he took to the jewellery business. See Chander, Ek Adhbia, p. 12.
- 36 Report of the Sindh Conference, 1932, by A.F.L. Brayne, Government of India Central Publication Branch, Calcutta, 1932, p. 16
- 37 Amiya Kumar Bagchi, Private Investment in India, 1900-1939, Orient Longman, New Delhi, 1975, p. 436
- 38 Report of the Sindh Conference, pp 3, 16-17, 32, 48, 67 and appendix 7
- 39 I am grateful to Amiya Kumar Bagchi for bringing this to my notice
- 40 Ansan, Sufi Saints and, State Power, p 12
- 41 Those very often cited for north-east region

- are: the Kulin brahmin of Bengal; the anavil brahmins of Gujarat; the patidars of Gujarat and the raiputs and other groups claiming kshatriya status in Kangra. It is however unusual among the trading communities of north India to have a single rajput type gradient (a kulin model) of ranked status groups for purposes of marriage. Those common are intermarrying 'circles', which often break sapinda rules in order to get appropriate status matches For the circle model see David F Pocock 'The Hypergamy of the Patidars in Patricia Uberoi (ed), Family, Kinship and Marriage in India, Oxford University Press, Delhi, 1993, pp 330-40.
- 42 Aitken, Guzetteer of the Province of Sind, p 186.
- 43 These three regions were: Lar: the descending region from Hyderabad to the sea; Vichola: from Hyderabad to about half-way between Larkana and Schwan on the western bank of the Indus, and Khairpur on the eastern bank, and finally Siro: region to the north of Vichola. See, U T Thakur, Sindhi Culture, University of Bombay, 1959, p 96.
- 44 Ibid.
- 45 Jonathan P Parry, Caste and Kinship in Kangra, Vikas Publishing House, New Delhi, 1979, p 247.
- 46 For details of marriage transaction see, Thakur, Sindhi Culture, pp 100-102
- 47 Personal interview, K R Malkani; Kamala Nanda, Delhi, July 23, 1993. Born in 1917, Kamala Nanda had friends in several Sindhi families in the undivided colonial Punjab.
- 48 Thakur, Sindhi Culture, pp 94-95.
- 49 For details of this Act see ibid, p 102.
- 50 Dowry was not a problem exclusive to Sindh. A large number of Indian states in the colonial period shared this affliction. Yet, the effects of dowry and the ways to control and contain it were different in each region. The one way generally adopted which universally remained unsuccessful was to use the panchayats to curb this practice.
- 51 Thakur, Sindhi Culture, p 100.
- 52 Kincaid, Folk-Tales of Sind, pp 18-30.
- 53 Census of Bombay Presidency, 1931, Vol VIII, Part II, statistical tables, pp 404-05 and appendix A
- 54 While agreeing to this phenomenon, the contemporary Sindhis tend to rationalise it by maintaining that traditionally, the eldest girl of the family did not marry; but remained with her parents to look after them in their old age. Personal interview, Shanti Uppal, age 54, a Sindhi married to a Punjabi, New Delhi, June 9, 1995.
- 55 Ansar Zahid Khan, History and Culture of Sind, Karachi, Royal Book Company 1980, p 250
- 56 Census of Bombay Presidency, 1931, Vol VIII, Part II, statistical tables, pp 404-05 and appendix A.
- 57 Unanimous opinion of all those who were interviewed.
- 58 Thakur, Sindhi Culture, pp 98, 104-05.
- 59 Ibid, pp 91-92
- 60 Thomas, Memoirs of Sind, p 656.
- 61 Prem Chowdhury, The Veiled Women: Shifting Gender Equations in Rural Haryana, 1880-1980, Oxford University Press, Delhi, 1994, pp 102-132.

- 62 Written in Urdu and Hindi, a large number of them were published in the 19th century from various centres. For details see Frances W Pritchett, Marvellous Encounters: Folk Romance in Urdu and Hindi, Manohar Publications, New Delhi, 1985, pp 56-78.
- 63 Ved Prakash Vutuk, Studies in Indian Folk Tradition, Manohar Publications, New Delhi, 1979, pp 299-300.
- 64 Pritchett, Marvellous Encounters, p 65.
- 65 Although most folklore, popular published dramas and 'kissa' (folk-romances) about King Bharthari and Queen Pingala centre on the fruit of immortality and Pingala's deceit. a lesser known Rajasthani variant sung by a local bard, as recorded by Ann Grodzins Gold, interestingly has no reference to the illicit connection or deceit of Pingala, who is depicted as 'an impeccably true wife' of king Bharthari. In this version Pingala commits 'sati' on being informed that her husband was dead. However this version also shows Pingala's fanatic fidelity as yet another dangerous feminine wile in which she becomes sati in order to kill her husband. Gold accepts both the versions of Pingala as impetus for Bharthari's enlightenment and thus valued positive forces in tale of renunciation. This rendering shifts the accent from the wiles of women' to renunciation as a value in householders' lives. See Ann Grodzins Gold, A Carnival of Parting: The Tales of King Bharthari and King Gopi Chand as Sung and Told by Madhu Natisar Nath of Ghatiyali, Rajasthan, Munshiram Manoharlal Publishers, New Delhi, 1993.
- 66 Chander, Ek Adhbut, p 82.
- 67 Personal observation, Mount Abu, June 5-7, 1993, where samay ki mang was frequently voiced in the lectures delivered at a Brahma Kumari camp.
- 68 For details of Arya Samaj in relation to women, see Uma Chakravarti, 'Whatever Happened to the Vedic Dasi: Orientalism, Nationalism and a Script for the Past' in Kumkum Sangari and Sudesh Vaid (eds), Recasting Women: Essays in Colonial History, Kali for Women, New Delhi, 1989, pp 27-87.
- 69 One of the major reasons for the popularity of the Arya Samaj in this region was the legitimacy that it provided to the custom of widow remarriage in its levirate form. For details see Chowdhry, The Veiled Women, pp. 100-101.
- 70 See Babb, Redemptive Encounters, pp 102, 139-155. Also for a succinct version see his article, 'Indigenous Feminism in a Modern Hindu Sect' in Rehana Ghadially (ed), Women in Indian Society, Sage Publications, New Delhi, 1988, pp. 270-87.
- 71 See for instance, Catherine Clementine-Ojha, 'Outside the Norms: Women Ascetics in Hindu Society', Economic and Political Weekly, April 30, 1988, Vol XXII, No 18, pp WS-34 - WS-36.
- 72 Chander, Ek Adbhut, pp 151-52.
- 73 Personal interview, Dadi Manohar Indira, Mount Abu, June 7, 1993.
- 74 For detail see Catherine Clementine-Ojha, 'The Tradition of Female Gurus', *Manushi*, November-December 1985, No 31 (WI 6, Vol), pp 2-8.
- 75 Observed through interviews and personal

- participation at the Brahma Kumari camp, Mount Abu, June 5-7, 1995.
- 76 The possessed women are honoured as incarnation of the goddess (matas). Seekathleen M Erndl, 'Fire and Wakefulness: The Devi Jagrata in Contemporary Punjabi Hinduism', Journal of American Academy of Religion, Summer 1991, 59, No 2, pp 339-60
- 77 For an analytical discussion of difference between autonomous goddess and 'spouse goddess', see Lynn E Gatwood, Devi and the Spouse Goddess: Women, Sexuality and Marriage in India, Manohar Publications, New Delhi, 1991.
- 78 Chander, Ek Adbhut, p 31.
- 79 lbid, pp 138-39; also see photograph on p 248.
- Michael R Allen, The Cult of Kumari: Virgin Worship in Nepal, Madhab Lal Maharjan, Kathmandu, 1975.
- 81 Thakur, Sindhi Culture, p 78.
- 82 For details see Paul Hershman, 'Virgin and Mother', in Joan Lewis (ed), Symbolism, Academic Press, London, 1977, pp 269-93.
- 83 For details of these three spaces in early Buddhism see Uma Chakravarty, 'The Rise of Buddhism as Experienced by Women', Manushi, No 8, 1981, pp 6-10.
- 84 The most visible signs of this dominating presence are available in the living quarters of the dadis and the food meant for their consumption. This food, although never austere for anyone, is really sumptious for the higher ones with extra delicacies of fruits and nuts, etc, thrown in liberally.
- 85 The Brahma Kumaris firmly deny that yogue symbol of concentration is the erotic phallic symbol of Siva. They assert that this egg shaped emblem was the halo surrounding Siva's presence in the supreme abode. Personal observation, Mount Abu, June 5-7, 1993. Also see Babb, Redemptive Encounter, p 281.
- 86 Dadi Nirmal Shanti, daughter of Lekhraj (now stationed in Calcutta as the head of the Brahma Kumari foundation) recounted how when she was 20 years old, she dreamt of her father whose image was constantly superimposed by that of Lord Krishna. Personal interview Dadi Nirmal Shanti. In fact Lekhraj's identification with Krishna in his own mind was also pronounced. This identification was projected by him consciously and was accepted by his followers in toto. Personal interview, K R Malkani.
- 87 Information given by Omi Manchanda on the basis of her long acquaintance with Sindhis and their knowledge about the Brahma Kumari sect. Baba's personal frolic as Krishna and Brahma Kumaris as gopis is also given in the official biography. See Chander, Ek Adbhut, pp 47-48.
- 88 Male devotees have traditionally identified with Radha or one of her peers in the worship of Krihsna. The bhakti saints considered god alone as the man, the rest of human race, both men and women were mere women in relation to Him. For details see Kumkum Sangari, 'Mirabai and the Spiritual Economy of Bhakti', Economic and Political Weekly, July 7, 1990, Vol VXV, No 27, pp 1464-75; July 14, 1990, Vol XXV, No 28,

- ip 1537-52.
- 89 The pir cult of Mast Qalander showed masti, ie, no physical inhibition in its display of emotions, in its religious fervour and celebration.
- 90 For the dual form of medieval bhakti, the Parakiya: erotic, followed by unorthodox lower class Hindus and the Svakiya: antierotic, embraced by higher caste Hindus see Gatwood, Devi, pp 69-71.
- 91 O'Flaherty shows how in the puranic mythology Siva's character swung widely between extreme eroticism and asceticism. See Wendy D O'Flaherty, Asceticism and Eroticism in the Mythology of Siva, Oxford University Press, London.
- 92 The rumours ranged from depicting the sect as a kind of 'Devdasi' cult to charges of incest and sexual exploitation of the Brahma Kumaris by sexually insatiable pitashree Lekhraj and by a handful of brothers or Brahma Kumars, necessitating abortions, etc This was also an illegtimate enjoyment of sexuality, where a woman belonged to not one man but to several men and indulged in sexual intercourse not for procreation but for enjoyment. The founder and his leading followers were accused of using a special kind of 'surma' (kohl), so that all those who came in contact with them were hypnotised. Personal interview, K R Malkani. Reference to this is also made in the official biography. See Chander, Ek Adbhut, p 119.

Here it may be pointed out that wearing of surma was common to both males and females of the Hindu and Muslim community of colonial Sindh. Explaining the charge of hypnotism, Dadi Manohar Indira mentioned the use of surma in combination with the yogic practice adopted by the Brahma Kumans of meditating with their eyes open (which continues to this day). For this the learned among them followed the practice of 'drishti lena' from the Brahma Baba and 'drishti dena' to the new comers, those who got newly initiated into the sect. In dirishti lena and dena the accent was on eye contact which was said to evoke a bond between the two, facilitating concentration. This produced a kind of unblinking stare which exposed the Brahma Kumaris to the charge of 'ankhon se seh lena' (mesmerising through the eyes). Personal interview, Dadı Manohar Indira. This practice undoubtedly led to the rumours of Brahma Kumaris using black magic to ensnare people; youngsters were told not to look into the eyes of a Brahma Kumari. Interestingly, except for the older generation of followers, surma is no longer worn by Brahma Kumaris.

- 93 The Significant role played by the floating rumours and stories which got built in the popular perception and belief around Gandhi's image in 1921-22, at variance with his ideology and action, is brought out in an important work by Shahid Amin, 'Gandhi as Mahatma: Gorakhpur District, Eastern UP, 1921-22' in Ranjit Guha (ed), Subaltern Studies III: Writings on South Asian History and Society, Oxford University Press, Delhi, 1984, pp 1-61. Also see his recent work, Event, Metaphor, Memory: Chauri Chaura, 1922-1992, Oxford University Press, 1995.
- 94 For the heterodox tradition of asceticism in

- early Buddhism and details of difference between a renouncer and a householder see Uma Chakravarty, 'Renouncer and Householder in Early Buddhism', Social Analysis, No 13, May 1983, pp 70-83.
- 95 Stridhan, according to all schools of Hindu law operating in colonial India included gifts and bequest to a Hindu female made during her maidenhood, married life or widowhood by her parents, and their relatives or by her husband and his relatives. According to the Bombay School of jurisprudence this may also include property which she may have inherited from a female or property purchased with stridhan or property acquired by a woman through her own exertions during her married life. See S T Desai, Mula Principles of Hindu Law. 13th edition, N M Tripathi, Bombay, 1966, pp 160-69.
- 96 Personal interview, Dadi Manohar Indira.
- 97 Ibid, also with Dadi Nirmal Shanti and K R Malkani.
- 98 Chander, Ek Adbhut, p 79.
- 99 A widow's estate was a limited one as it reverted back to the male reversioners of her husband after her death. Therefore she could not even alienate her property except for legal necessity, as defined by law. For details see Mula Principles of Hindu Law, pp 201-04.
- 100 Chander, Ek Adhhut, p 79.
- 101 In a 1904 partnership deed for trade purposes between Sindhis of Bhaiband community and Punjabi Hindus, it was effected in writing that out of a profit of 16 annas and 3 pies, 3 pies were to be set aside for purposes of charity. Evidence quoted by Claude Markovitz, Teen Murti, 17.895.
- 102 Information given by Kavita Punjabi, Calcutta, July 8, 1995.
- 103 Babb, Redemptive Encounters, p 131
- 104 The official biography celebrates the kind of joyous life led by the ashramites, extending from frequent picnics to the use of technology inside the ashram in the form of gramophone which played popular film songs like 'so ja raj kumari so ja' late in the evening before they went off to sleep. Different songs were played in the morning to wake them up for early prayers. See Chander, Ek Adbhut, pp 121, 180-87. These songs have now been replaced by specially composed 'bhajans', sung by popular play-back singers. In fact, the use of technology by the sect is pronounced; it can be witnessed in the use of special light, music and other atmospheric effects around the life-size image of Lakhraj. to produce an out-worldly effect conducive to transporting the devotee to a different world.
- 105 Personal interview, R K Malkani
- 106 Chander, Ek Adbhut, pp 73-74, 114.
- 107 Ibid, pp 127-30.
- 108 The following account of the opposition to the sect has been taken from ibid, pp 76-130.
- 109 Ibid, p 10
- 110 Ibid, pp 165-66.
- 111 Personal interview with Brahma Kumari Rajkumari, Mount Abu, June 6-7, 1993.
- 112 For the ever growing impact of the sect abroad, specially in UK and the United Nations, see Mitchner, Guru.
- 113 Currently, the sect is attempting to fan out into the rural areas but the success of this

- attempt, though claimed, remains unsubstantiated.
- 114 In this case, narrated to me by the noted writer, Quaritulain Hyder, the two sisters (now quite aged) of a well known tycoon in Bombay (name withheld) were encouraged by the family members to become followers of the sect, quite early in their life Facing the problem of hypergamy, they have remained in the fold of Brahma Kumari sect.
- 115 Communicated by Rajkumari Chopra, Calcutta, July 8, 1995.
- 116 A whole lot of personal letters seeking advice on such matters may be found in popular magazines for women. These letters are mostly from young urban men and women, for women the overnight change in an arranged marriage from its consummation to child birth can be painful, fearful and violent; for men on the other hand even running away from home on the eve of their marriage (joining the company of sadhus or entering an ashram) are also not unknown. I am grateful to Patricia Überoi for this information.
- 117 The use of devdasi by Indira is interesting, as here she is clearly referring to the popular perception of the Brahma Kumari sect as one given to sexual-exploitation (like that of the Devdasi,), rather than maintaining the sexual-sanctity of females, as claimed by the sect.
- 118 These taboos were in relation to the lay world to shun all physical touch with any one; not to eat or accept food, cooked or uncooked from outsiders except fruits and milk; not to accept any money for oneself from outsiders or spend any money on oneself. Observed at the camp held at Mount Abu; also see Chander, Ek Adbhut, pp 141-42.
- 119 It may also indicate the inability for the Brahma Kumari institution to take full and final responsibility for an individual like Indira. The sect in fact scored by allowing her to go back to a worldly life, rather than agree to furnish psychiatric treatment which may reflect on its own failings.
- 120 Manushi, September-October 1985, pp 37-38; see interview recorded by Anindita Banerjee
- 121 For other ways of subverting female inheritance, popularly adopted, see Chowdhury, The Veiled Women, pp 299-373
- 122 Babb, Redemptive Encounters, pp 130-31
- 123 Personai interview with Rajesh, Mount Abu, June 7, 1993 Rajesh runs private yoga classes at his residence in Rohini (Delhi). He gloke of his excellent physique with pride, specially in relation to his contemporaries who according to him were "pot-bellied with 2-3 children and looked iniserable".
- 124 John Mitchner shows himself a little weary of the Brahma Kumari's 'converting' activities in the white Christian world and issues a warning to the Christians that the sect may be 'seeking converts by stealth' See his Guru, pp 108-115
- 125 Case information given by Neera Desai, a Bombay-based academic, president of the Indian Association of Women's Studies, Bombay
- 126 For a brief comment upon the impact of contemporary social change on women sec Ursula King, 'Women and Religion'.

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# Economic Liberalisation and Kerala's Industrial Sector An Assessment of Investment Opportunities

#### **Sunil Mani**

Kerala is one of the least industrially developed states of the union. There are essentially three main constraints or factors that act against the ability of the state to attract investments, namely, the psychological fear created by militant trade unions, the shortage of land and of electric power. Alive to removing these constraints the government is implementing a number of infrastructural projects essentially to remove the latter two constraints. The response of private sector industry to these initiatives has been moderately satisfactory but the state still attracts only a minute fraction of the total investments in the country as a whole.

THE purpose of this paper is to map out the investment possibilities in the manufacturing sector of Kerala state consequent to the economic reform which is generally interpreted as pro active to investment opportunities. The paper first maps out the salient features of the new industrial policy statement of government of India announced in July 1991 and then attempts an analysis of the growth performance of the industrial sector in the post-reform period. This is then followed by a detailed analysis of the Kerala situation.

India's industrial sector has been governed by an archaic policy regime which placed much emphasis on regulating both entry and exit of firms into an industry through essentially the licensing policy. Studies have shown that this left a large discretionary role for the government. The new statement on industrial policy announced in July 1991 sought to remove these imperfections through essentially the following changes:

- (i) removal of industrial licensing from all but a few industries (which account for only about 15 per cent of value added in manufacturing);
- (ii) reduction in the number of industries reserved for the public sector to six;
- (iii) elimination of separate permission for investment and expansion under the MRTP Act;
- (iv) automatic approval of foreign investment;
- (v) liberalisation of policies for drugs and pharmaceutical industries;
- (vi) revision of the national mineral policy and amendment of the Mines and Mineral Development Act to open the sector to private and foreign investment; and
- (vii) extension of RBI-based automatic approval policy for foreign investment to mining, subject to a limit of 50 per cent on foreign equity.

Prima facie these changes appear to be farreaching and a major departure from the past. But a detailed analysis has shown that they are not so radical as made out to be [Mani 1995]. In the following I evaluate the effect of these policies on various aspects of the industrial sector. I begin by analysing the growth performance of the industrial sector.

#### **ANALYSIS OF GROWTH PERFORMANCE**

It is now well documented that towards the end of the Third Five-Year Plan the industrial sector entered a phase of stagnation that lasted until the late 1970s (see Figure 1). The actual rate of growth has been much below the targeted rate, especially during the Eighth Plan period: the period (1991-92 through 1994-95) corresponds to the postreform phase. This shows that there has been a significant deceleration in the overall rate of growth of the industrial sector during this period. But if one examines the annual growth rates during the period (Table 1) there has been a definite upturn since 1993-94. While the recovery in 1993-94 has been very largely contributed by the basic industries (66 per cent), the improved performance in 1994-95 is by the capital goods sector (55 per cent) (see Figure 2).

Some commentators have been quick to attribute this improvement in growth rates to the liberalisation of industrial policies [UNIDO 1995]. According to this study, growth has been accompanied by a change in the pattern of industries. For example, food processing is emerging as an important industry attracting investments. In the absence of sectorwise value added beyond 1991-92, one cannot draw firm conclusions about the structural changes taking place in the industrial sector. However if one analyses the sectoral distribution of industrial entrepreneurs memoranda (IEMs) filed by investors after July 1991, which reflect the intentions with respect to investment, one can glean some ideas about the investment preferences of entrepreneurs before and after liberalisation. A comparison of such intentions during the three years before the onset of economic reforms (i e, 1988-1990), shows that investment intentions rose from 3,009 during that period to 16,598 in the post-reform period. Food processing and vegetable oil including vanaspati industries emerged as major new attractions after the reforms with investment intentions numbering 1,170 compared with less than 200 in the pre-reform three-year period [UNIDO 1995].

So if food processing industry is one of the important products of liberalisation then one could argue that the increase in industrial output since 1993-94 has very little to do with the new policies as these have been largely contributed by either the basic goods or capital goods industry which does not seem to have received substantial fresh investments during the post-liberalisation period. In fact we argue that the higher rate of growth is largely contributed by significant improvements in capacity utilisation of existing enterprises. According to a survey conducted by the Confederation of Indian Industries, over 70 per cent of the respondents to its survey had an average capacity utilisation of more than 80 per cent in the post-liberalisation period.

TABLE 1: SECTORAL GROWTH TRENDS IN PRODUCTION, 1981-1996
(Percentage per year)

|                      |          |                    | •••    |                  |  |
|----------------------|----------|--------------------|--------|------------------|--|
| Period               | Industry | Manu-<br>facturing | Mining | Electri-<br>city |  |
| 1981-90              | 8.0      | 7.9                | 7.0    | 92               |  |
| 1990-91              | 8.2      | 8.9                | 4.5    | 7.8              |  |
| 1991-92              | 0.6      | -0.8               | 0.6    | 8.5              |  |
| 1992-93              | 2.3      | 2.2                | 0.6    | 5.0              |  |
| 1993-94              | 5.6      | 5.5                | 3.4    | 7.4              |  |
| 1994-95<br>1995-96   | 8.4      | 8.8                | 6.3    | 8.5              |  |
| (April-<br>September | 12.0     | 12.0               | 12.5   | 10.9             |  |
|                      |          |                    |        |                  |  |

Sources: (1) Reserve Bank of India (1994-95), p 137.

(2) Government of India (1995-96), p 115.

TABLE 2: ELECTRICITY TARIFF IN KERALA, 1994
(Rs/Kw)

|                            |                | (1122117)       |  |  |
|----------------------------|----------------|-----------------|--|--|
| Items                      | Low<br>Tension | High<br>Tension |  |  |
| Fixed charges<br>per month | 15.0           | 85,0            |  |  |
| (based on connected load)  |                |                 |  |  |
| Energy consumption charges | s 0.93         | 0.76            |  |  |

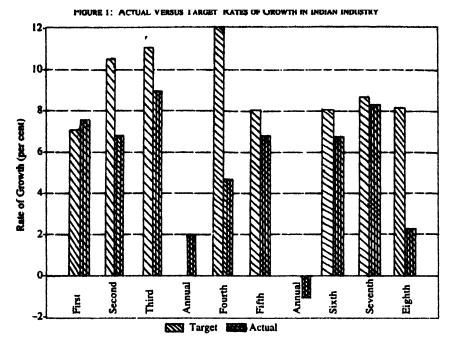


FIGURE 2: RELATIVE CONTRIBUTION OF VARIOUS SUB-SECTORS TO OVERALL GROWTH RATE IN INDUSTRY



It is against this brief background that we analyse investment possibilities in the state of Kerala. The note is organised as follows. It is structured into three sections. In section 1, 1 present some distinctive features of Kerala state from the point of manufacturing investment. In the second section, I give a list of industries together with some relevant details and in the third and last section I present the official list drawn up by the state government.

#### MANUPACTURING INVESTMENT

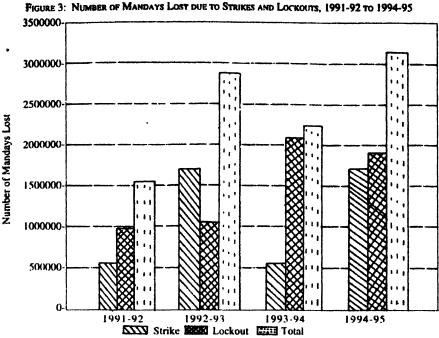
Kerala is one of the least industrialised states in the country. There are many well known reasons why this is so. If one were to quickly summarise these constraints there are at least three, namely (a) the psychological fear created by militant trade unions; (b) the high cost of land acquisition; and (c) the worsening power situation. I discuss each of these three constraints seriatim and explore whether there has been a radical improvement

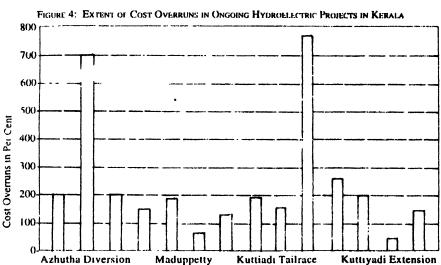
in any of these in the post-interalisation period. This is followed by a discussion of the intended and actual investment proposals that the state has attracted during the post-reform period.

One of the most important reasons why the state has not been a haven for industrial development is the feeling that labour in Kerala is highly unionised. Very often the unions have adopted a rather militant posture while settling industrial disputes. While the number of mandays lost due to strikes and lockouts has come down, the perceived recalcitrant nature of the labour has created a sort of psychological fear among the prospective entrepreneurs forcing them to shy away from the state. To arrive at a realistic picture I conducted a survey of a select number of industrialists stratified into three groups. In the first group I had a small sample of prominent industrialists from outside Kerala but who have substantial industrial interests within the state. The second group consisted of a sample of well known industrialists of Kerala origin who have established industrial ventures in the neighbouring states of Karnataka and Tamil Nadu. The third group had a few industrialists primarily from outside the state who wanted to invest in the state but finally chose to go elsewhere due to various reasons. All the three were asked to rank the various constraining factors in establishing industrial ventures and all of them were unanimous that it is the fear of the militant nature of the trade unions combined with the rather high wage rates of casual and head-load workers that is the main reason. Despite the best efforts by several state agencies and specially the Kerala State Industrial Development Corporation (KSIDC) to dispel this notion, it seems to have got well entrenched in the minds of the entrepreneurs. During the last four years the number of mandays lost due to strikes and lockouts has actually increased (Figure 3). Given this sort of a fluctuating trend it is rather difficult to conclude that the state of industrial peace in the state has actually improved since the onset of the reforms.

The second constraint is with reference to the non-availability of large tracts of land at affordable prices. Given the high density of population and the high opportunity cost of land, availability of large tracts of land at affordable prices compared to neighbouring states is still another inhibiting factor. In fact I have been told by a prominent industrialist (who belongs to the first category above) that processing of the high quality clays found in parts of the state is made unviable by the sheer cost of land.

The third constraint is the shortage of power. Kerala used to pride itself as one of the few states in the country that had surplus power. But it is no longer the case. The state is in the grip of a severe power shortage.





Currently the state has 11 hydroelectric stations with a total installed capacity of 1,503 MW. To this one should add the share from the central power grid which is around 450 MW. By 1997-98 the KSEB expects to add another 356 MW. The Kayamkulam thermal project of 400 MW is expected to be commissioned (by the NTPC) before year 2000. The total capacity addition in public sector, therefore, is 756 MW. It is estimated (by the KSEB) that the demand-supply gap at peak demand will touch 2,463 MW by year 2001-2002. To ease this constraint the KSEB and KSIDC have initiated steps to welcome private participation in generation by independent power producers (IPPs). So far I understand that nine power purchase agreements for 4,300 MW have been signed by the KSEB, But fears have been expressed as to how much of these will actually fructify into real propositions in the near future. So

in the light of this, I would expect the power constraint to be very much in place for the next four years at least. It should of course be mentioned that Kerala has one of the lowest power tariffs in the country (see Table 2). But with the IPPs coming into stream one need not expect these low tariffs to continue in the tuture and the tariffs in the state may not be too different from rest of the country. Also it is expected that there will be a steep upward revision in the power tariffs by the KSEB immediately after the elections in May 1996, though its actual impact will be felt only on those new industrial units which come into stream after December 1996. This is further explained when we discuss the initiatives of the state government with respect to promotion of new investments into the state.

Some experts have been attributing the present power crisis in the state to flawed

planning by the successive governments.1 According to this opinion, the power distribution system in the state needs hydel units to maintain the peak load and thermal units to supply the base load. Most of the hydroelectric projects in the state have been designed as peak-load stations, and had their limitations when used to raise the base-load. So the only remedy to the situation is to have thermal base-load stations which can work day and night throughout the year. A second flaw in the planning has been the delay in commissioning a number of small hydel projects. Most of these projects have suffered massive time and cost overruns: the cost overruns range from 50 per cent of the original project cost to as high as 800 per cent. According to Morris (1996) the delays and cost overruns arise primarily because of the practice of spreading thin the state's resources to accommodate more projects than it can bear (see Figure 4).

A third factor in the flaw in planning arose due to the pressure exerted by the environmental lobby. According to Morris (1996), "In 1989-90 the Kerala government identified the total exploitable hydro potential of the state to be 5,120 MW including, the existing schemes of 1,476.5 MW. As much as 1,025 MW of the potential having the lowest costs (representing 21 per cent of the generation potential) had to be dropped due to the pressure of the environmental lobby". On the contrary the environmental lobby is blaming successive governments for being lackadaisical over power planning.

Of the three, the only constraint that is getting remedied, at least to some extent is the power constraint. This depends very much on the ability of the new IPP projects to come on stream within the stipulated time period. It is claimed that trade unions belonging to various political affiliations are adopting a more pragmatic approach to settling industrial disputes and so the state is experiencing, relatively speaking, better industrial peace. I do not have any independent sources of data to verify this claim. Regarding the land constraint the KSIDC has been developing the concept of industrial parks. I will elaborate upon this concept subsequently.

In order to hasten the process of industrialisation, the state government has been putting into effect a series of policies and institutional changes/improvements.

#### STATE GOVERNMENT INITIALIVES

Almost all the states in the country have been vying with one another to make their respective states attractive for industrial investments. Not to be left behind, Kerala too has effected a number of policy and institutional changes. Following are some of the important incentives and institutional set ups announced by the government for fresh investments in the state. In order to put this

in a comparative perspective I also provide a gist of the major incentives announced by the neighbouring states of Tamil Nadu and Karnataka (see Table 3) The table shows that Kerala has indeed offered a better range of incentives than its immediate neighbours This policy of promoting private investments, both foreign and domestic, by offering a range of essentially fiscal incentives is decried as it is tantamount to transferring resources from the citizens of that state to the investor [Srintvasan 1995] To offset poor infrastructure facilities the state has invested in various types of industrial parks which will have high quality industrial and social infrastructure including captive power plants (see Table 4) Through these various projects the state government has been consciously attempting to overcome the constraints with respect to land, water, etc

The response of private industry to these changes has been somewhat lukewarm, when we compare the picture with respect to other states. This can be gauged from the intentions for industrial investments as revealed through industrial entrepreneurs memorandum (IEM) and letters of intent (LOI) filed (see Table 5).

The table clearly shows that the state has been able to attract less than 1 per cent of the investment intentions in the country Much of the investment proposals have gone to aiready developed states like Maharashtra, Gujarat and Tamil Nadu This shows that merely giving incentives is not a sufficient condition for attracting investments as all the states have been able to give some incentives or other Instead investments seem to be attracted towards those states which have a well-developed infrastructure. In the light of this it may be possible for Kerala to attract larger investments in the near future given the massive investments in infra structural projects being implemented by KINFRA

The data presented above are only intentions to invest in the state and not actual investments. The trends in actual investments since 1991-92 are presented in Table 6. The table shows that there has been a tremendous increase in industrial investment in the state since 1991-92 In fact about 47 per cent (taking into account only the private sector investments) of the investment intentions have actually tructified into commercial propositions It sounds like a good achievement as one out of every Rs 2 crore worth of proposed investments have actually been implemented within a short period. How ever I do not have comparable data for the country as a whole or for the neighbouring states 2 to analyse the record of the state in a comparative fashion. The two sectors that contributed to this increase are the small scale sector and the central public sector The share of private sector in cumulative

TABLE 3 INDUSTRIAL POLICY REFORMS OF KERALA, TAMEL NADU AND KARNATAKA

| Kerala                                                                                                                                                                                                                                                                                                                                                                                                                              | Tamil Nadu                                                                                                                                                                                                                             | Karnataka                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Tax and duty concessions include no taxes for new units for first seven years, sales tax benefits to medium and large scale sectors (for the first 7 years) subject to a ceiling of 100 per cent of fixed capital investment or deferment of Sales Tax for the first 10 years (subject to 100 per cent of FCI) captive power exempted from electricity duty                                                                         | Capital investment subsidy at various rates in the range of 5 per cent to 20 per cent depending on the location, size and type of industries and subject to a maximum value of Rs 100 lakh for mega projects and Rs 20 lakh for others | Expeditious clearance<br>of mega projects by a<br>high level committee                             |
| An increase in investment subsidy to 15 per cent subject to a ceiling of Rs 1 5 million (Rs 2 million) for non thrust industries (thrust industries) 50 per cent of the cost of market and feasibility studies for medium and large scale industries will be shared by KSIDC                                                                                                                                                        | Power tariff concessions<br>at the rates of 40 per<br>cent, 30 per cent and<br>20 per cent respec<br>tively during the first<br>three years                                                                                            | A state level single agency for clearing projects                                                  |
| Green Channel Scheme providing entrepreneurs all required clearances from a single widow to be introduced                                                                                                                                                                                                                                                                                                                           | Sales tax waiver/deferrals<br>for up to 15 years depend<br>ing on the location size<br>and type of industries<br>including mega projects                                                                                               | An information techno logy park with the asso ciation of Singaporean investors and Tatas set up    |
| An authority for infrastructure development with statutory powers namely the Kerala Infrastructure Development (KINFRA) established                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                        | An airport of interna<br>tional standards coming<br>up in Bangalore                                |
| A software technology park has<br>already been established                                                                                                                                                                                                                                                                                                                                                                          | •                                                                                                                                                                                                                                      | The Industrial Policy of<br>1993 being reviewed to<br>make it more attractive<br>for entrepreneurs |
| A chemical terminal at Cochin for bulk imports and marketing of chemicals like Ethylene LPG CBFS P Xylene Propylene and Styrene                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                        | ·                                                                                                  |
| A petroleum refinery with an installed capacity of 10 million tha leading to the establishment of downstream industries is planned A Rs 50 crore central processing complex established by KSIDC and Tirupur Exporters Association (TEA) with state of the art technology and imported equipment for processing 20 tonnes of fabric per day The TEA Knit industrial complex will have 50 knitting spinning and garment making units |                                                                                                                                                                                                                                        |                                                                                                    |
| Steps have been initiated by KSIDC to establish a Rs 400 crore textile unit at Chandrapuram in Palghat district                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                        |                                                                                                    |

Sources (1) Government of India (1995 96) pp 116 17

(2) Own Sources

TABLE 4 INFRASTRUCTURE PROJECTS BEING DEVFLOPED

Techno industrial park at Calicut,
Integrated industrial township at Puduvype
Industrial Park at Irapuram
International Apparel Park Trivandrum
Integrated infrastructure Development Centre for Small Industries Menamkulam Trivandrum,
Export Promotion Industrial Park at Kakkanad, Ernakulam
Integrated Industrial Township, Palghat and I Kin which is a joint venture public limited non-banking
finance company between ICICI and KINFRA

Note Most, if not all, of these projects are implemented by KINFRA

Investments is as fight as of per continuous prices and investment are not available. While Kerala's record of attracting industrial investments compared to other states may not be impressive, its record since 1991 compared to its own record in the pre-1991 period is certainly impressive. In fact I would expect the investment picture to improve in the light of considerable efforts made by the state with respect to reducing land and power constraints.

#### POTENTIAL INVESTMENT OPPORTUNITIES — Unofficial View

On the basis of the discussions that I have been having with a number of experts a list of potential investment areas are drawn up. Due consideration is given to whether the state possess any comparative advantage in these industries. Second, these are all small, and medium type investments in the sense that they do not involve investments in plant and machinery exceeding Rs 10 million (\$ 0.28 million). Third, they require more skilled labour. Finally these are all products which can be marketed quite easily either in the domestic market itself or exported so that an elaborate distribution network is not necessary. I have thus a list of three areas where it will be worthwhile to invest. I discuss each of them in some detail below:

(1) Electronics and Computer Software: India is slowly emerging as an important player in the region in terms of output of electronic products and computer software. Given the comparative advantage of the state in terms of availability of skilled professionals who could be employed at say two-thirds the salaries of comparable professionals at a place like Bangalore, Kerala offers immense possibilities for these industries. Realising the potential the state government has set up a software technology park in Trivandrum in 1991 and it started commercial operations in September 1994. Established in an area of about 180 acres, the park offers several incentives for small, medium and large enterprises operating in the area of electronics and computer software. The park has at present 11 units in operation (a detailed list of these is given at the end of this study) and it can support up to about 100 units. The average turnover of a unit is about Rs 10 million. The main incentives offered by the park are mapped out in Table 7.

The Technopark is certainly a convenient place and I suggest medical electronics and computer software as two of the industries that are eminently suitable for being located in the park. Given the fact that Trivandrum itself has a number of important hospitals both in the state and private sector, the exact nature of products can be assessed without much difficulty. The park has a list of consultants for conducting feasibility studies. For most industrialists the first choice for

I ABLE J. FROPOSED STATEWISE INVESTMENTS - JANUARY 1992-DECEMBER 1994

| State               | Total<br>Proposals<br>(IEMs + LOIs) | Percentag<br>Share | e IEMs<br>Filed | Proposed<br>Investment<br>(Rs Crore) | Number<br>of LOIs<br>Issued | Proposed<br>Investment<br>(Rs in Crore) |
|---------------------|-------------------------------------|--------------------|-----------------|--------------------------------------|-----------------------------|-----------------------------------------|
| Maharashtra         | 3244                                | 20.70              | 2967 (21.22)    | 52347 (19.5)                         | 277 (16.4)                  | 4013 (9.2)                              |
| Gujarat             | 2425                                | 15.47              | 2154 (15.4)     | 51483 (19.2)                         | 271 (16)                    | 10696 (24)                              |
| Tamil Nadu          | 1424                                | 9.09               | 1188 (8.50)     | 16433 (6.2)                          | 236 (13.9)                  | 4180 (10)                               |
| Karnataka<br>Kerala | 600                                 | 3.83               | 514 (3.7)       | 9813 (3.7)                           | 86 (5.08)                   | 3077 (7)                                |
| 1                   | 154                                 | 0.98               | 124 (.9)        | 3143 (1.17)                          | 30 (1.8)                    | 1270 (3)                                |
| 2<br>India          | 263                                 | 0 99               | 222 (1)         | 5033 (1.11)                          | 41 (1.9)                    | 1364 (2)                                |
| 1                   | 15647                               | 100                | 13980 (100)     | 268619 (100)                         | 1694 (100)                  | 44021                                   |
| 2                   | na                                  |                    | 2481 (100)      | 452182 (100)                         | na                          | (100)                                   |

Notes: \* Figures in parenthesis indicate percentage share of each state in the total for India as a whole.

- 1 Refers to the period, August 1991-December 1994.
- 2 Refers to the period, August 1991-October 1995.

TABLE 6. ACTUAL INVESTMENTS IN KERALA'S INDUSTRIAL SECTOR, 1991-92 TO 1995-96

(Rs in Crore)

| Sector                | 1991-92  | 1992-93  | 1993-94  | 1994-95  | 1995-96 | Total    |
|-----------------------|----------|----------|----------|----------|---------|----------|
| Large and medium      | 63.30    | 274.24   | 148      | 182      | 300     | 968      |
| Small scale           | 131.06   | 147.02   | 166.28   | 192.18   | 250     | 886.50   |
| Technopark            | -        |          | -        | 126      | 200     | 326      |
| CEEPZ                 | _        |          | _        | 100      | 100     | 200      |
| Central public sector | 147      | 278      | 288      | 310      | 500     | 1523     |
| Total                 | 341.36   | 699.26   | 602.28   | 910.18   | 1350    | 3903.50  |
|                       | (194.36) | (421.26) | (314.28) | (600.18) | (850)   | 2380.50) |

Note: Figures in brackets indicate total private sector investment. Source: KSIDC.

TABLE 7: INCENTIVES ON OFFER AT TECHNOPARK AT TRIVANDRUM

| Fiscal                                                                                                                                                                                         | infrastructural                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Outright grant of 15 per cent of fixed capital investment subject to a ceiling of Rs 2 million per project                                                                                     | Continuous power with a 110 KV dedicated substation providing quality power                  |
| Exemption from sales tax for the first seven years.                                                                                                                                            | 2000 square feet of built-up, self contained modules on rent/long lease*                     |
| New units to be established before the end of 1996 will be exempted from electricity duty and they will be charged power tariff at pre 1991 rates for the first five years of their operations | Developed land of one five-acres on long lease.                                              |
| Grant of 50 per cent of the cost of project feasibility studies for medium-and large-scale industries.                                                                                         | Own telecom network and telephone connection on demand                                       |
| Price preference to Kerala-based manufacturing units for purchase by government                                                                                                                | Satellite earth station at the park enables high-<br>speed international data communication. |
|                                                                                                                                                                                                | Calibration testing and standardisation lab to cusure high quality.                          |
|                                                                                                                                                                                                | Centralised training infrastructure to provide                                               |

Nate: \*Initial down payment for a 25 year lease. Rs 1,900,000 per module; annual lease charge: Rs 5,000 per module for 25 years and terminal payment for conversion of freehold; Rs 190, 000 payable after 25 years.

dedicated training.

Source. Technopark.

TABLE 8: COST ADVANTAGE - TRIVANDRUM VS BANGALORE

| Items of Cost                   | Trivandrum        | Bangalore           |
|---------------------------------|-------------------|---------------------|
| Salary for a fresh engineering  |                   |                     |
| graduate (per month)            | Rs 4,000-Rs 6,000 | Rs 7,500-Rs 10,000  |
| Residential rental per month    | Rs 2,000-Rs 6,000 | Rs 6,000 -Rs 12,000 |
| Commercial rental per month     | Rs 3,000-Rs 7,000 | Rs 8,000-Rs 20,000  |
| Power Tariff (in paise per kwh) | 98.89             | 199.05              |

Source: Technopark

FIGURE 5: Utilisation of Rubberwood in India, 1992-93

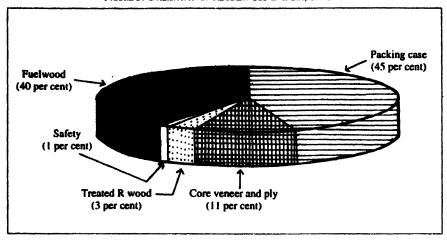


FIGURE 6: ANNUAL AVAILABILITY OF SAWN TIMBER IN CUBIC METRE

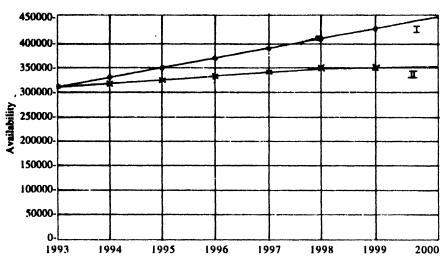


FIGURE 7: TRENDS IN THE PRICES OF RUBBERWOOD LOGS AT PERUMBAVOOR (Rs/Cu Ft)

120

80

80

40

20

1975

1980

1985

1990

1995

locating any electronics-based industrial unit is Bangalore given its already existing reputation as the so-called electronics capital city of India. However, Bangalore's potential in this area is becoming saturated. On a number of indicators of cost Trivandrum now compares very favourably with Bangalore as a prime location for setting up electronics industries (Table 8). The data presented above shows very clearly the advantages of choosing Trivandrum and the Technopark as an ideal place of location for electronics firms.

(2) Rubberwood-based industries: Though Kerala is the largest natural rubber producing state in the country, there exists very little scope for starting rubber-based industries in the state. Instead immense possibilities exist in the state. India is emerging as a major rubberwood producer with a production of about 1 million cubic metre annually. At the moment approximately 45 per cent is used for low value added products like the packing case industry, 12 per cent in the core veneer industry. Rubber wood processing industry (treated and seasoned) consumes less than 3 per cent of total production (see Figure 5). Recent technological breakthroughs in chemically treating the wood has enhanced its usage as a timber for manufacturing value added products such as (1) mouldings; (2) furniture and components; (3) doors and windows; (4) textile shutters, (5) utility items, brush handles. houseware, etc. (6) flush doors. Estimates of the availability of rubberwood under different scenarios are available and these are presented in Figure 6.

The estimated production of sawn timber under Scenario I, in which area under natural rubber is assumed to grow constantly at 5 per cent is about 0.315 million cubic metre in 1993 and it is expected to grow to 0.442 million cubic metre by the year 2000. Scenario II is a more conservative one which assumes a declining trend in the growth of rubber plantations the estimated production of sawn timber is 0.352 million cubic metres by the year 2000. The important point to note is that irrespective of the scenarios there will be adequate availability of raw material Much of the machinery and chemicals used in the treatment of the wood is also available from domestic sources. The only constraint is the rising prices of logs [see Figure 7]

There has been a sharp increase in the prices in 1995. But even at this high price it is still much cheaper than say teak wood Moreover, given the current ecological considerations rubber wood is very acceptable especially in western markets. So there is an excellent domestic and international demand for rubber wood based value-added products like furniture doors and windows etc. There are at present 45 units in the country engaged in the manufacture of various processed items. In the light of the

TABLE 9: INVESTMENT OPPORTUNITIES IN KERALA - OFFICIAL VIEW

| Main Industry Group               | Specific Product Groups                                                                                                                                                                                                                                                                                   |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Seafood and Marine Products       | Individually Quick Frozen (IQF) Marine Products; Freeze Dried Marine Products; Shrimp/Crab Extracts; Shrimp/Fish Feeds; Shrimp Feed Ingredients; and Sushi Shrimp                                                                                                                                         |
| Textiles and Garments             | Cotton Yarn Cotton Fabrics; and Garments including Knitted Garments                                                                                                                                                                                                                                       |
| Light Engineering                 | Cutlery and Scissors; Industrial Link Chains; Pressure Dic Casting: Automobile Coil Springs; Etched and Formed Aluminium Foils; Precision Diameter Tubes; Gear Boxes: Arr-Screw Compressors and High Vacuum Pumps; Machine Tool Accessories; Pollution Control Equipment; Double-wall Tubes; and Bicycles |
| Drugs and Pharmaceuticals         | Chloropheniramine;<br>Furnzolidone,<br>Betamethazone; and<br>Dexamethazone                                                                                                                                                                                                                                |
| Spices and Spice Extracts         | Processed/Sterilised Spices; Oleoresins; Spice Extracts; Curry Powders; Natural Colours and Flavours.                                                                                                                                                                                                     |
| Electronics and Computer Software | Computers and Computer Peripherals;<br>Industrial and Process Control Equipment;<br>Automotive Electronics; and ASIC design, etc.                                                                                                                                                                         |
| Minerals                          | Titanium Bone Chinaware; Sanitaryware; Glazed Wall and Floor Tiles; HT Insulators; Sheet Glass, Glass Shells and Tubes; Fibre Glass; Zeolite, and Cutting and Polishing of Granites                                                                                                                       |
| Petrochemicals                    | Xylene Extraction and Pure Terephathalic Acid (PTA); Polychloroprene; Pthalic Anhydride; Adupic Acid; Nylon Tyre Cord, Iso-Butye Benzene; and Nitro-Compounds of Benzene                                                                                                                                  |
| Food Processing  •                | Meat Processing; Chocolates; High Fructose Syrup from Cassava. Ready-to-eat Snack Foods, Pineapple and Mango Products; Canned/Freeze-dried Fruits; and vegetables                                                                                                                                         |
| Biotechnology .                   | Tissue Culture Bio-pesticides; Bio-fertilisers; Vaccines; Embryo Transfer; Biochemicals; Blood Products; Fish Fatty Acids; Medical Diagnostics; and Enzymes                                                                                                                                               |
| Tourism<br>Rubber Processing      | Tyres and tubes, Conveyor Belts; Foam rubber products; Fibre-foam products; Latex-dipped products; Condoms; and Speciality Hoses.                                                                                                                                                                         |
| Herbal Products                   | Range of medicinal products;<br>Herbal Cosmetics and toiletries.                                                                                                                                                                                                                                          |

above, I recommended that it should be possible to set up units in the new Export Promotion Industrial Park at Cochin or at the Wise Park at Palghat. There is now an active organisation known as the Indian Rubberwood Taskforce based at Kottayam.

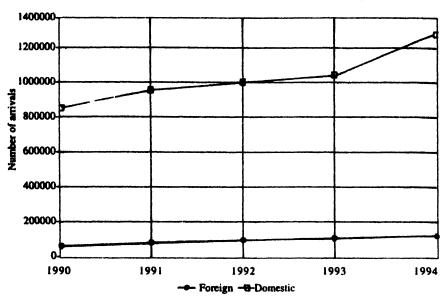
(3) Tourism-related Services: Kerala is endowed with unique natural beauty and so there has been a spurt in tourist arrivals in the state during the last few years (see Figure 8). However Kerala's share of foreign tourist increased rather slowly from about 5 per cent in 1990 to about 6.70 per cent in 1994. There has also been a spurt in domestic tourist arrivals. Estimates of earnings from tourism snows a four-fold increase during the period 1990-94.

The lower rate of growth of foreign tourist arrivals in Kerala is partly attributable to the lack of availability of adequate infrastructural facilities including budget hotels, etc. In fact this is going to be felt more acutely in the next three or four years as consequent to the fairly good marketing of the state as a tourist destination the arrivals of especially foreign tourists are bound to increase. The new and direct charter flights to Trivandrum and the increased flights of this variety once the airports at Cochin and Calicut are upgraded are good indications of the shape of things to come.

At present there is a multiplicity of organisations in the state charged with the development of tourism. While at the state level there is the department of tourism, the Kerala State Tourism Development Corporation and to some extent the forest department, at the district level there are the district tourism promotion councils all of them usually working at cross purposes. The net result is a spreading thin of the resources across a large area. Some positive developments have taken place in infrastructural development with the formation of a new company, the Tourism Resort Kerala (TRKL), a subsidiary of KTDC. Along with the Taj group, the new company has been able to mobilise resources for three new hotel projects at Cochin, Varkala and Kumarakom. But all these hotels are meant for the so-called top-end tourists.

According to the policy on tourism announced in July 1995, the state government is offering a spate of incentives for tourism-related services. Absence of affordable and decent hotels in some of the important tourist centres is still a major handicap. The tourist centres that I have in mind are Thekkady, Alleppey, Kodungalloor, Athirapally, etc. Along with the hotels one could also consider ayurvedic treatment centres. No doubt this will go well with not only the foreign tourists but also tourists from northern India. So a kind of nature tourism routed in the rich heritage of Kerala is what I am envisaging. This product will necessitate some profes-

FIGURE 8: NUMBER OF FOREIGN AND DOMESTIC TOURIST ARRIVALS IN KERALA, 1990-94



sional marketing within India and abroad. But with the existence of a number of professional advertisement and marketing agencies this may not be a problem at all.

## POTENTIAL INVESTMENT OPPORTUNITIES OFFICIAL VIEW

In contrast to our modest list of investment opportunities, the state government has drawn up a large list. I am not in agreement with all the options presented. Nevertheless, from the point of view of increasing the range of options available to the potential investors, I merely reproduce, without comments, the official list of investment opportunities in the state (see Table 9). The list is quite exhaustive though I am rather sceptical about the feasibility of most of them. Suffice it to say that two of the three industries which I have selected finds a place in the official list as well.

Kerala has not been considered a favourite spot for industrial investments for a very long time. Initially, this has been to a large extent because of the poor record of the state with respect to labour disputes. Of late two more constraints, namely, land and power shortage have been added to this list. The state government through its various promotional agencies is putting into effect a number of infrastructure projects. Though the response from private sector industry to these initiatives is certainly good when considered historically, it is only a small response compared to that in some of the neighbouring states. Our analysis shows that the state holds some potential for small and medium type projects which can be established in one of the industrial parks under construction. Much depends on the ability of the state to provide good quality electricity in an uninterrupted fashion.

#### Notes

[This paper is largely based on a study that I did for Federation of Kerala Association of North America. I thank K N Raj and T N Krishnan for encouraging me to work on this study. Thanks are also due to various officials of the state government and in particular to Paul Antony, Karmachandran, K G Satheesh Kumar and S Balakrishnan. However none of them is to be implicated for any errors that remain.]

1 This view has been expressed by the noted energy expert R V G Menon in his recent keynote address to the seminar on the Power Crisis in the State and the Solutions organised by the Institution of Engineers on March 17, 1996 at Trivandrum. Excerpts from this address are reported in *The Hindu*, March 18, 1996, p 3. 2 Suffice it to say that in a relative fashion the actual investments into Kerala will only be a small fraction of what some of her neighbours have been able to attract. For instance, the car project alone, from Ford Motor Company which

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potential of Rs 1,500 crore.

Tamil Nadu has attracted, has an investment

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# Analysis of Drug Prices, 1980 to 1995

#### Wishvas Rane

Since the drug policy of 1986, many changes have been introduced liberalising the environment for drug manufacturing and marketing. These changes have apparently come about as a response to the drug industry's plea that controls in India were too stringent and that without controls prices would stabilise and not rise. Yet, a categorywise analysis of prices of drugs over a period of 15 years shows that there is a general rising trend in prices, especially of essential and life-saving drugs.

IT is difficult to work out an ideal drug price index, because of the many variations in diseases and their treatments. It is also difficult because of different prices of different brands of the same medicine. But there is need to find out the real rise (or fall) in drug prices.

The drug industry often claimed that drug prices have not increased when the prices of other consumables have risen. This claim is normally accepted by the government which then pats its own back for the success of its Drug Price Control Orders (DPCOs) to contain drug prices. The Consumer Price Index for urban industrial workers increased by 273 per cent during 1980 to 1995 (April). This rapid rise was due to the unprecedented rise in food prices during this period. It would therefore be apt to compare drug prices with those of an industrial consumer good like clothing and footwear. The price index for this group has increased by 170 per cent during this period.

When we consider drug prices, we should certainly consider the Hathi Committee comments on drug prices. It says "In appreciation of the fact that ill-health has major socio-economic implications, the committee feels that in a welfare state, availability of prophylactics and curatives should receive the highest priority on par with food and shelter. Production and distribution of drugs should, therefore, constitute an important social responsibility of the state. The committee is of the opinion that trade aspects of this vital industry should be divorced from the ordinary accepted principles of trade for profit".

The Drug Policy (DP) of 1978 and the DPCO 1979, were based, albeit partially, on recommendations of the Hathi Committee. Forthe first time, comprehensive price control was introduced in the drug industry (though some price control measures had been in force since 1970). In the aftermath of the 1978 DP, the organised Indian private sector created a solid base for itself in the drug industry. Having done so, it joined the MNCs in the campaign for reversal of the 1978 DP.

.By the early 1980s, the industry, led by MNCs, started making belligerent noises for reversal of the 1978 DP and for decreased controls. The industry argued that drug production was becoming unprofitable and

even proceeded to deliberately reduce production of essential drugs.

An RBI analysis of the working of FERA and other companies reveals that the progress of the industry in the 1980s has been quite impressive. The increase in turnover in relation to the investment in fixed assets, has been more than proportionate to the additional capital outlay on modernisation and expansion, and dividends on enlarged capital could be paid liberally out of profits after tax was also retained in the business. The industry had not had any difficulty in finding the requisite resources for modernisation (Kothari's Year Book, 1987, p. A. 181).

This shows that the industry was making more than sufficient profits and there was no reason for asking for higher prices.

From these reports it may be concluded that the drug industry as a whole, both Indian and MNCs performed well in financial terms, and the campaign of the industry about less profitability due to DPCOs was misleading. In March 1985, the central government delicensed 94 bulk drugs making the policy of reservation of drug licences almost infructuous. The 1986 policy, in one sweep, reduced the span of price control from 347 bulk drugs to 166 drugs. It decreased the number of categories under price control to two and increased the mark-ups on these to 75 and 100 per cent.

In September 1994, came modifications to DP 1986, when different maximum allowable post-manufacturing expenses (MAPE) were done away with and a uniform MAPE of 100 per cent in all cases introduced for all drugs under price control. The number of price controlled drugs was brought down from 142 to 73 and greater profitability (up to 4 per cent) allowed for bulk drug manufacturing. By offering such a liberal drug policy, the government has conveniently forgotten that even developed market economies treat the drug industry differently from the consumer goods industry. Price and production controls are enforced in all developed countries.

In order to prove that the drug prices have increased substantially, an attempt is made here to compare the prices of drugs in June 1980 to those in April 1995, using data from MIMS India. Vol 1, No 1 (June 1980) and MIMS India, Vol 15, No 4 (April 1995).

Drug prices of all the products and packs, showing rise or reduction in prices have been considered and the prices of a single unit of such products are totalled. Some 778 product packs have been compared. This is roughly 55 per cent of all the products of June 1990 as listed in MIMS. For want of space only product packs showing a rise of over 100 per cent have been listed with respective per cent price rise. There were 118 product packs showing a price rise of less than 50 per cent, 145 showing a price rise between 50 to 100 per cent and 50 showing a decline in prices.

From Table 1 we find that there has been an overall price rise of 196.58 per cent, which means that the drug prices have nearly trebled during 1980 to 1995. The maximum rise of 336 per cent is seen in drugs meant for treatment of cancer. The radical cure for gout is allopurinol and the price of Zyloric has gone down by 79 per cent. All these anticancer products are imported and the government should make an effort to see that these emergency essential drugs are imported and marketed at reasonable cost to consumers.

This is followed by anti-allergic drugs showing a 259 per cent rise. The cheapest chlorpheniramine maleate is just not available, though over 20 brands use it in their combinations. The price of the popular brand Avil (costing total Rs 2.92 for 1 tablet thrice a day for seven days) has marginally increased, but the drug has been rapidly replaced by costlier brands such as astemisole (Astelong 1 week treatment Rs 35.80), terfenadine (Histerf – Rs 45.95), loratadine (Lorfast – Rs 27.65), clemastine (Tavist – Rs 61.10), and cetrizine (Zirtin – Rs 17.15).

Drugs acting on the respiratory system have registered a rise of 258.45 per cent and the maximum rise is shown by cough mixtures. Drugs acting on the alimentary system show a rise of 243 per cent, and strangely enough, inessentials like enzymes (334 per cent), anti-diarrhoeals (476 per cent) and laxatives (300 per cent) rise is seen. This is followed by other inessential nutritional products which show a 236 per cent rise. Food products show a rise of 654 per cent, followed by minerals with 265 per cent, anti-obesity drugs with 193 per cent, vitamins with 186 per cent and tonics with 185 per cent rise. Hormones, most of which are needed by women, show a rise of 221

per cent. Thyroid treatment is taken for a long time and these products have gone up by 532 per cent; gonadol hormones by 409 per cent. Among the drugs for the musculo-skeletal system, inessentials like rubefacients (balms) and muscle relaxants have gone up by 280 per cent.

Only antibiotics have shown a very modest rise of 64 per cent, but few of these antibiotics are very widely used today. The prices of chloramphenical products (Chloromycetin, Paraxin, etc) have gone up, but even this antibiotic has been replaced by ciprofloxacin and others. The newer antibiotics are introduced with higher prices and these are extensively and vigorously promoted.

From Table 2 we find that the maximum rise of 476 per cent is shown by anti-diarrhoeals, wherein a substantial rise of 768 per cent is seen for Salazopyrine which is probably the only available remedy for ulcerative colitis. This is closely followed by Thalazole (574 per cent) and Walamycin

(296 per cent). Now most of the antidiarrhoeals have been banned and thus Streptomagna and Thalazole have been withdrawn. Hepatobiliary drugs follow with a total rise of 355 per cent. Hepasulfol containing trithioparamethoxyphelylpropene (a passing reference is made to it in Martindale, as a drug increasing saliva and bile and not included in British National Farmulae) shows a rise of 602 per cent. closely followed by Festal (an enzyme preparation containing bile salt) by 400 per cent. Festal is now being sold with a changed composition - the bile salt has been dropped and the product named Festal-N with the same price. Enzymes show a rise of 330 per cent. Panzynorm, an enzyme combination containing bile and stomach extract, has registered a rise of 1112 per cent. Bilamide is a brand of nicotinamide and indicated for anorexia, flatulence, dyspepsia and constipation, shows a rise of 552 per cent. This is then followed by Bestozyme (416

per cent), Merckenzyme (354 per cent), Molzyme (372 per cent), Unienzyme (397 per cent) and many others. Then comes the laxative group with a total rise of 300 per cent. This is topped by I-so-gel with 593 per cent, Dulcolax with 451 per cent i'ts suppository with 446 per cent, Pursenid -IN by 351 per cent, Cremafin by 311 per cent and others. In the antacids most of the liquid preparations show increased prices and the maximum rise is shown by Disogel. Among gastro intestinal sedatives, Dimol and Epidosin have shown the maximum rise. In this group the inessential drug combinations for hepato-biliary problems and enzymes show a big rise. The prices of commonly needed laxatives have risen by four times. Within a year (March 1995 to March 1996) prices have further increased for Aludrox and Gelucil MPS antacids. Buscopan and Serebantine anti-spasmodics, Dulcolax suppository and I-so-Gel laxatives, Salazopyrine anti-diarrhoeal, Sorbiline and

TABLE 1. PRICE RISE - SYSTEMWISE

| Pharmacological               | F      | rice    | Per Cent Pharmacological |                                 | P      | Per Cent |         |
|-------------------------------|--------|---------|--------------------------|---------------------------------|--------|----------|---------|
| Index                         | 1980   | 1995    | Rise                     | Index                           | 1980   | 1995     | Rise    |
| Antacids                      | 94.51  | 174.37  | 84.50                    | Sulphonamides                   | 143.11 | 148.95   | 4.08    |
| GI Antispasmodics             | 67.98  | 130.32  | 91.70                    | Anti-tuberculours               | 340.12 | 341.33   | 0.36    |
| Laxatives                     | 38.86  | 155.40  | 299.90                   | Antileprotics                   | 184.50 | 180.00   | reduced |
| Colon and rectum              | 9.99   | 17.15   | 71.67                    | Antifungals                     | 20.94  | 84.33    | 302.72  |
| Anti-diarrhocals              | 55.80  | 321.28  | 475.77                   | Antiamoebics                    | 37.42  | 63.90    | 70.76   |
| Hepato-Billiary               | 26.88  | 122.37  | 355.25                   | Antimalarials                   | 5.71   | 16.68    | 192.12  |
| Enzymes                       | 95.72  | 415.30  | 333.87                   | Antihelmintic                   | 29.07  | 38.59    | 32.75   |
| Total alimentary system       |        |         | 242.8                    | Vaccines                        | 45.35  | 193.11   | 325.82  |
| Cardiac disorders             | 86.05  | 188 62  | 119.20                   | Total infection and infestation |        |          | 64.21   |
| Anti-anginals                 | 74.78  | 204.62  | 173.63                   | Tonics                          | 76.48  | 214.61   | 180.61  |
| Peripheral vasodilators       | 72.35  | 127.62  | 76.30                    | Iron preparations               | 134.17 | 345.64   | 157.61  |
| Anti-hypertensives            | 78.68  | 177.23  | 125.25                   | Minerals and vitamins           | 234.05 | 854.33   | 265 02  |
| Anti-inigraine                | 12.86  | 20 19   | 57.00                    | Vitamins                        | 521.11 | 1490.08  | 185.94  |
| Anti-coagulants               | 5.15   | 80.25   | 1458 25                  | Antiobesity                     | 14.35  | 42.05    | 193.03  |
| Haemostatics                  | 34.07  | 94.35   | 176.93                   | Food products                   | 82.42  | 621.74   | 654.36  |
| Total Cadiovascular system    |        |         | 145.34                   | Total nutrition                 |        |          | 235.83  |
| Analgesics                    | 67.70  | 137.98  | 103.81                   | Nose                            | 45.80  | 145.24   | 217.12  |
| Hypnotics                     | 24.58  | 90 58   | 268 51                   | Throat, mouth                   | 9.75   | 17.08    | 75.18   |
| Sedatives, tranquilliser      | 63.72  | 193.66  | 203.92                   | Ear                             | 47.09  | 87.29    | 85.37   |
| Anti-depressants              | 14.59  | 46.42   | 218.16                   | Total ear, nose, throat         |        |          | 143 19  |
| Anti-emetics                  | 121.19 | 198.34  | 63.66                    | Anti-infective                  | 71.11  | 147.57   | 107.52  |
| Anti-convulsants              | 99.24  | 397.60  | 300.64                   | Antı-inflammatory               | 11.04  | 24.86    | 125.18  |
| Rigidity controllers          | 79.23  | 344.50  | 334.81                   | Glaucoma                        | 29.58  | 97.56    | 229.82  |
| Total Central Nervous System  |        | 2111111 | 199.64                   | Mydriatics and cycloplegics     | 12.00  | 14.47    | 20.58   |
| Anti-inflammatory-NSAID       | 26.32  | 43.79   | 66.38                    | Diagnostic and miscellaneous    | 38.54  | 121.30   | 214.74  |
| Muscle relaxants              | 33.42  | 127.29  | 280.88                   | Total ophthalmic                |        |          | 150.05  |
| Rubefacients-Balms            | 15.26  | 59.23   | 288.07                   | Antiallergic                    |        |          | 258.58  |
| Total musculo skeletal system | *****  | •       | 207.07                   | Total allergic manifestation    |        | 196.50   | 258.58  |
| Gonadal Hormones              | 151.99 | 772.96  | 408.56                   | Snothing and protective         | 11 32  | 85.90    | 658.83  |
| Oral contraceptives           | 4 88   | 14.40   | 195.08                   | Keratolytic and cleansers       | 26.49  | 109.27   | 312.50  |
| Corticosteroids               | 235.50 | 441.97  | 97.67                    | Topical NSAID, antipruritic     | 4.08   | 13.91    | 240.93  |
| Hypoglycemics                 | 73 99  | 182.63  | 148.63                   | Antifungal antiinfective        | 46.07  | 115.45   | 150.60  |
| Thyroid and Antithyroid       | 26.85  | 169.64  | 531.81                   |                                 |        |          | 148.74  |
| Total Hormones                |        | ••••    | 220.67                   | Antiinfectives                  | 67.83  | 168.72   |         |
| Diuretics                     | 66 21  | 80.47   | 21.54                    | Topical steroid                 | 32.44  | 79.49    | 129.62  |
| Urinary anti-infectives       | 71.33  | 193.41  | 171.15                   | Miscellaneous                   | 92.76  | 256.06   | 176.37  |
| Vaginal and urethral          | 55.10  | 166.60  | 202.36                   | Total Skin                      |        |          | 194.96  |
| Uterus                        | 23.31  | 48.85   | 109.57                   | Carcinochem therapeutic         | 738.37 | 3756.76  | 408.79  |
| Spermicidals                  | 6 29   | 33.47   | 432.11                   | Immuno suppressants             | 271.67 | 878.60   | 223.41  |
| Total genito-urinary system   |        |         | 135.24                   | Anti-gout                       | 57.88  | 12.04    | reduced |
| Respiratory stimulants        | 17.50  | 32.87   | 87.83                    | Poisoning                       | 29.20  | 131.79   | 351.34  |
| Broncho-spasm relaxants       | 76.02  | 229.71  | 202.17                   | Total metabolism                |        |          | 335.61  |
| Expectorants                  | 172.90 | 692.41  | 300.47                   | Grand Total                     |        |          | •       |
| Total respiratory system      |        | J       | 258.45                   | All Systems                     |        |          |         |
| Antibiotics                   | 707.74 | 1419.11 | 100.51                   | 775 formulations                |        |          | 196.58  |

| TABLE 2: ALIMENTARY SY | Ά | v٣ | <b>W</b> IT | Aш | : 1 | 2 | £ | RI | T, | ٢ |
|------------------------|---|----|-------------|----|-----|---|---|----|----|---|
|------------------------|---|----|-------------|----|-----|---|---|----|----|---|

| Table 2: Alimentary System      |                  |               |                |                  |  |  |  |  |  |
|---------------------------------|------------------|---------------|----------------|------------------|--|--|--|--|--|
| Product                         | Pack             | Pr<br>1980    | ices<br>1995   | Per Cent<br>Rise |  |  |  |  |  |
|                                 |                  | Rs Ps         | Rs Ps          | Kisc             |  |  |  |  |  |
| A                               |                  |               |                |                  |  |  |  |  |  |
| Antacids<br>Alucinol            | 8 T              | 0.96          | 1.98           | 108.42           |  |  |  |  |  |
| Aludrox                         | 350 ml           | 7.35          | 17.08          | 132.38           |  |  |  |  |  |
| Disogel                         | 175 ml           | 5.40          | 18.55          | 243.52           |  |  |  |  |  |
| Gelusil                         | 170 ml           | 6.10<br>9.06  | 13.29<br>18.77 | 117.87<br>100.55 |  |  |  |  |  |
| Mucaine<br>Polycrol fort        | 175 ml<br>175 ml | 5.64          | 13.04          | 131.21           |  |  |  |  |  |
| Solacid                         | 12 T             | 1.33          | 2.72           | 104.51           |  |  |  |  |  |
| Rise less than                  | 50 (9)           |               |                |                  |  |  |  |  |  |
| Rise 51 ro 100                  | ١.               |               |                |                  |  |  |  |  |  |
| per cent (8) Gastro-intestir    | al sedati        | ves           |                |                  |  |  |  |  |  |
| Buscopan                        | 10 T             | 3.42          | 8.47           | 147.66           |  |  |  |  |  |
| -                               | l mi             | 1.44          | 3.41           | 136.81           |  |  |  |  |  |
| Colimex                         | 10 ml            | 2.66          | 10.00          | 275.94           |  |  |  |  |  |
| Dimol<br>Epidosin               | 10 T<br>20T      | 1.16<br>4.16  | 5.00<br>19.06  | 331.03<br>358.17 |  |  |  |  |  |
| Pro-banthine                    | 10 T             | 3.90          | 9.35           | 139.74           |  |  |  |  |  |
| Sere-banthine                   | 8 T              | 4.65          | 12.21          | 162.58           |  |  |  |  |  |
| Spasmo-                         | 4.0              | 4 50          | 0.51           | 110 11           |  |  |  |  |  |
| proxyvon<br>Reduced (1)         | 6 C              | 4 55<br>4.64  | 9.56<br>3.54   | 110.11           |  |  |  |  |  |
| Less than 50                    |                  |               |                |                  |  |  |  |  |  |
| per cent (3)                    |                  |               |                |                  |  |  |  |  |  |
| 50 · 100 per cen                | t(1)             |               |                |                  |  |  |  |  |  |
| <i>Laxatives</i><br>Agarol      | 170 ml           | 8.74          | 33 36          | 281.69           |  |  |  |  |  |
| Cellubril                       | 30 C             | 9.06          | 22.00          | 142.83           |  |  |  |  |  |
| Cremafin                        | 210 ml           | 5.62          | 23.10          | 311.01           |  |  |  |  |  |
| Dulcolax-                       | 10.7             | 1 10          | ( 50           | 450.05           |  |  |  |  |  |
| suppository                     | 10 T<br>0 mgx5   | 1.18<br>4.50  | 6.50<br>24.55  | 450.85<br>445.55 |  |  |  |  |  |
| Evavuol                         | 75 G             | 6.21          | 24 43          | 293.40           |  |  |  |  |  |
| I-So-Gel                        | 52 G             | 2.25          | 15.60          | 593 32           |  |  |  |  |  |
| Pursenid-IN                     | 10 T             | 1.30          | 5.86           | 350.77           |  |  |  |  |  |
| Drugs acting o                  | m couon o        | ına reci      | ит             |                  |  |  |  |  |  |
| per cent (2)                    |                  |               |                |                  |  |  |  |  |  |
| Anti-diarrhoed                  |                  |               |                |                  |  |  |  |  |  |
| Salazopyrin ().<br>Streptomagna | 5g 50 T<br>10 T  | 29.39<br>3.17 | 255.00<br>8 72 | 767.64<br>175.08 |  |  |  |  |  |
| Thalazole                       | 10 T             | 1.32          | 8.90           | 574 24           |  |  |  |  |  |
| Walamycin                       | 30 ml            | 4 29          | 17.00          | 296 27           |  |  |  |  |  |
| Less than 50                    |                  |               |                |                  |  |  |  |  |  |
| per cent<br>50-100 Per cer      | (3)              |               |                |                  |  |  |  |  |  |
| Hepato-biliary                  |                  |               |                |                  |  |  |  |  |  |
| Festal                          | 10 T             | 5.00          | 25.00          |                  |  |  |  |  |  |
| Hepasulfol                      | 60 T             | 8.43          | 59.20          | 602.25           |  |  |  |  |  |
| Sorbiline<br>Stimuliv           | 100 ml<br>100 ml | 7.14<br>6.31  | 19.55<br>18.62 | 173 81<br>195 09 |  |  |  |  |  |
| Enzyme                          | .vo m            | 01            | . 0.02         | 17,07            |  |  |  |  |  |
| Bestozyme                       | 30 T             | 4 62          | 23.85          | 416.23           |  |  |  |  |  |
| Bilamide                        | 100 ml           | 5.68          | 12.61          |                  |  |  |  |  |  |
| Bijamide<br>Digiplex            | 30 T<br>100 ml   | 10.92         | 71 17<br>21.69 | 551.74<br>241.57 |  |  |  |  |  |
| Dispeptal                       | TOI              | 4.50          | 18.73          |                  |  |  |  |  |  |
| Lipizyme                        | 210 ml           | 7.38          | 26.00          | 252.30           |  |  |  |  |  |
| Merckenzyme                     |                  | 10.54         | 47.85          |                  |  |  |  |  |  |
| Molzyme .<br>Normozyme          | 30T<br>25 T      | 6.14<br>4.52  | 29.00<br>9.33  |                  |  |  |  |  |  |
| Panzynorm                       | 25 T             | 7.24          |                | 1111.60          |  |  |  |  |  |
| Uniemzyme                       | 25 T             | 4.53          | 22.50          | 396.69           |  |  |  |  |  |
| Vitazyme                        | i 10 mi          | 4.60          | 14.79          | 221.52           |  |  |  |  |  |
| Rise less than<br>50 per cent ( | 1)               |               |                |                  |  |  |  |  |  |
| Rise 50-100 p                   |                  | )             |                |                  |  |  |  |  |  |
| Total-aliment                   |                  |               |                |                  |  |  |  |  |  |
| system                          |                  | 39().44       | 1336.19        | 242.23           |  |  |  |  |  |
|                                 |                  |               | -              |                  |  |  |  |  |  |

Stimuliv for hepato-biliary systems and Bestozyme, Digiplex, Dispeptal enzymes.

Table 3 shows comparative prices of drugs used for heart diseases. The total rise is 135 per cent, but most of these drugs are not widely used and recently introduced newer drugs for higher prices are being promoted. In this group the maximum rise is shown by the anti-coagulants that are needed by cardiac patients for a life time. Acitrom, the only available product, shows price rise of 2359 per cent for a 4 mg tablet and 1417 per cent for a 1 mg tablet. In the following

TABLE 3: CARDIOVASCULAR SYSTEM

| TABLE 3: CARDIOVASCULAR SYSTEM |          |        |         |          |  |  |  |  |  |
|--------------------------------|----------|--------|---------|----------|--|--|--|--|--|
| Product                        | Pack     | -      |         | Per Cent |  |  |  |  |  |
|                                |          |        | 1995    | Rise     |  |  |  |  |  |
|                                |          | Rs Ps  | s Rs Ps |          |  |  |  |  |  |
| Cardiac disorder               |          |        |         |          |  |  |  |  |  |
| Betable forte                  | " 12 T   | 4.14   | 11.22   | 171.01   |  |  |  |  |  |
| Cardioxin                      | 20 T     | 1.83   | 3.93    | 114 75   |  |  |  |  |  |
| Ciplar 10 mg                   | 10 T     | 2.00   | 4.31    | 115 50   |  |  |  |  |  |
| 20 mg                          | 10 T     | 4.10   | 10 56   | 157.56   |  |  |  |  |  |
| Inderal 10 mg                  | 10 T     | 1.73   | 4.91    | 183.82   |  |  |  |  |  |
| 40 mg                          | 10 T     | 4.08   | 11.80   |          |  |  |  |  |  |
| 80 mg                          | 10 T     | 8.00   | 15 83   |          |  |  |  |  |  |
| Lanoxin                        | 10 T     | 0.91   | 2.02    | 121.98   |  |  |  |  |  |
| Paed elixir                    | 30 ml    | 2.69   | 18.27   |          |  |  |  |  |  |
| Injection                      | 2 ml     | 1.64   | 5.31    |          |  |  |  |  |  |
| Mephentine                     | 20 T     | 6.02   | 25.50   |          |  |  |  |  |  |
| •                              | I ml     | 1.81   |         | 192.82   |  |  |  |  |  |
| Natcardine                     |          | 10 63  | 37.32   |          |  |  |  |  |  |
| Rise less than 50              |          |        |         |          |  |  |  |  |  |
| Rise 50-100 per                |          | •      |         |          |  |  |  |  |  |
| Reduced (2)                    |          |        |         |          |  |  |  |  |  |
| Antiunginal and                | vasodilo | itores |         |          |  |  |  |  |  |
| Angised                        | 100 T    | 5.08   | 32.90   | 547 64   |  |  |  |  |  |
| Ildamen                        | 2ml      | 141    | 3.18    | 125 53   |  |  |  |  |  |
| Neocar                         | 100 T    | 28.55  | 99.55   | 248.69   |  |  |  |  |  |
| Peritrate SA                   | 10 T     | 2.87   | 8.20    | 185.71   |  |  |  |  |  |
| Rise less than 50              | per cen  | t (3)  |         |          |  |  |  |  |  |
| Rise 50-100 per                | cent (3) |        |         |          |  |  |  |  |  |
| Reduced (1)                    |          |        |         |          |  |  |  |  |  |
| Peripheral vasoo               | lilators |        |         |          |  |  |  |  |  |
| Arlidin                        | 25 T     | 6.11   | 31.50   | 415.55   |  |  |  |  |  |
| Nicinal                        | 10 T     | 2 07   | 7.04    | 240.10   |  |  |  |  |  |
| Reduced (1)                    |          | 3.46   | 2 16    |          |  |  |  |  |  |
| Rise less than 50              | per con  | t (1)  |         |          |  |  |  |  |  |
| Risc 50-100                    |          |        |         |          |  |  |  |  |  |
| per cent (2)                   |          | 60.71  | 86.92   |          |  |  |  |  |  |
| Antthypertensive               |          |        |         |          |  |  |  |  |  |
| Brinerdine                     | 10 T     |        | 32.09   |          |  |  |  |  |  |
| Dopagyt                        | 10 T     | 6.48   | 15.29   |          |  |  |  |  |  |
| Emdopa                         | 10 T     | 6 15   | 30.49   | 395.77   |  |  |  |  |  |
| Meldopa                        | 10 T     | 6.37   | 24.14   | 278.96   |  |  |  |  |  |
| Reduced (3)                    |          | 12.26  | 8.84    |          |  |  |  |  |  |
| Rise less than 50              | per cen  | l (5)  |         |          |  |  |  |  |  |
| Rise 50-100                    |          | 20.00  | 60.00   |          |  |  |  |  |  |
| per cent (3)                   |          | 39.08  | 60.38   |          |  |  |  |  |  |
| Migraine                       |          | 4.715  |         |          |  |  |  |  |  |
| Rise less than 50              | per cen  | it (1) |         |          |  |  |  |  |  |
| Rise 50-100                    |          | 12.00  | 20.10   |          |  |  |  |  |  |
| per cent (2)                   |          | 12.86  | 20.19   |          |  |  |  |  |  |
| Anti-cogulants                 | 10.70    | 1 45   | 22.00   | 1417.04  |  |  |  |  |  |
| Acitrom 1 mg                   | 10 T     | 1.45   |         | 1417.24  |  |  |  |  |  |
| 4 mg                           | 10 T     |        |         | 2359.02  |  |  |  |  |  |
| Uniwarfin                      | 25 T     | 1.87   | 13.25   | 608.56   |  |  |  |  |  |
| Haemostatics                   | 25 T     | 0.22   | 22.42   | 154.13   |  |  |  |  |  |
| Gyna CVP                       |          | 9.22   |         |          |  |  |  |  |  |
| Premarin                       | 20 mg    |        |         |          |  |  |  |  |  |
| Total                          |          | 708.74 | 886.88  | 140 39   |  |  |  |  |  |

year prices have been reduced - (1 mg x 10 tab @ Rs 18.15 and 4 mg x 10 tab @ Rs 40.60). But even if we compare the reduced prices to the prevailing prices in 1980, we find the rise is 1152 per cent for a 1 mg tablet and 2119 per cent for 4 mg tablet. Uniwarfin shows a modest rise of 608 per cent. Among the drugs for cardiac disorders, Lanoxinpaediatric shows a rise of 579 per cent, closely followed by Natcardine - 251 per cent, and 323 per cent for Mephentin injectible. Among anti-anginal drugs, Angised shows a rise of 548 per cent and Neocar 249 per cent. In the peripheral vasodilators, Arlidin shows a rise of 415 per cent and Nicinal 240 per cent. The role of these vasodilators for cardiac conditions is doubtful. Among the anti-hypertensives, the prices of methyldopa (Emdopa - 136 per cent, Meldopa - 396 per cent) have gone up. Among haemostatics, Gynac CVP has a very limited role to stop bleeding, but it shows a rise of 154 per cent. Premarine is useful in uterine bleeding (dysfunctional) and prices have gone up by 185 per cent. The prices of Persantin, Duvadilan, Ismelin and Nepresol have reduced. Ciplar, Inderal, antihypertensives, Adelphae essidex, Emdopa have further increased over prices during 1995-96, whereas Inderal 10 mg, Lanoxin injectible, Angised, Acitrom have shown a decrease in prices. The price of Lanoxin tablets has increased during 1995 to 1996 to Rs 4.16 registering a rise of 357 per cent. The highly priced new entrants like Conversyl (10 tabs @ Rs 220.60), Inocor (20 ml @ Rs 933.00), Norpace (100 mg x 10 tabs @ Rs 37.74), Flavedon (10 tab @ 98.93) have shown varying rises during 1995-96.

Table 4 gives the comparative prices of the drugs acting on central nervous system, i e, pain-killers, fever-reducers, hypnotics, sedatives, anti-depressants, anti-nauseants, anti-convulsants, etc. In this group the total prices have trebled. The maximum rise of 335 per cent is shown for drugs used in Parkinsoism, closely followed by a 301 per cent rise for anti-convulsants used for epilepsy, 269 per cent for hypnotics, and so on. Among analgesics, the maximum rise of 182 per cent is shown by Micropyrin, a brand of aspirin. Veganin another aspirin combination shows a rise of 178 per cent. Injection Fortwin and Sosegon show a rise of 174 and 163 per cent, respectively. Calpol and Crocin, the popular brands of paracetamol show a rise of over 100 per cent. In this group, Calpol tablets, Cosamoi syrup, Crocin syrup, Fortwin injection, Micropyrin, Novalgin injection, and pyrigesic have shown a further rise during 1995-96. Hypnotics show an overall rise of 269 per cent. Trickryl shows a maximum rise of 502 per cent and it further increases to Rs 38 (from Rs 33 in 1995), during 1995-96. Gardenal, the drug of choice in epilepsy, has not been available through retail chemists (and the drug controller cannot do anything about its nonavailability) and has shown a rise of 177 per cent. Among sedatives and tranquillisers, the prices of brands of diazepam (Calmod 824 per cent, Calmpose 471 per cent and Valium 582 per cent) increased, but dropped marginally during 1995-96. Larpose is a brand of lorazepam which is a short acting benzodiazepam that has shown a rise of 344 per cent. Librium is a brand of chlordiazepoxide which is a henzodiazepam with general properties similar to diazepam, has shown a rise of 408 per cent. Majeptil is a brand of thioproperazine which is similar to chlorpromazine (a very cheap drug) but is highly priced with a rise of 1070 per cent. This group shows a total rise of 204 per cent. whereas the anti-depressants show a rise of 218 per cent. Anti-emetics totally show a modest rise of 64 per cent, but popular brands like Stemetil (708 per cent) and Siguil injectible (414 per cent) are on the higher side. Anti-convulsants are mainly used by epileptics, for whom phenobarbitone is a good cheap drug, but is not made available by retail chemists and instead costlier newer drugs are used which have registered a big rise, viz, Epsolin-590 per cent, Eptoin-402 per cent, Garoin-311 per cent and Mysoline 552 per cent, with a total rise of 301 per cent.

The total rise in the rigidity and tremor control drugs is nearly 335 per cent, nearly 41/2 times. These drugs are used by patients of Parkinsonism and these have to be used for a long time. Kemadrine has increased by 505 per cent and Pacitane by 611 per cent. Table 5 gives a comparative sales rise of drugs acting on musculo-skeletal disorders. In this group the non-steroidal antiinflammatory drugs (NSAIDs) have shown a minimum rise of 46 per cent because most of these NSAIDs are not widely used and these are replaced by newer and costlier drugs. Muscle relaxants have shown an appreciable rise of 281 per cent which means that the prices have multiplied nearly four times. Carisoma shows a rise of 512 per cent and it has further increased the price during 1995-96. Carisoma contains carisoprodol and British National Formulary (No 29, March 95, page 402) says "The clinical efficacy of carisoprodol as muscle relaxant is not well established although it has been included in compound analgesic preparations (Carisoma compound)". Epidosin is an antispasmodic and is useful in visceral spasms and it shows a rise of 427 per cent. Carisoma compound, an analgesic combination, has increased by 299 per cent, Parafon (a brand of chlorzoxazone) a risc of 283 per cent, Robinax (a brand methocarbamox, the efficacy of which is not established) tablet and injectible by 245 per cent, Rubefacients are topical analgesics that principally act by causing irritation. These as a total have

TABLE 4: CENTRAL NERVOUS SYSTEM

| TABLE 4: C                              | ENTRAL           | Nervo          | us Sys1            | Mar              |
|-----------------------------------------|------------------|----------------|--------------------|------------------|
| Product                                 | Pack             | Pri            | ces                | Per Cent         |
| , , , , , , , , , , , , , , , , , , , , |                  | 1980           | 1995               | Rise             |
|                                         |                  | Rs Ps          | Rs Ps              |                  |
| Analgesics                              |                  |                |                    |                  |
| Calpol                                  | 10 T             | 1.45           | 3.10               | 113.79           |
| Cofamol                                 | 60 ml            | 4.83           | 11.75              | 143.27           |
| Corbutyl                                | 6 T              | 2.14           | 5.62               | 162.62           |
| Crocin syrup                            | 60 ml            | 4.22           | 8.50               | 101.42           |
| Fortwin                                 | l ml             | 2.45           | 6.72               | 174.29           |
| Mazetol 200 mg                          | 10 T             | 8.06           | 17.96              | 122.83           |
| Micropyrin                              | 10 T<br>10 T     | 0.78<br>2.28   | 2.20<br>5.33       | 182.05<br>133.87 |
| Novalgin                                | 2 ml             | 1.33           | 2.99               | 124.81           |
| Pyrigesic                               | 10 T             | 1.45           | 2.97               | 104.83           |
| - ,                                     | 60 ml            | 3.35           | 8.51               | 154.03           |
| Sosegon                                 | l ml             | 2.67           | 7.03               | 163.30           |
| Ultragin                                | 2 mi             | 1.42           | 2.97               | 109.15           |
| Veganin                                 | 4 T              | 0.90           | 2.50               | 177.78           |
| Rise less than 50                       |                  |                |                    |                  |
| Rise 50-100 per                         | cent (y)         | ,              |                    |                  |
| Hypnotics Gardenal 30 mg                | 500 T            | 11.12          | 30.82              | 177.16           |
| Hypnotex 5 mg                           | 10 T             | 2,32           | 7.31               | 215.09           |
| Luminal 30 mg                           | 25.T             | 1.13           | 3 03               | 168.14           |
| Nitravet 5 mg                           | 10 T             | 2.50           | 7 30               | 192.00           |
| Sedyn                                   | 12 T             | 2.03           | 9.12               | 349.26           |
| Trichloryl                              | 50 ml            | 5 48           | 33.00              | 502.19           |
| Sedutives and tre Anatensol             | anquilli<br>10 T |                | 7.00               | 238 14           |
| Anaichsoi                               | l ml             | 2.07<br>4.35   | 29.00              | 238.16<br>566.67 |
| Calmod                                  | 10 T             | 0.72           | 6.65               | 823 61           |
| Calmpose 5 mg                           | 10 T             | 1.40           | 8.00               | 471.43           |
|                                         | 60 ml            | 5.13           | 16.90              | 229.43           |
|                                         | 2 ml             | 1.34           | 7.00               | 422.39           |
| Larpose I mg                            | 10 T             | 1.35           | 6.00               | 344.44           |
| Librium 10 mg                           | 10 T             | 1.30           | 6.60               | 407.69           |
| Majeptil 5 mg                           | 10 T             | 1.73           | 20.24              | 1069.94          |
| Placidox 2<br>5                         | 10 T             | 1.26<br>2.08   | 4.23<br>6.90       | 235.71<br>231.72 |
| 10                                      | 10 T             | 3.64           | 10.69              |                  |
| Serenase 0 25                           | 10 T             | 2.50           | 5.00               |                  |
| Serepax                                 | 107              | 1.46           | 5.90               |                  |
| Valium 2 mg                             | 10 T             | 0.80           | 1 23               | 428.75           |
| 5 mg                                    | 10 T             | 1.05           | 7.15               | 581.90           |
| Rise less than 50                       | per ce           | nt (3)         |                    |                  |
| Rise 50-100 per                         | cent (1)         | )              |                    |                  |
| Antidepressunts Doxetar 25 mg           | 10.T             | 4 00           | 22.00              | 298 33           |
| Surmontil 10 mg                         | T 01<br>T 01     | 6.00<br>2.14   | 23.90<br>5.52      |                  |
| 25 mg                                   |                  | 4.25           | 11.10              |                  |
| Tancodep                                | 10 T             | 2 20           | 5.90               | 168.18           |
| Antiemetic                              |                  |                |                    |                  |
| Avomine                                 | 4 T              | 0.74           |                    |                  |
| Diligan                                 | 4 T              | 0.88           |                    |                  |
| Dramamine                               | 10 T             | 4.86           |                    |                  |
| Maxeron<br>siguil 10 mg                 | 60 ml            | 5.00<br>1,96   |                    |                  |
| 3 mg                                    | l ml             | 0.84           |                    |                  |
| Stemetil 5 mg                           | 10 T             | 0.88           |                    |                  |
| 25 mg                                   | IO T             | 1.40           |                    |                  |
| inj                                     | 1 ml             | 0.70           |                    |                  |
| Rise less than 50                       |                  |                |                    |                  |
| Rise 50-100 per                         |                  | )              |                    |                  |
| Anticonvulsants                         |                  | 11.77          | 44 41              | 278 40           |
| Dilantin<br>Recelie                     | 110 T<br>100 T   | 6.42           | 44.41<br>44.29     |                  |
| Epsolin<br>Eptoin                       | 100 t            | 7.37           |                    |                  |
| Garoin                                  | 1001             |                |                    |                  |
| Muzetol 200 mg                          |                  | 8.06           |                    |                  |
| Mysoline                                | 100 T            | 31.12          | 203.00             |                  |
| Rise less than 50                       |                  |                |                    |                  |
| Risc 50-100 Per                         |                  |                | .,                 |                  |
| Rigidity and tree                       |                  |                |                    |                  |
| 2.5mg                                   | 1001             |                |                    |                  |
| 5,0mg<br>Levopa                         | 100T<br>50T      | 44.30<br>44.00 | 3 131.5<br>3 134.5 |                  |
| Pacitane                                | 101              |                |                    |                  |
| - 117110170                             |                  |                |                    |                  |

| TABLE S: M                        | DISCULO !   | SICELETA      | i. Disor       | DER              |
|-----------------------------------|-------------|---------------|----------------|------------------|
| Product '                         | Pack        | 1980<br>Rs Ps | 1995           |                  |
| NSAIDS                            | <del></del> |               |                |                  |
| ldicin                            | 10T         | 2.24          | 4.70           | 109-82           |
| Suganril<br>Zolandin 200mg        | TOI         | 2.52          | 6.39<br>8-38   | 153.57<br>158.64 |
| Reduced (2)                       | 10T         | 3.24<br>7.83  | 6.08           | 130.04           |
| Rise 50-100                       |             | 1.00          | 0.00           |                  |
| per cent (4)                      |             | 10.49         | 18.24          |                  |
| Muscle relaxant                   |             | 40.4          | 24.05          | 512 A7           |
| Carisoma<br>Carisoma              | 10 <b>T</b> | 40.6          | 24.85          | 512.07           |
| compound                          | 10T         | 4.00          | 15.95          | 298.75           |
| Epidosin                          | l ml        | 1.00          | 5.27           | 427.00           |
| Parafon                           | 20 T        | 9.94          | 38.10          | 283.30           |
| Robinax                           | 10 ml<br>8T | 3.45<br>5.20  | 11.55<br>18.04 | 243.78<br>246.92 |
| Robinaxol                         | 10T         | 5 77          | 13.53          | 134.49           |
| Rubefacients                      |             |               |                |                  |
| Algipan                           | 40 g        | 5.06          | 25.50          | 403.95           |
| Medicreme                         | 30 g        | 4.92<br>5.28  | 17.47<br>16.25 | 255.08           |
| Relaxyl<br>Total                  | 30 g        | 75.00 2       |                | 207.77<br>207.07 |
|                                   |             |               |                | 207.07           |
|                                   | ABLE 6:     |               |                |                  |
| Product                           | Pack        | 1980          | rices<br>1995  | Per Cent<br>Rise |
| Gonadal Hormo                     | mes.        |               |                | <del></del>      |
| Aquaviron                         | nes<br>Imi  | 1.48          | 14.75          | 896 62           |
| Duphaston                         | 10T         | 19.80         |                | 471 72           |
| Gestanin                          | 20T         | 13.01         | 53.80          | 313.53           |
| Lynoral 0.01                      | 201         | 1 05          | 18.70          | 1680.95          |
| 0.05                              | 20T<br>20T  | 1.94<br>3.55  | 23.60          | 1116.49          |
| Mixogen                           | Iml         | 9 23          | 27.60<br>31.30 | 677.46<br>239.11 |
| Orgalutin                         | 100T        | 23.87         |                | 821 66           |
| Orgametril                        | 10T         | 5.53          | 26 30          | 375.59           |
| Primolut N                        | 10T         | 6.66          | 32.00          | 340.48           |
| Proluton Depot 2                  |             | 7.60          | 32.36          | 325.79           |
| Sustanon 100                      | 00mg<br>lml | 14.00<br>9.23 | 56.55<br>30.00 | 303 93<br>225.03 |
| 250                               | lml         | 20.07         | 56 50          | 181.51           |
| Testanon 25                       | lml         | 1.45          | 10.40          | 602.70           |
| 50                                | lml         | 6.54          | 18.70          | 181.63           |
| Rise less than 50                 |             | nt (1)        |                |                  |
| Oral Contracep Lyndiol            | 22T         | 4.88          | 14.40          | 207.69           |
| Corticosteroids                   |             | 4.00          |                | 201.02           |
| Dacabolin                         | lınl        | 7.37          | 32.50          | 340.98           |
| Kenacort 10mg                     | l ml        | 8.90          | 18.19          | 104.38           |
| Walacort                          | 10T         | 1.86          | 4.15           | 123.12           |
| Wysolon 5mg<br>Gonadotrophin      | 10 <b>T</b> | 2.15          | 4.94           | 129 77           |
| FSH                               | amp         | 77.10         | 163.00         | 111.41           |
| Gonadotrophin                     |             |               |                |                  |
|                                   | 000x3       | 16.01         | 51.00          | 218.55           |
| Rise less than 5                  |             |               |                |                  |
| Rise 50-100 per<br>Reduced (3)    | cent (5     | ,             |                |                  |
| Hypoglycemics                     |             |               |                |                  |
| Chlorformin                       | 10T         | 1.40          | 2.90           | 107.14           |
| Copamide                          | 10T         | 1.33          | 4.00           | 200 75           |
| DBI                               | 25T         | 5.44          | 14.95          | 174.82           |
| Daonil<br>Diabinese 100           | 10T<br>10T  | 1.71          | 3.54<br>4.79   | 107.02<br>351.89 |
| 250                               | 10T         | 1.59          | 7.60           | 377.99           |
| Euglucon                          | IOT         | 1.72          | 3.54           | 105.81           |
| Insulin Soluble                   | 10ml        | 11 10         | 33.50          | 201.80           |
| Lente                             | 10ml        | 12.00         | 31.50          | 162.50           |
| NPH                               | 10ml        | 11.64         | 31.50          | 170.62           |
| Restinon 0.5                      | 10T         | 1.13          | 6.50           | 475.22           |
| Rise 50-100 per<br>Thyroid and an |             |               |                |                  |
| Eltroxin                          | 100T        | 2.74          | 20.40          | 644.53           |
| Neo Mercazole                     | 100T        | 15.97         | 73.24          | 358.61           |
| Proloid                           | 50T         | 8.14          | 76.00          | 833.66           |

Total

221.33

TABLE 7: GENTTO URINARY

| Product                        | Pack        |       | ices          | Per Cent | Product                  | Pack  | Pr    | ices  | Per Cent |
|--------------------------------|-------------|-------|---------------|----------|--------------------------|-------|-------|-------|----------|
|                                |             | 1980  | 1995          | Rice     |                          |       | 1980  | 1995  | Rice     |
| Antibiotics                    |             |       | ************* |          | Local and systemic drugs |       |       |       |          |
| Achromycin                     | 4C          | 2.32  | 4.82          | 107.76   | Betadine                 | 100ml | 15.00 | 24.60 | 130.67   |
|                                |             |       |               |          | Dienoestrol              | 50g   | 5.25  | 64.80 | 1134.29  |
| Diuretics                      |             |       |               |          | Hamycin                  | 10ml  | 2.34  | 14.65 | 526.07   |
| Hythalton                      | 10T         | 3.74  | 26.04         | 596.26   | Triple sulpha            | 30g   | 4.99  | 24.75 | 395.99   |
| Lassix                         | 2 ml        | 0.86  | 2.02          | 133.72   | Rise less than           | •     |       |       |          |
| Reduced (3)                    |             | 46.68 | 30.19         |          | 50 per cent (4)          |       |       |       |          |
| Rise less than 50 per cent (2) |             | 14.93 | 22.22         |          | Rise 50-100 per cent (1) |       |       |       |          |
| Rise 50-100 per cent (3)       |             |       |               |          | Drugs acting on Uterus   |       |       |       |          |
| Urinary unti-infectives        |             |       |               |          | ingagen M                | lml   | 1.34  | 6.13  | 357.46   |
| Gramoneg                       | 10 <b>T</b> | 14.49 | 46.80         | 222.98   | • •                      | 10T   | 5.16  | 21.29 | 312.60   |
| Mandelamine                    |             |       |               |          | Pitocin                  | lamp  | 1.05  | 3.40  | 223 81   |
| 0.5g                           | 30T         | 8.12  | 26.04         | 220.69   | Rise less than           | •     |       |       |          |
| 1.0g                           | 15T         | 7.82  | 26 06         | 233.25   | 50 per cent (1)          |       |       |       |          |
| Pyridium                       | 10T         | 2.74  | 14.50         | 429.20   | Rise 50-100 per cent (1) |       |       |       |          |
| Wintomylon                     | 8T          | 14.92 | 44.00         | 194.91   | Spermicidal              |       |       |       |          |
| Rise less than 50 per cent (1) |             |       |               |          | Delfen c applicator      |       | 6.29  | 33.47 | 432.11   |
| Rise 50-100 per cent (3)       |             |       |               |          | Total                    |       |       |       | 131.64   |

TABLE 8: INFECTION

| Product                        | Pack        |        | rices  | Per Cent | Product                        | Pack               | Pı     | rices  | Per Cent |
|--------------------------------|-------------|--------|--------|----------|--------------------------------|--------------------|--------|--------|----------|
|                                |             | 1980   | 1995   | Rice     |                                |                    | 1980   | 1995   | Rice     |
| Antibuotics                    | ,           |        |        |          | Rise less than 50 per cent (9) |                    |        |        |          |
| Achromycin                     | 4C          | 2 32   | 4.82   | 107.76   | Rise 50-100 per cent (1)       |                    |        |        |          |
| Althrocin 250mg                | 10T         | 14.91  | 36.01  | 141.52   | Reduced (9)                    |                    |        |        |          |
| Chewable                       | IOT         | 6.48   | 15.52  | 139.51   | Antituberculours               |                    |        |        |          |
| Bacipen                        | 100T        | 95.70  | 256.00 | 167.50   | Ambistryn-S 0.75               | vial               | 1.03   | 5.74   | 457.28   |
| Bistrepen                      | vial        | 1.12   | 8.98   | 701.79   | 1.00                           | vial               | 1.18   | 7.10   | 501.69   |
|                                | 5 dose      | 4.9()  | 24.44  | 398 78   | Erbazide 400 ·                 | 10T                | 1.78   | 3.90   | 110.10   |
| Broacil                        | 4C          | 4 62   | 9.85   | 113 20   | INA-PAS                        | 100T .             | 13.77  | 38.50  | 179.59   |
| Compicillin 250                | 10C         | 12.50  | 26.25  | 110.00   | granules                       | 100g               | 13.51  | 38.50  | 184.97   |
| 500                            | 10C         | 22.41  | 49 60  | 121.33   | Isonex 100                     | 100Ť               | 4.50   | 11.87  | 163.78   |
|                                | 60ml        | 8.54   | 20.27  | 137.35   | 300                            | 30T                | 3.41   | 9.75   | 185.92   |
| Cephaxin 250mg                 | 4C          | 9.30   | 19.60  | 110.25   | Strepto-erbazide               | vial               | 22.46  | 5.96   | 142.28   |
| 500mg                          | 4C          | 17.50  | 37.00  | 111.43   | Reduced (3)                    | 2                  | 244.28 | 147.48 |          |
| Chloromycetin                  | 12C         | 4.23   | 24.00  | 467 38   | Rise less than 50 per cent (4) |                    |        |        |          |
| •                              | 60ınl       | 4.71   | 27.25  | 467.94   | Rise 50-100 per cent (4)       |                    |        |        |          |
| Dicrystacin s                  | 1 dose      | 1.21   | 4.67   | 285.95   | Antileprotics                  |                    |        |        |          |
| Eltocin                        | 60m1        | 10.80  | -21.98 | 107.36   | Hansipran 100                  | 100T 1             | 84.50  | 180.00 | reduced  |
| Erythrocin                     |             |        |        |          | Antifungals                    |                    |        |        |          |
| 100mg                          | 10T         | 4.65   | 13.48  | 189.89   | Hamyein                        | 10ml               | 2.34   | 14.65  | 526.07   |
| 250mg                          | 10 <b>T</b> | 10.69  | 33.10  | 209 64   | Mycostatin                     | 12T                | 14.29  | 63.13  | 341.78   |
| Klox                           | 24g         | 6.90   | 14.36  | 108.12   | Rise 50-100 per cent (1)       |                    |        |        |          |
| Peraxin 250mg                  | 10C         | 3.50   | 11.67  | 233.43   | Antiamoebics                   |                    |        | •      |          |
| 500mg                          | 6C          | 4.21   | 12.96  | 207.84   | Dihydroemetin                  |                    |        |        |          |
| Penidure LA 6                  | vial        | 2.17   | 7.00   | 222.58   | Diny di ocinotini              | 30mg Iml           | 1.27   | 4.13   | 225.20   |
| LA 12                          | vial        | 3.80   | 11.82  | 211.05   |                                | 60mg 2ml           |        | 6.01   | 194.61   |
| LA 24                          | vial        | 6.70   | 19.94  | 197.61   | Enteroquinol                   | 20T                | 1.84   | 6.57   | 257.07   |
| Penivoral                      | 6T          | 1 41   | 2.95   | 109.22   | Monizole 600mg                 | 10T                | 7.15   | 14.90  | 108.99   |
| Pentids 200                    | 6T          | 1.96   | 5.27   | 184 18   | Reduced (1)                    | 101                | 4.06   | 3.75   | 100.77   |
| 400                            | 6T          | 3.51   | 11 00  | 213.39   | Rise less than 50 per cent (3) |                    | 4.00   | 7.75   |          |
| 800                            | 4T          | 3.68   | 13.40  | 264.13   | Rise 50-100 per cent (2)       |                    |        |        |          |
| *                              | 6C          | 2.56   | 5.51   | 115.23   | Antimularials                  |                    |        |        |          |
| Reclor 250mg                   |             | 3.83   | 13.04  | 240 77   | Nivaquin                       | 4T                 | 1.05   | 3.24   | 208.57   |
| 500mg                          | 6C          |        |        | 109 41   | Mivadatu                       | 2mi                | 0.73   | 1.93   | 164.38   |
| Restectin 500                  | 4C          | 3 72   | 7.79   |          | Danis alon                     | 2mi<br>10 <b>T</b> |        |        |          |
| Subamycin 250                  | 12C         | 6.38   | 14.03  | 119.91   | Resochin                       | 101                | 1.99   | 8.10   | 307.04   |
| 500                            | 4C          | 3.48   | 7 42   | 113.22   | Rise 50-100 per cent (1)       |                    |        |        |          |
| Synthocillin 250               | 4C          | 5.00   | 10.73  | 114.60   | Antihelmintic                  |                    |        |        | 100.00   |
| Threocyclin                    |             |        |        | 100.05   | Vermisol                       | 1T                 | 1.00   | 2.27   | 127.00   |
| 50mg                           | 10ml        | 3.59   | 8.23   | 129.25   | Rise less than 50 per cent (5) |                    |        |        |          |
|                                | 6C          | 3.99   | 8.47   | 111.28   | Rise 50-100 per cent (4)       |                    |        |        |          |
| Thromycin                      | 10C         | 11.80  | 26.43  | 123.98   | Vaccines                       | 10.1               |        |        | #A4 5-   |
| Prices reduced (8)             |             | 108.50 | 76.22  |          | Anti-snake venom               | 10ml               | 18.35  | 126.00 | 586.65   |
| Rise less than 50 per cent (7) |             |        |        |          | Diphtheria Antitoxin           | 5ml                | 16.00  | 34.88  | 118.00   |
| Rise 50-100 per cent (23)      |             |        |        |          | Gas gangrene                   | •                  |        |        |          |
| Sulphonamides                  |             |        |        |          | antitoxin                      |                    | 11.00  | 32.23  | 193.00   |
| Madribon.                      | 10T         | 4.05   | 11.95  | 195.06   | Total                          |                    |        |        | 66.49    |

increased by 207 per cent. Algipan, a type of balm, has shown a rise of 404 per cent, whereas Medicreme a rise of 255 per cent and Relaxyl of 208 per cent. Most of these preparations contain mephenesin, absorption of which through skin is doubtful. Relaxyl has retained the same name and added the word gel (Relaxyl Gel) and contains dicolofenac diethylammonium.

Table 6 gives hormone prices and shows a total rise of 214 per cent. In this group the drugs acting on the thyroid show a maximum rise of 532 per cent. Proloid is a thyroglobulin, a thyroid extract, shows a

rise of 834 per cent, whereas the popular brand Eltroxin shows a rise of 545 per cent and has further increased the rates during 1995-96. Neo-mercazole shows a rise of 359 per cent and has further increased during 1995-96. The gonodal hormones have a total rise of 412 per cent. Lynoral 0.01 mg estrogenic hormone claims a rise of 1681 per cent (nearly 18 times) and Lynoral 0.05 mg a rise of 1116 per cent. Aquaviron, a brand of male hormone shows a 897 per cent rise. Orgalutin is an estrogen-progesterone combination used for dysfunctional uterine bleeding and it shows a rise of 822 per cent.

Mixogen, a combination of estrogen and testosteron indicated for menopausal syndrome, shows a rise of 677 per cent. Testanon, a brand of testesterone (male hormone) rose by 603 per cent. Duphaston, a brand of progesterone shows a rise of 472 per cent. Duoluton was a combination of norgesterl 0.5 mg and ethinyl estradiol 0.05 mg per tablet and in 1985 21 tablets cost Rs 4.75. In 1995, newer brand Duoluton-L replaced norgesterl with levonorgesterl 0.25 mg and 21 tablets cost Rs 25.39, a rise of 435 per cent. Of the 29 hormone products in 1980, 17 products have been discontinued

TABLE 9: NUTRITION PRODUCTS

| Product                        | Pack      |          | rices  | Per Cent | Product                        | Pack     |          | rices  | Per Cent |
|--------------------------------|-----------|----------|--------|----------|--------------------------------|----------|----------|--------|----------|
|                                |           | 1980     | 1995   | Rice     |                                |          | 1980     | 1995   | Rice     |
| Tonics                         |           |          |        |          | Adexoline                      | 1000T    | 34.33    | 171.05 | 308.35   |
| Bayer's tonic                  | 200ml     | 6.38     | 26.63  | 317.40   | Aquasol A                      | 30C      | 7.25     | 35.50  | 389.66   |
| Ciplactin                      | l i 2ml   | 5.20     | 10.95  | 110 58   | •                              | 2ml      | 1.57     | 6.82   | 334.39   |
| Kinetone                       | 200ml     | 6.89     | 28.00  | 306.39   | Arachitol 3 lac                | l ml     | 1 21     | 4.12   | 240.55   |
| Neogadine                      | 300ml     | 7.48     | 27.87  | 272.59   | 6 lac                          | l mi     | 2.04     | 6.10   | 199.02   |
| Nutrifil                       | 400ml     | 10.08    | 49.73  | 393.35   | Arovit                         | 8T       | 1.62     | 8.00   | 393.83   |
| Periactin                      | TOL       | 2.30     | 4.77   | 107.39   |                                | /ml      | 0.96     | 3.00   | 212.50   |
|                                | 114 ml    | 7.02     | 15.16  | 115.95   |                                | drops 7. | 5ml 3.59 | 21.15  | 489.14   |
| Rise less than 50 per cent (1) |           |          |        |          | Beplex I                       | 10ml     | 3.24     | 7.43   | 129.32   |
| Rise 50-100 per cent (4)       |           |          |        |          | Berin 100mg                    | 500T     | 100.02   | 350.00 | 249.93   |
| Iron preparation               |           |          |        |          | Betonin                        | 200ml    | 7.06     | 17.98  | 154.67   |
| Anemidox                       | 14T       | 4.25     | 10.60  | 149 41   | Bivinal fort C                 | 30C      | 11 26    | 25 14  | 123.27   |
| Capsovit forte                 | 30T       | 9 63     | 24.00  | 149.22   | Cecon 500                      | 15ml     | 1 86     | 7 16   | 284.95   |
| Dexorange                      | 280ml     | 10.29    | 47.30  | 359.67   | Celin 500                      | 10T      | 1.96     | 7.75   | 295.41   |
| Hematrine                      | 40T       | 10.72    | 40.00  | 273.13   | 100                            | 1000T    | 39.42    | 175.74 | 345.81   |
| Hepatoglobin                   | 300ml     | 11.14    | 45.00  | 303.95   | Citravite                      | 10001    | 2.73     | 14.00  | 412.82   |
| Iberol                         | 25T       | 5.39     | 14 37  | 166.60   | Cobadex forte                  | 10T      | 4.26     | 8.75   | 104.69   |
| locioi                         |           |          |        |          |                                |          |          | 43.71  |          |
| Inchafes                       | 90ml      | 3.68     | 16.00  | 302 01   | Evion 200 mg                   | 30T      | 16.87    |        | 131.64   |
| Jectofer                       | 1.5ml     | 2.70     | 12.70  | 485 35   | 400mg                          | 30T      | 28 81    | 73.77  | 156.06   |
| Livogen                        | 30T       | 8.83     | 18.21  | 106 23   | Hexavit                        | 10T      | 0.92     | 3.02   | 228 26   |
| Rediplex                       | 10T       | 3.06     | 7.99   | 161.11   | Hovite                         | 15ml     | 3 78     | 9.61   | 154 23   |
| Siderfol                       | 20T       | 5.20     | 11.77  | 126.35   | Hycibex                        | 110ml    | 4.35     | 14.19  | 226.21   |
| Tonoferon                      | 450ml     | 17.36    | 41.94  | 141.59   | Lactisyn                       | 6amp     | 12.73    | 30.90  | 142.73   |
| Rise less than 50 per cent (4) |           |          |        |          | Mittavin                       | 15T      | 6.76     | 13.54  | 100 30   |
| Rise 50-100 per cent (2)       |           |          |        |          | Neuroplon 12                   | 10ml     | 5.69     | 11 50  | 102.11   |
| Minerals and Nutritional       |           |          |        |          | Nutralin B                     | 40ml     | 5.02     | 11.60  | 131.08   |
| Astymin-3                      | 200ml     | 34.09    | 195.00 | 472.02   |                                | 20C      | 7.87     | 20.92  | 165 82   |
| Becadexamin                    | 30T       | 7.23     | 23.65  | 227.11   | Polybion                       | 20T      | 5.97     | 15.74  | 163.65   |
| Calcinol F                     | 120ml     | 5.11     | 26.00  | 408.84   |                                | 100ml    | 6.02     | 12.04  | 100 00   |
| Calcium                        |           |          |        |          | Redoxon 200                    | 20T      | 3.35     | 8.05   | 140.30   |
| Sandoz                         | 10 per ce | ent 1,40 | 10 00  | 614.29   | 500                            | 10T      | 2.20     | 7.75   | 252.27   |
| vit C, D, B12                  | 50Ť       | 5.09     | 10.51  | 106.48   |                                | 5ml      | 1.02     | 3.50   | 243.14   |
| Dextrolyte                     | 540m1     | 7.56     | 25.00  | 230.69   | Stresscaps                     | 30C      | 9.82     | 26.48  | 169.65   |
| Di-calci-plex                  | 112ml     | 8.75     | 19.71  | 125.26   | Sukcee                         | 10T      | 1.79     | 10.11  | 464.80   |
| Electral                       | 80g       | 4.18     | 17.55  | 319.86   | Vidaylin                       | 15ml     | 3.27     | 9.34   | 185.63   |
| Filibon                        | 30T       | 8.29     | 25.95  | 213.03   | · ·····                        | 90mt     | 4.59     | 10.90  | 137.99   |
| Hermin                         | 200ml     | 38.27    | 204 00 | 433.03   | Vimagna                        | 15ml     | 3.21     | 8.62   | 168.54   |
| Kalzana                        | 125T      | 8.76     | 30.37  | 246.69   | Visyneral                      | 100ml    | 6.25     | 12.64  | 102.24   |
| 170104110                      | 100ml     | 7.90     | 17.62  | 127.89   | Rise less than 50 per cent (6) | 1001111  | 0.23     | 12.04  | 102.27   |
| Keylyte                        | 175ml     | 8.32     | 18.70  | 124.76   | Rise 50-100 per cent (13)      |          |          |        |          |
| Mecalvit                       | 200ml     | 11.15    | 34.58  |          | •                              |          |          |        |          |
|                                |           |          |        | 210.13   | Antiobesity                    | 15T      | 7.92     | 16.50  | 108.33   |
| Ossivite                       | 50T       | 6.15     | 15.67  | 154.80   | Fiabolin                       |          |          |        |          |
| Ossopan                        | 30T       | 7.83     | 20.30  | 159.26   | Ponderax                       | IOT      | 6.43     | 25.55  | 297.36   |
| Ostocalcium                    | 50T       | 5.37     | 13.53  | 151.96   | Anabolic                       | 11       |          | 24.00  | 270 00   |
| Potklor                        | 210ml     | 10.31    | 26.10  | 153.15   | Durabolin 25g                  | imi      | 6.45     | 24.00  | 272.09   |
| Prenatal                       | 50T       | 8.19     | 17.05  | 108.18   | Deca-durabolin                 | lamp     | 16.43    | 44.50  | 170.85   |
| Sharkoferol                    | 450g      | 9.32     | 37.16  | 298.71   | Orabolin                       | 20T      | 10.76    | 39.40  | 266.17   |
| Supradyn                       | 20T       | 9.29     | 25.80  | 177.72   | Food products                  |          |          |        |          |
| Rise less than                 |           |          |        |          | Protinex                       | 225g     | 14.50    | 85.33  | 488.48   |
| 50 per cent (1)                |           |          |        |          | Protinules                     | 100g     | 7.90     | 29.75  | 276.58   |
| Rise 50-100 per cent (3)       |           |          |        |          | Sanatogen                      | 250g     | 45.00    | 444.20 | 887.11   |
| Vitamın                        |           |          |        |          | Syu                            | 300g     | 15.02    | 62.46  | 315.85   |
| Abdec drops                    | 15ml      | 3.41     | 13.70  | 301.76   | Total                          | _        |          |        | 235.09   |

TABLE IU: KESPIRATURY PRUDUCIS

| -                |           |       | PRODUCT | Per Cent |  |  |
|------------------|-----------|-------|---------|----------|--|--|
| Product          | Pack      |       |         |          |  |  |
|                  |           | 1980  | 1995    | Risc     |  |  |
| Respiratory stil | nulants   |       |         |          |  |  |
| Rise less than   |           |       |         |          |  |  |
| 100 per cent (1  | )         | 17.50 | 32.87   |          |  |  |
| Bronchospasm     | relaxani  | !     |         |          |  |  |
| Allupent         | lmi       | 0.89  | 4.12    | 362.92   |  |  |
|                  | 100ml     | 6.77  | 38.06   | 462.19   |  |  |
|                  | 20T       | 5.76  | 24.60   | 327.08   |  |  |
| Asmapax depor    | t 12T     | 2.60  | 8.12    | 212.31   |  |  |
| Asmotone         | 110ml     | 5.57  | 18.17   | 226.21   |  |  |
|                  | 00dose    | 27.95 | 74.32   | 165.90   |  |  |
| Marax            | 20T       | 5.13  | 26.45   | 415.59   |  |  |
| Sedonal          | 101       | 1.11  | 3.41    | 207.21   |  |  |
| Tedral           | IOT       | 1.76  | 3.90    | 121.59   |  |  |
| Tedral SA        | TOI       | 2.23  | 9.75    | 337.22   |  |  |
| Reduced (2)      |           | 6.71  | 4.54    |          |  |  |
| Rise less than 5 |           |       |         |          |  |  |
| Rise 50-100 pe   | r cent (1 | )     |         |          |  |  |
| Expectorants     |           |       |         |          |  |  |
| Actifed          | 10T       | 1.90  | 8.15    | 328.95   |  |  |
| Benadryl exp     | 114ml     | 5.23  | 21.00   | 301.53   |  |  |
| Cinaryl          | 60ml      | 3.83  | 10.60   | 176.76   |  |  |
|                  | 10T       | 2.12  | 5.40    | 154.72   |  |  |
| Clistin          | 115ml     | 7.65  | 28.45   | 271.90   |  |  |
| Corex            | 50ml      | 4.08  | 8.63    | 112.56   |  |  |
| Cosavit          | IOT       | 1.30  | 3.19    | 145.38   |  |  |
| Coscapin         | 115ml     | 6.18  | 18.00   | 191.26   |  |  |
| Cosome           | 140ml     | 6.71  | 35.43   | 428.02   |  |  |
| Dilosyn          | 120ml     | 5.71  | 16.22   | 184.06   |  |  |
| Dristan          | 60ml      | 4.38  | 9.85    | 124.89   |  |  |
|                  | 10T       | 1.70  | 3.65    | 114.71   |  |  |
| Exiplon          | 50ml      | 4.00  | 11.58   | 189.50   |  |  |
| Grilinetus       | 100ml     | 6.07  | 17.60   | 189.95   |  |  |
| Karval Inhaler   | 12C       | 6.25  | 16.20   | 159.20   |  |  |
| Phensedyl        | 125ml     | 5.91  | 14.92   | 152.45   |  |  |
| Selvigon         | 100T      | 33.20 | 250.00  | 653.01   |  |  |
|                  | 10ml      | 5.76  | 34.14   | 492.71   |  |  |
| Selvigon exp     | 100ml     | 6.36  | 31.72   | 398.74   |  |  |
| Sudafed          | 115ml     | 4.30  | 12.71   | 195.58   |  |  |
|                  | 10T       | 0.92  | 4.87    | 429.35   |  |  |
| Tixylix          | 125ml     | 5.16  | 12.13   | 135.08   |  |  |
| Triominic        | 100ml     | 5.85  | 26.67   | 355,90   |  |  |
| Tristina         | 110ml     | 3.94  | 19.52   | 395 43   |  |  |
| Tuxyne           | 10T       | 1 59  | 7.96    | 400.63   |  |  |
| Zeet cxp         | 110ml     | 4 41  | 19.58   | 343 99   |  |  |
| Rise less than ! |           |       |         |          |  |  |
| Rise 50-100 pe   | r cent (4 | )     |         |          |  |  |
| Total            |           |       |         | 258 45   |  |  |
| Tanen 11         | E.n. Ne   |       | Ononuen |          |  |  |

TABLE 11: EAR, NOSE AND OROPHARYNX
PRODUCTS

| Product          | Pack      | Pı    | rice I | er Cent     |
|------------------|-----------|-------|--------|-------------|
|                  |           | 1980  | 1995   | Risc        |
| Local reactants  | on nose   |       |        |             |
| Efcorlin Nasal   | 15ml      | 3.51  | 8.40   | 139.32      |
| Endrine          | 30ml      | 5.47  | 20.22  | 269.65      |
| Emdrine mild     | 30ml      | 5.47  | 18.93  | 246.07      |
| Fenox            | 15ml      | 2.46  | 14.50  | 489.43      |
| Kemicetin        |           |       |        |             |
| Antiozona        | 10ml      | 6.02  | 22.00  | 265.45      |
| Nasivin          | 10ml      | 4.50  | 16.00  | 255.56      |
| Otrivin          | 10ml      | 4.75  | 15.65  | 229.47      |
| Otrivin          |           |       |        |             |
| paediatric       | 10ml      | 4.19  | 13.80  | 229.36      |
| Rise less than 5 |           |       |        |             |
| Rise 50-100 per  |           |       |        |             |
| Oropharyngeal    |           |       |        |             |
| Rise less than   | <i>  </i> |       |        |             |
| 100 per cent (2  | 2)        | 9.75  | 17.08  |             |
| Aural preparati  |           | 2.10  |        |             |
| Chloromycetin    | 5ml       | 2.05  | 6.67   | 225.37      |
| Dexona eye/ear   |           | 3.30  | 7.46   | 126.06      |
| Neosporin-H      | 5ml       | 6.89  | 14.81  |             |
| Paraxin car      | 6ml       | 2.83  | 8.04   |             |
| Waxolve          | 10ml      | 4.31  | 13.50  | 213.23      |
| Rise less than   | 4 1/4011  | 7.51  | 13.50  | ar 1 .71 &c |
| 50 per cent (5)  |           | 27.71 | 36.81  |             |
| Total            | ,         | 27.77 | .50.01 | 142.22      |
| - ~~             |           |       |        | . 74.22     |

wnereas the remaining 12 products have increased the prices ranging from 182 per cent to 1681 per cent. Most of these drugs are needed by women. Among oral contraceptives only Lyndiol has shown a rise of 208 per cent. Among corticosteroids three products have shown a decrease in prices with the maximum rise claimed by Docabolin. Hypoglycemics, used for

TABLE 12: EYE PRODUCTS

| Product            | Pack     | Pı       | ice      | Per Cent |
|--------------------|----------|----------|----------|----------|
|                    |          | 1980     | 1995     | Rise     |
| Anti-infective pro | eparati  | ons      |          |          |
| Albucid            |          |          |          |          |
| 20 per cent        | 14mi     | 3.73     | 7.60     | 103.75   |
| 30 per cent        | l4ml     | 3.83     | 7.83     | 104.44   |
| Chloromycetin      |          |          |          |          |
| applicap           | 50       | 5.78     | 17.60    | 204.50   |
| clearin            | 10ml     | 4.25     | 20.00    | 370.59   |
| Kemicetin          | 3g       | 1.55     | 4.95     | 219.35   |
| Locula             | _        |          |          |          |
| 10 per cent        | lOmi     | 2.22     | 6.65     | 199.55   |
| 20 per cent        | 10ml     | 2.61     | 7.60     | 191.19   |
| 30 per cent        | 10ml     | 2.84     | 8 55     | 201.06   |
| Paraxin            |          |          |          |          |
| softicaps          | 50       | 4.93     | 17.60    | 257.00   |
| •                  | 5g       | 1.76     | 4.23     | 140.34   |
| Proto Boric        | 10ml     | 3.50     | 7.00     | 100.00   |
| Vanmycetin eye     | 5ml      | 2.29     | 5.21     | 127.51   |
| Reduced (2)        |          |          |          |          |
| Rise less than 50  | ) per ce | nt (2)   |          |          |
| Rise 50-100 per    |          |          |          |          |
| Anti-inflammato    |          |          | gic pren | arations |
| Chlorocort         |          |          | 0 11     |          |
| applicaps          | 50       | 7 74     | 17.40    | 124.89   |
| Dexona eye/car     |          | 3 30     | 7.46     | 126.06   |
| Glaucoma           |          |          | ,,,,     | 120      |
| Biomiotic          | 10ml     | 6.75     | 18.80    | 178.52   |
| Carpo-miotic       |          | 0.75     |          |          |
| 0.5 per cent       | 10ml     | 5.60     | 12.72    | 127.14   |
| 4 per cent         | 10ml     | 8.85     | 23.85    | 169.49   |
| Pilocar            |          | 0.00     | 202      | 107.17   |
| 2 per cent         | 5ml      | 3.81     | 15.90    | 317.32   |
| 4 per cent         | 5ml      | 4.57     | 26 29    | 475.27   |
| Mydriatics and     |          |          | 20, 27   | 47.7.27  |
| Less than 100 pe   |          |          |          |          |
| Diagnostic and     | miscell  | anemis i | renuru   | non c    |
| Catalin            | THAL EH  | 29 79    | 109.30   | 266.90   |
| less than          |          | 47 17    | 107.10   | 200.90   |
|                    | e (2)    | 8.75     | 12.00    |          |
| 100 per cent ris   | (2)      | 0.73     | 12.00    |          |

TABLE 13: DRUGS FOR ALLERGIC DISORDERS

Total

150.05

| Product          | Pack        | Pı   | ice   | Per Cent |
|------------------|-------------|------|-------|----------|
|                  |             | 1980 | 1995  | Rise     |
| Antiallergic dri | ugs         |      |       |          |
| Benadryl 25g     | 25T         | 2.34 | 15.50 | 562.39   |
|                  | 114ml       | 4.81 | 13.25 | 175.47   |
| Calciluvin       | 20T         | 5.20 | 17.72 | 240 77   |
|                  | 100ml       | 7.07 | 17.48 | 147.24   |
| Dilosyn          | 10T         | 1.38 | 5.82  | 321.24   |
| •                | 120ml       | 5.04 | 17.74 | 251.98   |
| Foristal         | 10 <b>T</b> | 1.00 | 4.80  | 380.00   |
| -lontabs         | 10 <b>T</b> | 1.57 | 7.50  | 377.71   |
| Hepasulfol AA    | 25 <b>T</b> | 4.96 | 30.72 | 519.35   |
| Incidal          | 10 <b>T</b> | 1.70 | 5.50  | 223.53   |
| Mebryl           | 12T         | 3.15 | 1140  | 261.90   |
| Phenergan 25m    | g IOT       | 0.84 | 1.93  | 129.76   |
|                  | 125ml       | 3.80 | 9.37  | 146.58   |
| Vallergan fort   | 50mi        | 3.42 | 23.04 | 563.98   |
| Rise less than I | 00 per c    | ent  |       |          |
| Total            |             |      |       | 263.89   |

treatment of diabetes have a total rise of 147 per cent. Maximum rise is registered by Diabenese 100 mg-352 per cent and 25 mg - 378 per cent, and 475 per cent by Rastinon. Insulins have registered a rise of 170 per cent, but now the use is shifted to a costlier brand of purified human insulin.

In the genito-urinary group of drugs diuretics have shown a decrease in total price by 3 per cent, whereas the drugs acting on the uterus by 23 per cent. Spermicidals have registered a rise of 432 per cent, local and systemic drugs by 221 per cent and urinary antiseptics by 171 per cent.

Table 7 gives the comparative price rise of drugs acting on the genito-urinary system. The total rise is only 97 per cent because diuretics have shown a decline of 3 per cent and drugs acting on the uterus, a decline of 23 per cent. Deflen a chemical barrier for contraception shows a rise of 432 per cent, closely followed by local and systemic drugs by 221 per cent and urinary antiseptics by 171 per cent. In the diurectics Hythalton shows a rise of 596 per cent and Lassix a rise of 134 per cent. In the urinary antiinfectives, Pyridium, a urinary tract analgesic shows a rise of 429 per cent. This has further shown a rise of 51 per cent, making a total rise of 699 per cent since 1980. Mandelamine shows a rise of 233 per cent, Gramoneg 223 per cent and Wintomylon 195 per cent. Among local and systemic drugs Dienestrol cream has taken a rise of 1,134 per cent, Hamycin by 526 per cent, Triple Sulpha cream by 396 per cent. Ingagen-M (a rise of 357 per cent) and Pitocin (a rise of 224 per cent) are drugs used during labour. Thus all the products in this group take a rise of 132 per cent.

Table 8 shows a total rise of 59 per cent in the case of anti-infective drugs because there is a reduction in the prices of sulphonamides, anti-TB drugs, anti-leprotic drugs. In the sulphonamide group the popular brands of Septran and Bactrim tablets prices have reduced, but the suspension and syrup prices have marginally increased.

Antibiotics show a rise of 106 per cent. wherein the maximum rise is shown for Bistrepen (702 per cent). This is a combination of Streptomycin and penicillin and a demand is being made to ban this combination. Chloramphenicol brands have shown a rise as Chloromycetin 467 per cent, Paraxin 233 per cent and Reclor 241 per cent. Erythroxycin a brand of erythromycin 100 mg shows a rise of 190 per cent, while 250 mg shows a rise of 210 per cent. Gentamycin (Biogracin, Garamycin, Genticyn), Doxycycline (Duracycline, Lydox) show a decline in prices. Klox a brand of cloxacillin (injectable) has registered a price decrease and for capsules a price rise of 96 per cent and syrup by 108 per cent. Long acting penicillin Penidur LA 6 increased by 223 per cent, LA12 by 211 per cent and LA24 by 198 per cent. Pentids, a brand of oral penicillin has gone up by 264 per cent for 8 lac units, 213 per cent for 4 lac units and 184 per cent for 2 lac units. All others are in the range 100 to 150 per cent rise.

Among anti-tubercular drugs there is a total reduction of 0.66 per cent and that of anti-leprotics of 2.44 per cent. The reduction in anti-tubercular drugs is due to drastic reduction in price of Tibrium (rifampicin). Ambistryn, the brand of streptomycin injection has gone up by 502 per cent for 1 g vial and 457 per cent in 0.75 g vial. Other drugs (Erbazide 119 per cent, Ina-Pas tablets 180 per cent, granules 185 per cent, Isonex 100 mg 164 per cent, and 300 mg 186 per cent) have shown price increses, but these drugs are hardly used now. In the anti-

**TABLE 14: SKIN PRODUCTS** 

| Product Pack Price Per Ce               |            |           |        |        |  |
|-----------------------------------------|------------|-----------|--------|--------|--|
| 1 TOUGET                                | 1 MCK      | 1980      | 1995   | Rise   |  |
|                                         |            |           |        |        |  |
| Soothing and p                          |            |           |        |        |  |
| Caladryl                                | 57ml       | 2.64      | 15.10  | 471.97 |  |
| K-Y Jelly                               | 85g        | 5.35      | 52.78  | 886.54 |  |
| Siloderm                                | 20g        | 3.33      | 18.02  | 441 14 |  |
| Keratolytic and                         |            | rs        |        |        |  |
| Cotaryl                                 | 50g        | 6.03      | 24.90  | 312 94 |  |
| Derobin                                 | 25g        | 3.46      | 12.85  | 271.39 |  |
| K 5 Hair tonic                          | 100ml      | 15.00     | 67.29  | 348.60 |  |
| Keralin                                 | 5g         | 2.00      | 4 23   | 111.50 |  |
| Topical non-ste                         | roid and   | l anti-pr | uritic |        |  |
| Crotorax                                | 20g        | 4.08      | 13.91  | 240.93 |  |
| Topical antifun                         | ral and    | untiinfe  | ctive  |        |  |
| Ascabiol                                | 50ml       | 2.53      | 9.30   | 267.59 |  |
| Dermoquinol                             |            |           |        |        |  |
| 4 per cent                              | 25g        | 2.32      | 6.86   | 195.69 |  |
| Emscab                                  | 55ml       | 4.99      | 13.15  | 171.54 |  |
| Multifungin                             | 30g        | 4.92      | 14.78  | 200.41 |  |
| .,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, | 30ml       | 5.02      | 14.78  | 185.88 |  |
| Mycostatin                              | 10g        | 3.99      | 16.50  | 313.53 |  |
| Pragmatar                               | 25g        | 4.35      | 12.00  | 175.86 |  |
| Rise less than !                        | (i) ner ce |           | 12.00  | 175.60 |  |
| Rise 50-100 pe                          | roperce    | III (1)   |        |        |  |
| Antiinfective                           | i Ceni (2  | ,         |        |        |  |
| Betadine                                | lOg        | 4.90      | 11.00  | 124.49 |  |
| Detadine                                | 100ml      |           | 34.60  |        |  |
| Daniel                                  | 55ml       | 15.00     | 7.75   | 131.00 |  |
| Dettol                                  |            | 2.40      |        | 222.92 |  |
| -cream                                  | 25g        | 2.44      | 4.97   | 103.69 |  |
| -obstetric                              | 500g       | 15.77     | 40.84  | 158 97 |  |
| Puracin                                 | 28g        | 4.60      | 11.30  | 145.65 |  |
| Iteol 3                                 | 115ml      | 3 21      | 7 95   | 147 66 |  |
| Nebasulf skin                           | 15g        | 4.23      | 13.02  | 207.80 |  |
| powder                                  | 10g        | 3.37      | 10.95  |        |  |
| Neosporin                               | 10g        | 4 98      | 10.81  | 117.07 |  |
|                                         | 5g         | 3.19      | 6.50   | 103.76 |  |
| Soframycin                              | 15g        | 3.74      | 9.03   | 141.44 |  |
| Topical Steroid                         |            |           |        |        |  |
| Ultralan                                | 5g         | 7.62      | 42.46  | 457.22 |  |
| Rise less than                          |            |           |        |        |  |
| Rise 50-100 pe                          | er cent (3 | )         |        |        |  |
| Miscellaneous                           |            |           |        |        |  |
| Hirudoid                                | i4g        | 7.70      | 32.00  |        |  |
| Manaderm                                | 40T        | 8.39      | 22.50  |        |  |
| Mascoralen                              | 20T        | 7.15      | 23.02  |        |  |
| Messe cream                             | 25g        | 4.52      | 47.20  |        |  |
| Melanocyl                               | 40Ť        | 16.57     | 35.84  |        |  |
| Paraminol                               | 25g        | 4.15      | 11 20  | 169.88 |  |
| Thrombophob                             | 15g        | 4.18      | 14.40  |        |  |
| Rise less than                          | 50 per ce  | nt (2)    |        |        |  |
| Rise 50-100 pe                          |            |           |        |        |  |
| Total                                   | ••         | •         |        | 297.06 |  |
| · - <del></del>                         |            |           |        |        |  |

leprotics the price of Hansepran (Clofazirnine 100 mg) has marginally reduced (from Rs 184.50 to Rs 180.90), but has gone up to Rs 211.20 during 1995-96. Anti-fungals have shown a big rise of 259 per cent and Hamycin shows 526 per cent, Mycostatin 342 per cent. In the anti-amoebics the price of Aristogyl (metronidazole 200 mg) has been reduced from Rs 4.06 to Rs 3.75 and has increased to Rs 4.63 during 1995-96. The price of Dehydroemetin 30 mg injection increased by 225 per cent, 60 mg by 195 per cent; Enteroquinol has shown a price increase by 257 per cent and thus a total rise of 71 per cent. Among anti-malarials Nivaquin tablets has shown a price increase by 209 per cent and injection by 164 per cent. Prices of Resochin have gone up by 307 per cent and the total rise is 192 per cent. Among vaccines there is big rise in anti-snake venom by 587 per cent, Diphtheria antitoxin by 118 per cent and gas-gangrene antitoxin by 193 per cent, taking the total rise to 326 per cent.

Table 9 on nutrition shows a total rise of 225 per cent. Maximum rise of 659 per cent is seen in food products, minerals and nutritional additives with 229 per cent, anabolics by 221 per cent, drugs for obesity by 193 per cent, vitamins by 184 per cent, iron preparations by 155 per cent and tonics by 148 per cent. Bayer's tonic shows a rise of 317 per cent and further increased in 1995-96 to a total rise of 508 per cent. Kinetone by 306 per cent and Neogadine by 273 per cnt. In the iron preparations Dexorange by 360 per cent and further rise during 1995-96 making a total rise of 427 per cent. Hepatoglobin by 304 per cent and Iberol liquid by 302 per cent. In the minerals

TABLE 15: PRODUCTS FOR METABOLIC DISORDERS

| Product              | Pack   | Р         | rice   | Per Cent |
|----------------------|--------|-----------|--------|----------|
|                      |        | 1980      | 1995   | Risc     |
| Corcinochemoti       | erape  | utic      |        |          |
| Alkeran 2mg          | 25T    | 37 88     | 192.70 | 408.71   |
| 5mg                  | 25T    | 62.45     | 337 89 | 441.06   |
| Bleocin 15mg         |        | 162.70    | 953 68 | 486.16   |
| Endoxan              | 50T    | 44.68     | 122.70 | 174.62   |
| 100mg                | vial   | 5.17      | 11 77  | 127 66   |
| 200mg                | vial   | 8.31      | 18.70  | 125.03   |
| 500mg                | vial   | 18.32     | 39 06  | 113 21   |
| Leukeran 2mg         | 100T   | 25.58     | 518.12 | 1925 49  |
| 5mg                  | 100T   | 58.64     | 566.76 | 866.51   |
| Leunase              | vial   | 97.91     | 225 00 | 129 80   |
| Mitomycin-C 2        | 2mg    | 17.40     | 54 38  | 212 53   |
| Mustine              | vial   | 16.20     | 112 60 | 595.06   |
| Myleran 2mg          | 100T   | 13.85     | 260.12 | 1778.12  |
| Puri-Nethol          | 25T    | 22.79     | 201 18 | 782.76   |
| Reduced (1)          |        | 69 50     | 48.00  |          |
| Rise less than       | 50 per | cent (2)  |        |          |
| <i>immunosuppres</i> |        |           |        |          |
| Imuran 50 mg         |        | 271.67    | 878 60 | 223.41   |
| Gout                 |        |           |        |          |
| Reduced (1)          |        |           |        |          |
| Poisoning and r      | netabo | lic dystu | nction |          |
| BAL                  | 2ml    | 7.75      |        | 396.77   |
| Glutaneurol          | 100T   |           | 78.40  |          |
| Rise 50-100 pc       |        |           |        |          |
| Total                |        | ,         |        | 335.61   |

and nutritional products Calcium Sandoz injectable with a rise of 614 per cent, followed by Hermin liquid by 433 per cent, Electral by 320 per cent, Calcinol-F by 409 per cent, Sharkoferol by 299 per cent. The total rise is 228 per cent. Vitamin products show a rise of 184 per cent, with vitamin A products like Aquasol tablet going up by 390 per cent, injectables by 334 per cent, Arovit tablet by 394 per cent, injection by 212 per cent, and drops by 489 per cent. Vitamin C prices have gone up - Cecon 500 drops by 285 per cent. Celin 500 mg tablet by 295 per cent, 100 mg 346 per cent, Citravite tablets by 413 per cent, Redoxon 500 mg tablet by 252 per cent, Sukcee tablets by 465 per cent and all other combination vitamin products by 100 to 300 per cent. There were only two antiobesity products, viz, Flabolin that has gone up by 108 per cent whose prices have further risen by 31 per cent in 1995-96 and Ponderax by 297 per cent. Anabolics, though really not needed have shown a rise of 220 per cent. Durabolin 25 mg has gone up by 272 per cent, Deca-Durabolin by 171 per cent and Orabolin by 266 per cent. Strangely enough food products have shown an overall total rise of 659 per cent, wherein Protinex shows a rise in price of 488 per cent - Protinules 277 per cent, Sanatogen 887 per cent and Syu 316 per cent. The prices of all these products have further risen during 1995-96.

Table 10 gives the details of respiratory products, that show an overall rise of 202 per cent. Marax, a combination of ephedrine, theophyline and a tranquiliser shows a rise of 416 per cent, Allupent injectible 363 per cent, the syrup by 462 per cent and tablets by 327 per cent, Tedral SA by 337 per cent and others ranging from 122 to 212 per cent. Expectorants show a rise of 300 per cent (that is four times) Selvigon tablets 653 per cent, drops 493 per cent, Cosome 428 per cent Tuxyne tablets 401 per cent, Sudafed tablets 429 per cent, and Actifed 329 per cent. Among liquid cough mixtures Benadryl expectorant shows a rise of 301.53 and has further gone up during 1995-96 - Selvigon by 399 per cent, Triominic by 356 per cent, Tristina by 395 per cent and Zeet by 344 per cent.

Table 11 gives the details of products used in ENT specialities – with a total rise of 217 per cent, and the maximum rise being in Fenox nasal drops by 489 per cent, throat products by 75 per cent. Ear drops show a total rise of 85 per cent, Chloromycetin by 225 per cent and Waxolve by 213 per cent.

Table 12 shows the price rise of eye ointments and drops. Anti-infectives have shown a total rise of 80 per cent – chloramphenicol preparations have shown a big rise of 204 per cent for Chloromycetin applicaps (further increased by 21 per cent in 1995-96), Paraxin applicaps 257 per cent. Another anti-infective sulphacetamide drops

has gone up – Albucid 104 per cent (1980-96 – 186 per cent), Locula (30 per cent by 201 per cent (1980 to 96 – 298 per cent). Clearine a brand of naphazoline anti-inflammatory shows rise of 371 per cent. The drops for glaucoma have shown a big rise of 161 per cent – Carpo-miotic a brand of pilocarpine shows a rise of 354 per cent, Pilocar by 475 per cent. Biomiotic, a combination drug has gone up by 179 oer cent — in 1995-96 it has further gone up by 113 per cent making for an overall rise of 493 per cent.

Table 13 gives us a comparative picture of anti-allergic drugs. There has been a total rise of 264 per cent in their prices. Vallergan forte - a rise of 564 per cent, Bendaryl capsules of 562 per cent, Hepasulfol of 519 per cent, Foristal of 380 per cent, Dilosyn of 321 per cent, Mebryl of 262 per cent, Calculuvin by 241 per cent, and others. The prices of Phenergan tablets had gone up by 130 per cent and syrup by 147 per cent. During 1995-96 Pheneragan tablet price have risen from Rs 1.93 to Rs 4.35 and syrup from Rs 9.37 to Rs 14.52 thus making a total rise of 617 per cent for tablets and 282 per cent for syrup. Prices of Benadryl, Calciluvin and Dilosyn have further risen during 1995-96

Table 14 gives the price rise in skin ointments by 181 per cent. K Y sterilised lubricating jelly used for rectal and vaginal (internal) examination shows a rise of 887 per cent and has further risen in 1995-96 making a total rise of 1203 per cent. Caladryl by 472 per cent and Siloderm by 441 per cent. Both these product have further risen during 1995-96. In the keratolytics price of K-5 hair tincture has give up by 349 per cent. Cotaryl by 313 per cent and Dorabin by 271 percent. In the anti-fungals Mycostatin shows a price rise of 314 per cent, Ascabiol of 268 per cent, Multifungin of 200 per cent and Pragmatar of 176 per cent. The remaining three products show a rise of less than 100 per cent.

Among anti-infectives (antiseptics), there is a total rise of 149 per cent – the maximum rise of 225 per cent is in Nebasulf ointment, 223 per cent for Dettol riquid, and all others 100 to 158 per cent. Prices of all these products have increased during 1995-96. The steroids products have shown a price rise from 50 to 100 per cent and two less than 50 per cent – Ultralan, a brand of fluocortolon shows a rise of 457 per cent. In the miscellaneous skin preparations Hirudoid shows a price rise of 316 per cent.

The maximum price rise appears to be in drugs used in metabolic disorders, i.e., in cancer – the total rise is 336 per cent. Particularly carcino chemotherapeutic agents (cancer drugs) show a total price rise of 417 per cent. Puri-Nethal, a drug for acute leukemia (blood cancer) shows a price rise of 783 per cent, Leukeran, a drug for ovarian and breast cancer of 1925 per cent (it has

further risen during 1995-96 by 106 per cent, making a total rise of 4066 per cent). Myleran, a drug for leukemia shows a rise of 1778 per cent (and a further rise in 1995-96 making a total rise of 2292 per cent), Mustine, with a rise of 595 per cent. The only price reduction is in Vincristin. Among immunosuppresants, Imuran, a drug used for rheumatoid arthritis unresponsive to other drugs, shows a price rise of 223 per cent with marginal 13.35 per cent rise during 1996. The price of Zyloric, the only brand of allopurinol for gouty arthritis has been reduced from Rs 57.88 to Rs 12.04, a reduction of 79 per cent. Again the emergency drugs used for treatment of poisoning show

a total price rise of 351 per cent. Strangely enough Glutaneurol (a brand of L-glutamic acid, reference of which is not found in BNF and only a passing reference in Martindale) shows a price rise of 553 per cent. BAL injection is used for metal poisoning and it shows a price rise of 397 per cent. Most of the drugs for metabolic disorders are imported and particularly those for treatment of various types of cancers and for treatment of poisoning should be reasonably priced. Though these drugs may not be falling within the DPCO criteria, the government must see that these emergency drugs are made available at reasonable rates and see that the prices do not go on increasing five to 40 times.

# DEVELOPMENT, DISPLACEMENT AND REHABILITATION

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## Left Ideology, Ends and Means and Hindutva

#### Romesh Diwan

I GET my copy of the EPW by surface mail so that by the time it reaches here the events have already taken place. Reading the commentary 'On Election Eve' in various issues of March, after the elections are over, is educative. What impresses one is how erroneous are the assumptions and understandings of these writers. They don't seem to have any idea of, nor seem to care about, facts. Naturally, these writings could, and did, not predict the future even two months ahead. Through the general elections people rejected both Congress and Leftist parties and further strengthened BJP; a party anathema to most EPW political commentators.

These writings, like many other political commentaries in EPW, have the standard leftist bias. There was a time when this bias was a badge of honour since it reflected the writer's concern for the poor and the underprivileged. Unfortunately, it has now become a formality and part of dogma Like Dhritharashtra, many have become blind to facts. They are preoccupied with searching damnable adjectives for Hindus and BJP and have missed grasping the reality. Unhappily for them, the United Front (UF) government has now exposed the character of Left parties and their leaders for all to see, thereby placing these intellectuals in the unenviable situation of having to defend and explain their actions. By not understanding facts, these commentators have done a great disservice to themselves and have become irrelevant to their readers by misinforming them and to the institution, the EPW, by compromising its legitimacy. What can be done?

The basic problem lies in the very nature of Left ideòlogy. It is limited, irrational and flawed. It begins with something very moral and pure; a concern for the weak and their exploitation. It is this concern that sets it apart from the centrist - and rightist ideology that exalts exploitation - well camouflaged - and considers the suffering of the weak a small price to pay. There is always a question if an idea/ideology helps the poor. There are two simple tests: (i) is this idea divisive or unitive? and (ii) Do the leaders have integrity? Left ideology is divisive and got lost en route because it doesn't recognise the fundamental interrelations between ends and means. As Gandhi said, "Socialism is as pure as crystal. It, therefore, requires crystal-like means to achieve it. Impure means result in an impure end." Lack of clarity between ends and means follows from the fact that the Left ideology is, in the last analysis, a variant of the materialist rationalist/scientific thought; and is limited by it. The materialist rationalist thought is expressed on the horizontal axis defined by power relations; the Left ideology is the left variant on this axis. Individually, ends or means can be identified on this axis but not ends and means together; or relations therein. Ends and means together span a vertical scale. Life is ordered and so are ends and means that deal with it. Reality lies on the vertical axis and cannot be classified into right and left. Left concentrates on the horizontal plane and is unable to look up so that a good part of reality eludes it. To deal with reality, means are important. Ends cannot be separated from the means.3 To quote Gandhi again, "They say, 'means are after all means'. I would say means are after all everything. As the means, so the end. There is no wall of separation between means and ends. Indeed, the Creator has given us control (and that too, limited) over means, none over the ends. Realisation of the goal is in exact proportion to that of the means. This is a proposition that admits of no exception."

The materialist/rationalist paradigm excludes mean-ends-relationship. Accordingly, it requires, and uses, enormous force – for exploitation and resulting violence – to change the reality so as to conform to the paradigm. This has been the thrust of all imperialist/colonial/slavery systems. Left ideology accepts this violence and attempts to articulate the need for a countervailing power base for the exploited. It does not question the need of violence in the first place.

As the end-means-relationship become relevant, the nature of analysis and policy changes fundamentally. In fact there is a paradigm shift and an inversion. The emphasis shifts from ends to means, from rights to duties. The old cultures highlighted means; personal integrity rather than the power base. Gandhi placed so much importance on 'trusteeship'.6 Among many American-Indian nations membership to the ruling council required one to give up everything he/she has amassed over life time.7 The imperialist societies considered these nations uncivilised; therefore, worth the genocide by a so-called, self-proclaimed civilised society.\* The idea of renunciation is deeply entrenched in the Hindu mind. "The national ideals of India are renunciation and service" says Vivekananda. When asked to sum up his life in three words, Mahatma Gandhi quoted, "tena tyaktena bhunjita" from the first verse in Ishopanishad.10 This is the only tradition, country, and religion where the mighty kings with immense power for violence bowed before the pious and the pure, the renunciate swamis. These ideas come from time immemorial 11 and have been carried on in every age by highly evolved beings; recently by such as Mira Bai, Kabir, Nanak, Ramkrishna, Vivekananda, Gandhi and more recently by Hindu spiritualists like swami Dayanand, Murari Bapu, etc. They deal with 'means' and not 'ends'.

The spiritualist paradigm, first articulated by Gandhi and now promoted by BJP in terms of Hindutva, recognises not only 'good ends' but also the idea that 'ends are contained in the means'. Good ends follow from good means and can't come from bad ones. The ends are well articulated in Vivekananda's statement, "Him I call a mahatman whose heart bleeds for the poor, otherwise he is duratman...In Europe it is everywhere victory to the strong and death to the weak. In the land of Bharata, every social rule is for the protection of the weak."<sup>12</sup>

The spiritualist/Hindutva paradigm, being vertical, is fundamentally different from the materialist/rationalist paradigm defined in the horizontal space. The most important difference lies in the approach to the question: how to provide defense to the exploitable, poor, vulnerable, and weak members of a group or society? The Left ideology operates within the paradigin of power relations and attempts to develop a countervailing power base for them. There is nothing in this ideology to ensure that (i) the countervailing power will prevail and (ii) they will not become the exploiters. The historical evidence suggests that this ideology when put to practice has created a new class of exploiters. This is the basic failing of the left ideology. It is unable to achieve its goal even when its proponents gain power and follow the desired policies. As is now well documented, the sufferings of the poor, vulnerable and weak people in Bihar and Uttar Pradesh, be it dalits or Muslim, have gone up, not down, during the rule of Janata Dal governments whom the intellectuals of the Left have admired and defended.

The defence of the vulnerable group requires spiritualist/Hindutva ideas where means are valued and result in defining duties rather than rights. In this paradigm, it is the duty carried on by A that ensures the rights of B. Once. H G Wells had drawn up a charter on the 'Rights of Man' and sought Gandhi's opinion. Gandhi sent him the following cable: "Received your cable. Have carefully read your fire articles. You will permit me to say you are on the wrong track. I feel sure that I can draw up a better charter of rights than you have drawn up. But of what good will it be? Who will

"peceine its drawnian in hon west buobstanes or popular education you have begun at the wrong end. I suggest the right way. Begin with a charter of duties of man (both D and M capitals) and I promise the rights will follow as spring follows winter. I write from experience. As a young man I began life by seeking to assert my rights and I soon discovered I had none not even over my wife. So I began discovering and performing my duty by my wife, my children, friends, companions and society and I find today that I have greater rights, perhaps than any living man I know. If this is too tall a claim then I say I do not know anyone who possesses greater rights than I."13 To do one's dharma not only does one need a different way to look at the issue but also a strength of character. In the Hindutva paradigm, the emphasis, therefore, has to be, and is, on character, on the ability and willingness of the person involved to do the right thing because it is his/her dharma/duty. Since exploitation is adharma, it becomes the dharma/duty of both the exploiter not to exploit and of the exploited not to co-operate with the eploiter. That is why the BJP manifesto places so much significance on

It is this emphasis on character that is so fundamental to the Gandhian and BJP concept of Rama Rajya. It is rule by a man of character/integrity who follows dharma even at the high cost of personal suffering. Many western trained intellectuals have not understood this basic idea. They have distorted this concept by defining it as a oneperson rule and removing from it the very essential feature: person's character. One does not have to have a high IQ to recognise that given the choice, people will prefer Rama Rajya to any other form of rule. After all Rama wins the heart of people; why wouldn't he win a fair election? Who would contest an election with him anyway?

Given the recognition of means, of duties and character, it follows logically that the exploited, the poor, the vulnerable, the weak will automatically gain and their weakness resolved. People become poor and weak because they are continuously exploited. To exploit them, there has to be exploiters who gain from such exploitation and accept that such exploitation is ethical. If exploitation is not ethical and persons of character will not do unethical things, there will not be exploiters. The exploited will gather strength so as to non-cooperate with exploiters. If the exploiters don't exploit, exploited don't cooperate with the acts and processes of exploitation, exploitation ceases, the institutions that promote exploitation withers away, and there is little need to develop rationalisations for its advantages. The exploited, the poor, the vulnerable and the weak gain back their defence. This is the promise of Hindutva philosophy and ethical system. It is also a natural outcome of Rama

Rajya. It is not surprising that Gandhiji talked so much about it. Unfortunately, some of his friends and followers were so mesmerised by the personal gains from exploitation and exploitative systems that they wouldn't move in this direction.

The 1996 Indian general elections have marked a new watershed. A No party got a clear majority which meant an exposure to all political parties thereby initiating a highly educative process. Not only did the Congress lose its majority, there is now a growing confirmation and corroboration on the general perception that Congress is made up of corrupt political leaders.

The 15-day BJP government provided a searchlight on the party; its ideas, ideals and leaders. The party and its leaders came out with flying colours. It has gained further respect of and trust from the Indian populace. As the Marg survey shows, the stock and popularity of BJP has gone further up: a majority don't consider BJP communal, would have liked Vajpayee to be the prime minister and did not want a UF government.15 The Times of India survey further confirms these facts. In spite of concerted efforts by media and the earlier government, in the BJP's image has improved because of the personal integrity of its leaders and the quality of Hindutva ideals.

The formation of the United Front government has focused on left ideas and leaders. Both have been found wanting. According to Maneka Gandhi, a member of the Janata Dal herself, there are 18 plus criminals in the UF cabinet. The UF and Congress leaders seem to be comfortable in their company. If the Congress government was corrupt, this one is criminal. The nature of their crimes is appalling; one minister, now out, is accused of raping poor young tribal girls, the vulnerables the government is supposed to defend. Hopefully, these criminals don't, and should not, reflect the groups they come from and represent, Muslims and dalits. Yet the Left ideologues have in the past talked highly of these and are now stuck with the task of justifying, and explaining, such criminal behaviour. Anyway they lose legitimacy. Their writings now sound erroneous, deceptive, even deceitful, irrelevant, vacuous and certainly wrong. Many of these ideologues are ritualistic; not unlike idol worshippers. They are lost in their own rhetoric; far removed from reality. The idols they worship have turned out to be false and their temples are withering away. Such ideologues are on their way out. There are others, in the left, who are genuinely concerned about the poor and the weak. They have to re-examine their ideas and concerns. If they do, they may be surprised, like M N Roy at the end of his life,17 to find reverence for their Hindu heritage and commonality with Hindutva ideas and

#### Notes

- 1 Mahatma Gandhi, Sacialism of My Conception, edited and published by Anant T Hingorani, Bharatiya Vidya Bhavan, Bombay, 1966, p 2.
- 2 Schumacher points out various forms of progressions and orderings; from material world to life to human beings, from passivity to activity, from necessity to freedom, towards complexity and integration. E F Schumacher, Guide for the Perplexed, Harper and Row Publishers, New York, 1976.
- 3 Aldous Huxley, Ends and Means.
- 4 Young India, July 17, 1924. This follows directly from Bhagvad Gita, chapter 2, shloka 47 which states, "You have the right to action, but never to its fruit. You should never engage in action for the sake of rewards, nor should you long for inaction." [Translation by Swamy Eknath Easwaran.]
- 5 Albert Memi, Coloniser and the Colonised, Beacon Press, Boston, 1967.
- 6 Romesh Diwan and Mark Lutz (eds), Essays in Gundhian Economics, Gandhi Peace Foundation, New Delhi, 1985.
- 7 In one American-Indian nation, this has to be done thrice before one would become eligible for the membership of the Council.
- 8 This explains Gandhi's response to the question "What do you think of western civilisation?" to which he responded, it will be a good thing if there was one.
- 9 Swami Vivekananda on India and Her Problems, Advaita Ashruma, Calcutta, 1925, p. 10.
- 10 It means, 'renounce and enjoy'. Mahatma went a step further and said that if all the sacred Vedas of Hindus are destroyed but only one Hindu is able to live a life according to this one versa of Ishopanishad, the whole knowledge will be recreated.
- 11 "The Indian search has always been vertical it is concerned only with the ultimate Reality; that is Brahman, the Truth. The motto of the Indian Republic founded after the British left India is satyam eva jayate, truth alone is victorious. Time, and therefore history, is irrelevant to us" Raja Rao on Hinducivilisation in Hindu Temple Newsletter, Albany, New York, April 1996, And we have been victims of history.
- 12 Swami Vivekananda on India and Her Problems, Advaita Ashrama, Calcutta, 1925, pp 57-62.
- 13 A copy of this cable appeared in The Hindustan Times of April 16, 1940 and is reproduced in The Essential Writings of Mahatma Gandhi by Raghavan Iyer, Oxford University Press, Delhi, p 388.
- 14 Romesh Diwan, 'What Do 1996 Elections Mean?' in Facts for You, July 1996; 'Muslim and British Rule and Hindu Psyche' BJP Toduy, July 1-15, 1996, and 'Meaning of Indian Elections', News-India Times, May 24, 1996.
- 15 It is reported in India Today of June 30, 1996.
- 16 The Rao government tried to soil BJP's image by implicating its president, L K Advani. As The Times of India poll then suggested, people did not buy it. See Romesh Diwan, 'The Politics of Corruption, BJP Today, Vol 5, No 5, March 1-15 and News-India Times, February 16, 1996, and S Gurumurthy, Hawala: Political Dilemma and the Legal Dimension, Vigil, Madras, 1996.
- 17 M N Roy started far away from Gandhi's position but came to it after a long detour at the end of his life. Mahatma Gandhi: Nonviolent Power in Action by Dennis Dalton, Columbia University, New York.



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#### **INDIAN BRANCHES**

|                                                                        | NCE SHEE<br>T MARCH |                                   |                                       | PROFIT AND LOSS ACCOUNT FOR THE YEA<br>ENDED 31ST MARCH, 1996                             | R                                |
|------------------------------------------------------------------------|---------------------|-----------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------|
|                                                                        | Schedule            | As on<br>31.3.96<br>Rs in 000's   | As on<br>31.3.95<br>Rs in 000's       | ,                                                                                         | Year<br>Ended<br>1.3.95<br>000's |
| CAPITAL &<br>LIABILITIES                                               |                     |                                   |                                       | I. INCOME                                                                                 |                                  |
|                                                                        |                     | }                                 |                                       |                                                                                           | 6,756                            |
| Capital                                                                | 1                   | 156,825                           | 156,825                               | Other income 14 646,613 81                                                                | 5,409                            |
| Reserves and Surplus                                                   | 2                   | 3,199,475                         | 2,846,557                             | TOTAL 4,305,228 4,02                                                                      | 2,165                            |
| Deposits                                                               | 3                   | 23,148,314                        | 24,492,249                            | II. EXPENDITURE                                                                           |                                  |
| Borrowings                                                             | 4                   | 1,241,953                         | 2,697,843                             | II. EXPENDITURE                                                                           |                                  |
| Other Liabilities and                                                  |                     | İ                                 |                                       |                                                                                           | 8,974                            |
| Provisions                                                             | 5                   | 2,495,065                         | 1,753,298                             |                                                                                           | 7,529                            |
| TOTAL                                                                  |                     | 30,241,632                        | 31,946,772                            | Provisions and contingencies 480,691 57                                                   | 7,485                            |
| ASSETS                                                                 |                     |                                   |                                       | TOTAL 3,952,310 3,01                                                                      | 3,988                            |
|                                                                        |                     |                                   |                                       | III. PROFIT/LOSS                                                                          |                                  |
| Cash and balances with                                                 | _                   |                                   |                                       | Net profit for the year 352,918 1,00                                                      | 8,177                            |
| Reserve Bank of India                                                  | 6                   | 3,705,567                         | 5,036,075                             |                                                                                           | 4,268                            |
| Balances with banks                                                    |                     |                                   |                                       | Hedging cost of Remittable                                                                | .,                               |
| and money at call                                                      | _                   |                                   |                                       | Profits to be borne by                                                                    |                                  |
| and short notice                                                       | 7                   | 1,084,830                         | 1                                     | Head Office Nıl (1                                                                        | 1,831)                           |
| Investments                                                            | 8                   | 9,300,931                         | 11,201,488                            | TOTAL 2,438,390 2,30                                                                      | 0,614                            |
| Advances                                                               | 9                   | 13,066,484                        | 12,591,229                            | ·                                                                                         |                                  |
| Fixed Assets                                                           | 10                  | 486,524                           | 386,811                               | IV. APPROPRIATIONS                                                                        |                                  |
| Other Assets                                                           | 11                  | 2,597,296                         | 2,048,702                             | Transfer to Statutory Reserves 70,584 20                                                  | 1,635                            |
| TOTAL                                                                  |                     | 30,241,632                        | 31,946,772                            | Transfer to Capital Reserves 26,309 1. Balance carried over                               | 3,507                            |
| Contingent liabilities                                                 | 12                  | 69,438,105                        | 83,967,361                            | to Balance Sheet 2,341,497 2,08                                                           | 5,472                            |
| •                                                                      | 12                  |                                   |                                       | TOTAL 2,438,390 2,30                                                                      | 0,614                            |
| Bills for collection<br>Notes to Accounts                              | 17                  | 1,067,592                         | 1,529,875                             | Notes to Accounts 17                                                                      | 1                                |
| The schedules referred the Balance Sheet                               | to above            | form an inte                      | egral part of                         | The schedules referred to above form an integral p the Profit and Loss Account            | art of                           |
| As per our report of even date attached                                |                     | Signatures to l<br>nd schedules l |                                       | As per our report of Signatures to Profit and Loss Aceven date attached and schedules 13  |                                  |
| For and on behalf of<br>Kalyaniwalla & Mistry<br>Chartered Accountants | For a               | American Exp                      |                                       | For and on behalf of Kalyanıwalla & Mistry For American Express Bar Chartered Accountants |                                  |
| Sd/-<br>V. R. Mehta<br>Partner                                         |                     |                                   | Sd/-<br>ames Vaughn<br>aief Executive | Sd/- V. R. Mehta James V Partner Chief Exe                                                | -                                |
| Mumbai<br>Date: August 26, 1996                                        |                     | Date: Au                          | Mumbai<br>gust 26, 1996               | Mumbai M<br>Date: August 26, 1996 Date: August 26                                         | umbai<br>, 1996                  |



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#### **INDIAN BRANCHES**

### SCHEDULES FORMING PART OF THE BALANCE SHEET AS ON 31ST MARCH, 1996

|                                                                                                                                                                                                                                      | As on<br>31.3.96<br>Rs in 000's | As on<br>31.3.95<br>Rs in 000's         |                                                                                                                                                                                                                                                  | As on<br>31,3.96<br>Rs in 000's    | As on<br>31.3.95<br>Rs in 000's    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| SCHEDULE 1—CAPITAL                                                                                                                                                                                                                   |                                 |                                         | SCHEDULE 3—DEPOSITS                                                                                                                                                                                                                              |                                    |                                    |
| For Banks Incorporated     Outside India                                                                                                                                                                                             |                                 |                                         | A I. Demand Deposits i) From Banks ii) From Others                                                                                                                                                                                               | 136,067<br>2,910,965               | 250,710<br>3,495,091               |
| Capital                                                                                                                                                                                                                              |                                 |                                         | II Savings Bank Deposits                                                                                                                                                                                                                         | 947,292                            | 920,931                            |
| i) Amount of deposit kept<br>with the Reserve Bank of<br>India under Section 11(2)                                                                                                                                                   |                                 |                                         | III Term Deposits  1) From Banks  ii) From Others  TOTAL (I, II & III)                                                                                                                                                                           | 79,127<br>19,074,863<br>23,148,314 | 82,361<br>19,743,156<br>24,492,249 |
| of the Banking Regulation<br>Act, 1949                                                                                                                                                                                               | 900,000                         | 500,000                                 |                                                                                                                                                                                                                                                  |                                    |                                    |
| ii) Amount brought in by the                                                                                                                                                                                                         |                                 | *************************************** | B I. Deposits of Branches in India II. Deposits of Branches outside                                                                                                                                                                              | 23,148,314                         | 24,492,249                         |
| bank by way of capital                                                                                                                                                                                                               | 156,825                         | 156,825                                 | India                                                                                                                                                                                                                                            | Nil                                | Nil                                |
| TOTAL                                                                                                                                                                                                                                | 156,825                         | 156,825                                 | TOTAL                                                                                                                                                                                                                                            | 23,148,314                         | 24,492,249                         |
|                                                                                                                                                                                                                                      |                                 |                                         | SCHEDULE 4—BORROWINGS                                                                                                                                                                                                                            | ſ                                  |                                    |
| SCHEDULE 2—RESERVES<br>AND SURPLUS                                                                                                                                                                                                   |                                 |                                         | I. Borrowings in India i) Reserve Bank of India ii) Other banks                                                                                                                                                                                  | Nil<br>359,450                     | 239,584<br>813,730                 |
| I. Statutory Reserves Opening Balance                                                                                                                                                                                                | 633,639                         | 432,004                                 | iii) Other institutions and                                                                                                                                                                                                                      | l                                  | 1                                  |
| Additions during the year                                                                                                                                                                                                            | 70,584                          | 201,635                                 | agencies  II. Berrowings outside India                                                                                                                                                                                                           | 8,381<br>874,122                   | 373,914<br>1,270,615               |
| II. Capital Reserve<br>Opening Balance                                                                                                                                                                                               | 13,507                          | Nil                                     | TOTAL (I & II)                                                                                                                                                                                                                                   | 1,241,953                          | 2,697,843                          |
| Additions during the year                                                                                                                                                                                                            | 26,309                          | 13,507                                  | Secured borrowings included in I & II above                                                                                                                                                                                                      | Nil                                | Nil                                |
| III. Capital Asset Reserve* Opening Balance                                                                                                                                                                                          | 39,888                          | 39,888                                  | SCHEDULE 5—OTHER<br>LIABILITIES AND                                                                                                                                                                                                              |                                    |                                    |
| IV. Property Revaluation Reserve<br>Opening Balance                                                                                                                                                                                  | 74,051                          | 74,051                                  | PROVISIONS  I. Bills payable                                                                                                                                                                                                                     | 286,790                            | 271,805                            |
| V. Balance in Profit & Loss                                                                                                                                                                                                          | 2,341,497                       | 2,085,472                               | II. Inter-office adjustments (net)                                                                                                                                                                                                               | 159,250<br>1,307,618               | Nil<br>1,069,391                   |
| TOTAL (I, II, III, IV & V)                                                                                                                                                                                                           | 3,199,475                       | 2,846,557                               | IV. Others (including                                                                                                                                                                                                                            |                                    |                                    |
|                                                                                                                                                                                                                                      | ,                               |                                         | provisions)**  TOTAL                                                                                                                                                                                                                             | 741,407<br>2,495,065               | 412,104<br>1,753,298               |
| * This represents the profits retained in India and invested in the purchase of premises or long term leases thereof before March 31st, 1993. This reserve is not repatriable so long as the bank continues doing business in India. |                                 |                                         | ** Including (1) Rs. I thousand (previous year Rs. I thousand) due to Amexco Nominees Pvt. Ltd., a subsidiary.; (11) Rs. 234,563 thousand (previous year Rs. 497,021 thousand) pertaining to Travel Related Services Division – Net Liabilities. |                                    |                                    |



(INCORPORATED IN THE U.S.A. WITH LIMITED LIABILITY)

#### **INDIAN BRANCHES**

|                                             | As on<br>31.3.96<br>Rs in 000's | As on<br>31.3.95<br>Rs in 000's |                                            | As on<br>31.3.96<br>Rs in 000's        | As or<br>31.3.99<br>Rs in 000'          |
|---------------------------------------------|---------------------------------|---------------------------------|--------------------------------------------|----------------------------------------|-----------------------------------------|
| SCHEDULES 6—CASHAND<br>BALANCE WITH RESERVE |                                 |                                 | SCHEDULE 8—INVESTMENTS                     |                                        |                                         |
| BANK OF INDIA                               |                                 |                                 | I. Investments in India in:                |                                        |                                         |
| I. Cash in Hand                             |                                 |                                 | i) Government Securities                   | 7,463,922                              | 7,658,95                                |
| (Including foreign currency                 |                                 |                                 | ii) Other Approved Securities              | Nil                                    | Ni                                      |
| notes)                                      | 26,683                          | 25,055                          | iii) Shares                                | 28,431                                 | 28,43                                   |
|                                             |                                 |                                 | iv) Debentures & Bonds                     | 1,318,168                              | 3,270,70                                |
| II. Balances with Reserve Bank of India     |                                 | Ì                               | v) Subsidiaries and/or joint ventures      | Nil                                    | Ni                                      |
| i) In current account                       | 3,678,884                       | 5.011.020                       | vi) Others (to be specified)               | 1411                                   | 1                                       |
| ii) In other accounts                       | Nil                             | Nil                             | Units of Unit Trust                        |                                        | i                                       |
| 707AL (LA II)                               | 2 205 642                       | 5.024.035                       | of India                                   | 1,184                                  | 1,184                                   |
| TOTAL (I & II)                              | 3,705,567                       | 5,036,075                       | Commercial Paper                           | 19,060                                 | 242,20                                  |
|                                             |                                 |                                 | Certificate of Deposits                    | 470,166                                | Ni                                      |
|                                             |                                 |                                 | TOTAL                                      | 9,300,931                              | 11,201,48                               |
| CHEDULE 7—BALANCES                          |                                 |                                 |                                            |                                        |                                         |
| WITH BANKS AND                              |                                 |                                 | II. Investments outside India              | Nil                                    | Ni                                      |
| MONEY AT CALL AND<br>SHORT NOTICE           |                                 |                                 |                                            |                                        |                                         |
| MORI NOTICE                                 |                                 |                                 | GRAND TOTAL (I & II)                       | 9,300,931                              | 11,201,48                               |
| I. In India                                 |                                 |                                 |                                            | THE STATE OF STATE STATES AND A STATES |                                         |
| i) Balances with Banks                      |                                 |                                 |                                            |                                        |                                         |
| a) In current accounts                      | 276,733                         | 228,257                         |                                            |                                        |                                         |
| b) In other deposit                         |                                 |                                 | SCHEDULE O ADVANCES                        |                                        |                                         |
| accounts                                    | Nil                             | Nil                             | SCHEDULE 9—ADVANCES                        |                                        |                                         |
| ii) Money at call and short                 |                                 |                                 | A i) Bills purchased and discounted        | 581,605                                | 1,080,300                               |
| notice a) With banks                        | Nil                             | Nil                             | ii) Cash credits, overdrafts               | 201,100                                | 1,000,30                                |
| b) With other institutions                  | Nil                             | Nil                             | and loans repayable                        |                                        |                                         |
| · · · · · · · · · · · · · · · · · · ·       |                                 |                                 | on demand #                                | 11,213,197                             |                                         |
| TOTAL (i & ii)                              | 276,733                         | 228,257                         | iii) Term loans                            | 1,271,682                              | 938,822                                 |
| II. Outside India                           |                                 |                                 | TOTAL                                      | 13,066,484                             | 12,591,229                              |
| i) In current accounts                      | 427,687                         | 176,689                         |                                            |                                        |                                         |
| ii) In other deposit accounts               | Nil                             | Vil                             | B i) Secured by tangible assets            | 9,248,066                              | 7,169,069                               |
| iii) Money at call and short                |                                 |                                 |                                            | 7,2-70,000                             | 7,105,00                                |
| notice                                      | 380,410                         | 277,521                         | ii) Covered by Bank/ Government Guarantees | 779,500                                | 376,907                                 |
| TOTAL (ı, ii & iii)                         | 808,097                         | 454,210                         | iii) Unsecured                             | 3,038,918                              | 5,045,253                               |
| GRAND TOTAL (I & II)                        | 1,084,830                       | 682,467                         | TOTAL                                      | 13,066,484                             | 12,591,229                              |
| URAND IUIAL(ICIII)                          | 1.004.0JU                       | U04.40/                         | 1 10100                                    | ************************************** | : ル・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・・ |



(INCORPORATED IN THE U.S.A. WITH LIMITED LIABILITY)

#### INDIAN BRANCHES .

|                                                                                                                                                                                                                                                                                                                                                                                                                                          | As on<br>31.3 96<br>Rs in 000's                                                | As on<br>31.3.95<br>Rs in 000's             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | As on<br>31.3.96<br>Rs in 000's                            | As on<br>31.3.95<br>Rs in 000's                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------------------------------|
| C I. Advances in India                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                |                                             | SCHEDULE 11—OTHER ASSETS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                            |                                                                      |
| I) Priority Sector ii) Public Sector iii) Banks iv) Others  TOTAL  II. Advances outside India  TOTAL (C I & II) # Including Rs. 288,504 thousand (previous year Rs. 290,817 thousand) pertaining to American Express (India) Pvt., Ltd., as subsidiary of American Express Company Inc., the holding company of the Bank.  SCHEDULE 10—FIXED ASSETS  I Premises At cost as on 31st March of the preceding year Additions during the year | 2,365,243<br>193,917<br>1,295<br>10,506,029<br>13,066,484<br>Nil<br>13,066,484 | 2,403,447<br>Nil<br>1,506<br>10,186,276<br> | I. Inter-office adjustments (net) II. Interest accrued III. Tax paid in advance/tax deducted at source (net of provisions) IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims VI. Others*  TOTAL  * Including Rs 500,000 thousand deposit with Small Industries Development Bank of India (previous year Rs. 500,000 thousand).  * Including Rs. 541,159 thousand, (previous year Rs. 457,463 thousand) pertaining to Travel Related Services Division— Net Assets.  * Including Rs. I thousand, (previous year Rs. I thousand) in Amexco Nominees Pvt. Ltd, a subsidiary.  SCHEDULE 12—CONTINGENT | Nil<br>673,694<br>411,049<br>Nil<br>1,512,553<br>2,597,296 | 84,590<br>566,608<br>122,677<br>Nil<br>Nil<br>1,274,827<br>2,048,702 |
| Deductions during the year<br>Revaluation during the year<br>Depreciation to date                                                                                                                                                                                                                                                                                                                                                        | Nil<br>Nil<br>(14,071)                                                         | (367)<br>Nil<br>(6,257)                     | I. Claims against the bank not acknowledged as debts  II. Liability for partly paid                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 3,558                                                      | 5,146                                                                |
| TOTAL                                                                                                                                                                                                                                                                                                                                                                                                                                    | 252,164                                                                        | 173,625                                     | investments III. Liability on account of                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Nil                                                        | 62,500                                                               |
| II Other Fixed Assets (including furniture & fixtures)                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                |                                             | outstanding forward exchange contract:  IV. Guarantees given on behalf of constituents                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 62,893,975                                                 | 78,176,831                                                           |
| At cost as on 31st March of                                                                                                                                                                                                                                                                                                                                                                                                              | 282 774                                                                        | 234,217                                     | a) In India                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 2,154,222                                                  | 2,494,925                                                            |
| the preceding year Additions during the year Deductions during                                                                                                                                                                                                                                                                                                                                                                           | 282,774<br>78,786                                                              | 87,960                                      | b) Outside India                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 258,002                                                    | 189,727                                                              |
| the year  Depreciation to date                                                                                                                                                                                                                                                                                                                                                                                                           | (24,372)<br>(102,828)                                                          | (39,403)<br>(69,588)                        | V. Acceptances, endorsements and other obligations  VI. Other items for which the bank is contingently liable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 3,231,670<br>896,678                                       | 2,355,557<br>682,675                                                 |
| TOTAL                                                                                                                                                                                                                                                                                                                                                                                                                                    | 234,360                                                                        | 213,186                                     | TOTAL                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 69,438,105                                                 | 83,967,361                                                           |
| GRAND TOTAL (I & II)                                                                                                                                                                                                                                                                                                                                                                                                                     | 486,524                                                                        | 386,811                                     | Bills for collection                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 1,067,592                                                  | 1,529,875                                                            |



(INCORPORATED IN THE U.S.A. WITH LIMITED LIABILITY)

#### **INDIAN BRANCHES**

# SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH. 1996

| YEAR ENDED 31ST MARCH, 1996                                                                                                                                                                                                                                                |                                              |                                             |                                                                                                                                                                                                                                           |                                                       |                                                       |  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|--|
|                                                                                                                                                                                                                                                                            | Year<br>Ended<br>31.3.96<br>Rs in 000's      | Year<br>Ended<br>31.3.95<br>Rs in 000's     |                                                                                                                                                                                                                                           | Year<br>Ended<br>31.3.96<br>Rs in 000's               | Year<br>Ended<br>31.3.95<br>Rs in 000's               |  |
| SCHEDULE 13—INTEREST EARNED  I. Interest/discount on advances/bills # II. Income on investments III. Interest on balances with the Reserve Bank of India and other inter-bank funds IV. Others #                                                                           | 2,330,532<br>1,082,570<br>138,637<br>106,876 | 1,363,279<br>1,607,879<br>88,722<br>146,876 | SCHEDULE 15—INTEREST EXPENDED  I. Interest on deposits II. Interest on Reserve Bank of India/inter-bank borrowings III. Others*  TOTAL * Interest 'Others' includes interest                                                              | 1,674,683<br>247,490<br>598,073<br>2,520,246          | 1,362,199<br>159,760<br>37,015<br>1,558,974           |  |
| "#" includes Rs. 57.295 thousand (previous year Rs.11,712 thousand) interest received from American Express (India) Pvt. Ltd., a subsidiary of American Express Company Inc., the holding company of the Bank.                                                             | 3,658,615                                    | 3,206,756                                   | refund and other payments to Reserve Bank of India (RBI) aggregating to Rs. 307,528 thousand against RBI's demand relating to maintenance of Statutory Liquidity Ratio and Cash Reserve requirements.  SCHEDULE 16—OPERATING EXPENSES     |                                                       |                                                       |  |
| SCHEDULE 14—OTHER INCOME  1. Commission, exchange and brokerage                                                                                                                                                                                                            | 488,828                                      | 355,943                                     | <ul> <li>I. Payments to and provisions for employees</li> <li>II. Rent, taxes and lighting</li> <li>III. Printing and stationery</li> <li>IV. Advertisement and publicity</li> <li>V. Depreciation on bank's property</li> </ul>          | 314,104<br>86,685<br>30,968<br>48,700<br>68,644       | 231,383<br>77,571<br>26,387<br>34,850<br>59,027       |  |
| II. Profit/(loss) on sale of investments (Net)  III. Profit/(loss) on revaluation of investments (Net)  IV. Profit/(loss) on sale of land building and other assets (Net)  V. Profit on exchange transactions (Net)  VI. Income earned by way of dividends etc from subsi- | 49,488<br>(106,715)<br>(3,033)<br>212,284    | 360,422<br>(56,349)<br>(17,200)<br>163,924  | VI. Directors' fees, allowances and expenses  VII. Auditors' fees and other expenses (including branch auditors)  VIII. Law charges  IX. Postage, telegram, telephones etc.  X. Repairs and maintenance  XI. Insurance  XII. Interest Tax | 700<br>1,531<br>117,579<br>33,412<br>11,538<br>76,098 | 700<br>1,124<br>127,252<br>35,344<br>13,824<br>74,274 |  |
| diaries/companies and/or joint ventures abroad/in India VII. Miscellaneous income TOTAL                                                                                                                                                                                    | Nil<br>5,761<br>646,613                      | Nil<br>8,669<br>815,409                     | XIII. Outside Data Processing XIV. Travelling Expenses XV. Other Expenditure  TOTAL                                                                                                                                                       | 9,641<br>49,968<br>101,671<br>951,373                 | 8,346<br>70,231<br>117,109<br>877,529                 |  |



(INCORPORATED IN THE U.S.A. WITH LIMITED LIABILITY)

#### **INDIAN BRANCHES**

#### SCHEDULE 17—NOTES TO ACCOUNTS

#### 1. PRINCIPAL ACCOUNTING POLICIES

#### 1.1 General

The accompanying financial statements have been prepared according to the historical cost convention, except premises of the bank which have been stated at revalued amounts. They conform to generally accepted accounting principles and to the practices prevailing within the banking industry in India.

#### 1.2 Foreign Currency

- a) Assets and Liabilities in foreign currencies, except deposits from Non-Residents held under Foreign Currency Non Resident (A) and (Banks) schemes, are translated into Indian Rupees at the rates notified by FEDAI as at the balance sheet date. Resultant gains or losses are taken to the profit and loss account. Transactions during the year are converted into Indian Rupees at the rates current on the date of the transaction. The balances held under Foreign Currency Non Resident (A) Deposits scheme are valued at the rates specified by the Reserve Bank of India from time to time, whereas, balances held under Foreign Currency Non Resident (Banks) Deposits scheme are stated at the rates at which they were originally sold, with the costs of forward exchange cover for such deposits being spread over the period of the contracts.
- b) Outstanding Forward Exchange Contracts as at the balance sheet date are revalued at the rates notified by FEDAI for specified maturities and at extrapolated FEDAI rates for longer maturities. The resulting profits/losses are included in the profit and loss account
- c) Contingent liabilities in respect of Forward Contracts are stated at contracted rates where available, and at extrapolated FEDAI rates as above, in other cases.

#### 1.3 Investments

a) Investments in Government and Approved Securities:

Permanent Investments:

Permanent Investments are valued at cost of acquisition, adjusted for the premium which is amortised over the residual period to its maturity. Profit on sale/redemption of permanent investments is transferred to capital reserve, whreas the loss is charged to profit and loss account.

Current Investments:

Current Investments except Treasury bills are valued at lower of cost of acquisition and market value. Treasury bills are valued at carrying cost which includes discount accrued over the residual period to its maturity.

b) Other Investments

These are valued at lower of cost and market value. Commercial Paper and Certificates of Deposits are valued at carrying cost which includes discount accrued over the residual period to its maturity.

c) Market Value

The market value in case of securities for which quotes are not available has been determined on the Yield To Maturity(YTM) method in accordance with the yield pattern determined by the Reserve Bank of India. Losses on revaluation of investments are charged to the profit and loss account, whereas profits on revaluation are ignored.

#### 1.4 Fixed Assets

All fixed assets except premises are stated at historical cost less accumulated depreciation. Premises, have been revalued on 31st March, 1993, and are stated at the values as determined by the firm of valuers, less accumulated depreciation. The surplus arising on revaluation has been credited to Property Revaluation Reserve Account.

#### 1.5 Depreciation

Depreciation on the fixed assets of the Bank is provided on the straight line method and on those of Travel Related Services (TRS) division, on the written down value method. The rates of depreciation are as prescribed by Schedule XIV to the Companies Act, 1956, except for Furniture & Fixtures of the Bank, and Improvements to Premises, where higher rates have been adopted in accordance with the estimated useful economic lives. Depreciation on revalued assets is provided for on the revalued amounts and charged to profit and loss account.

#### 1.6 Advances

Advances are stated net of loan loss provisions in respect of identified advances and provision for doubtful interest. Provision for loan losses is made in respect of identified advances based on a periodic review as per the Bank's policy which also satisfies the provisioning guidelines issued by the Reserve Bank of India.

1.7 Income Recognition

Interest income is recognised on an accrual basis except in case of non-performing advances, where it is taken to profit and loss account on realisation.

1.8 Retirement Benefits

Provisions for gratuity, pension and retirement leave encashment benefits to staff have been made on the basis of actuarial assessments.

1.9 Provision for Taxation

Provision for taxation has been made based on the 'liability method' of accounting which is generally followed in India.



(INCORPORATED IN THE U.S.A. WITH LIMITED LIABILITY)

#### INDIAN BRANCHES

#### 1.10 Net Profit

The net profit disclosed in the Profit and Loss Account is after:-

- a) the effect of revaluation of "investments" (see paragraph 1.3 above)
- b) provisions for loan losses (see paragraph 1.6 above).
- c) provision for taxes on income in accordance with statutory requirements.
- d) other usual and necessary provisions.
- 2. In accordance with the instructions received from the Reserve Bank of India, the assets and liabilities related to, and as appearing in the books of, the Travel Related Services Division, after adjusting the accumulated loss, have been shown under "Other Assets" and "Other Liabilities".
- 3. The Foreign Exchange Dealers' Association of India guidelines on conversion of foreign currency balances, forward exchange contracts, etc., which are approved by the Reserve Bank of India, are mandatory and hence these have been followed in preference to Accounting Standard 11—"Accounting for the effect of changes in foreign exchange rates" issued by The Institute of Chartered Accountants of India.
- 4. The Capital to Risk Asset Ratio as at March 31, 1996, as assessed by the Bank, on the basis of the guidelines issued by the Reserve Bank of India, is 8.98%.
- 5. All balances with other overseas branches of the Bank and the Head Office have been grouped in the appropriate heads of account.
- 6. Figures for the previous year have been regrouped and reclassified wherever necessary.

# AUDITORS' REPORT ON THE ACCOUNTS OF THE INDIAN BRANCHES OF AMERICAN EXPRESS BANK LIMITED UNDER SECTION 30 OF THE BANKING REGULATION ACT, 1949

We have audited the attached Balance Sheet of the Indian Branches of American Express Bank Ltd. (Incorporated in the U.S.A. with limited liability) as at 31st March, 1996 and the related Profit and Loss Account for the year ended on that date annexed thereto, in which are incorporated the transactions of the Office of the Chief Executive Officer and the transactions of Travel Related Services Division in India.

In accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with the provisions of Sub Section (1), (2) and (5) of Section 211 and Sub Section (5) of Section 227 of the Companied Act, 1956, the Balance Sheet and Profit and Loss Account together with the mores thereon, are not required to be and are not drawn up in accordance with Schedule VI of the Companies Act, 1956. The accounts are therefore, drawn up in conformity with Forms A and B of the Third Schedule of the Banking Regulation Act, 1949.

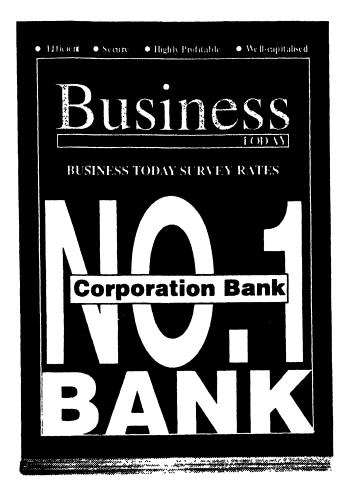
#### We report that:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, and have found them to be satisfactory.
- b) In our opinion, proper books of account as required by law have been kept by the Indian Branches of the Bank so far as appears from our examination of those books.
- c) The Balance Sheet and Profit and Loss Account of the Indian Branches of the Bank dealt with by this report are in agreement with the books of account.
- d) The foward exchange contracts have been revalued at the year end in accordance with Accounting Policy 1.2 in Schedule 17 and the resultant gains or losses have been recognised in the profit and loss account in line with the Foreign Exchange Dealers' Association of India guidelines. This policy is not in accordance with Accounting Standard 11 "Accounting for the effect of changes in foreign exchange rates" issued by the Institute of Chartered Accountants of India. The impact of such deviation is not quantified.
- e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes thereon, give the information required by the Companies Act, 1956, in the manner so required for Banking Companies, and subject to para 'd' above, give a true and fair view of the state of affairs of the Indian Branches of the Bank as at 31st March, 1996 and its profit for the year ended on that date.

For and on behalf of KALYANIWALLA & MISTRY Chartered Accountants

Sd/-Viraf R. Mehta Partner

Mumbai: August 26, 1996



Just in case you missed reading the May 7-21 issue, we thought we'll bring it your notice that the Business Today Survey rates us
No.1 among all Indian Banks.

At Corporation Bank, we believe good enough is not enough and it is reflected in our performance. As a pro-active, efficient, customer-oriented organisation, we've moved up from the 1993-94 position of No 3 to the No 1 position among all Indian banks in 1994-95. Thanks to our dedicated employees and to the unflinching loyalty of millions of customers, this marks the beginning of a new journey.



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FEATURES ◆ Minimum investment of Rs. 1500 and in multiples of Rs. 500 thereafter. No upper limit. ◆ Any individual, state govt., central govt., trust, society, corporate body can invest for a girl child of up to 5 years of age. ◆ Investment of Rs. 1500 made at birth of child may become Rs. 21,000 in 20 years. Quantum of growth depends on age at entry. ◆ Date of maturity will be calculated from the date of acceptance of the application. ◆ Bonus dividend may be declared periodically and will be payable on maturity.



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## Secularism and the Hindu Right

The recent series of Supreme Court judgments in cases against elected representatives of the Shiv Sena-BJP government in Maharashtra has delivered a mixed message. While finding several of the accused guilty of corrupt electoral practices, the court has given legal sanction to the Hindu right's ideology of hindutva as well as to its discursive strategy of hijacking secularism for its own unsecular agenda. An examination of the Supreme Court's decisions in detail and how it has erred in failing to take into account the political context in which the concepts of Hindutva and secularism have been evolved by the right.

## **Budget 1996-97**

The share of capital expenditure in total government spending has been slipping and the tax reforms have failed to improve the income elasticity of the tax system. In order to keep the economy on a high growth path direct measures to boost savings and public investment are required, both of which call for a new thrust to economic policy management that is missing in the 1996-97 Budget.

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Though many concessions have been given in the 1996-97 Budget to the private sector (including foreign capital), investment and especially the inflow of foreign capital remain uncertain. Even to maintain the current level of investment more and more concessions may be needed. This creates inequity and problems for resource mobilisation which worsen the budgetary position leading to further slowing down of public investment and impairment of the government's capacity to fight poverty. Market-based solutions to increase investment activity also cause economic fluctuations to increase, resulting in a premium on speculative activity.

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#### **Quick Decline**

Popular discontent over the performance of the Deve Gowda government is gathering rapid momentum. The UP election may well turn out to be catalyst to precipitate a crisis.

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#### Pacification of Kashmir

Armed militancy may have been contained in Kashmir for the time being and a brutalised population compelled to seek temporary relief. Yet, neither have the people given up their aspirations to be 'azad' nor will the assembly elections provide a democratic solution to the problem.

2585

The Srinagar-Leh or the Srinagar-Jammu relationship is not any more equal than the Delhi-Srinagar relationship. That is a neglected aspect of the politics of Kashmir.

2583

#### Master Race

The Zionist state of Israel has been one of the world's most adept practitioners of ethnic cleansing. 2592

#### **Pre-empting Protest**

Data on the effects of unemployment, underemployment and low paid employment in the US reveal a strong tendency for the downwardly mobile to direct their anger inward. This behaviour is aided by the major political parties, the mass media and academic publicists who point to the inevitability of globalisation, the virtues of market competitiveness and nced for labour flexibility - all of which presents the problem of the individual victim as the product of impersonal forces beyond her/ 2594 his control.

#### Article 356 Rides Again

The imposition of president's rule in Gujarat emphasises once again the urgent need for either scrapping or at least drastically modifying Article 356 of the Constitution. 2588

#### **Targeting Immigrants**

Recent legislative moves in the US indicate that immigrants are increasingly becoming the scapegoats of choice for politicians in Washington. 2590

## LETTERS TO EDITOR

## 'Overestimating' Saving

IN indulging in the familiar sport of RBIbashing through your edit 'Overestimating Saving' (June 15), you gave a misleading picture to your readers that the methodology followed by the Reserve Bank of India (RBI) while presenting the household saving in terms of bank deposits for 1994-95 was a deviation from the past procedure and that, as a result, there was an overestimation of saving. The argument implied in the edit is that differences in scheduled commercial bank deposits as between the last days of March (i e, March 31) should be taken, and the household sector's holdings of such deposits be worked out on the basis of survey results. The RBI did exactly follow this procedure till 1987-88. But in 1988-89, the procedure was changed and the differences in the deposits as recorded on the last reporting Fridays (LRFs) of March were taken for working out the household sector's holdings of deposits. This was done because data available as of LRF were found to be more reliable. This was first effected in the Reserve Bank's Annual Report for 1988-89. Since 1988-89 the methodological procedure implied in this switchover to LRF was followed without any deviation. Had the editor consulted the director of the EPW Research Foundation, who was himself associated actively with the said Annual Report and subsequently with the area of household sector's saving in financial assets till his voluntary withdrawal from the RBI, the readers would have been spared the misperceptions that your edit has created.

Let us be clear about the fundamental issue here. The EPW edit implies that the methodology followed by the RBI for 1994 95 is deliberate when it argues that the RBI has shifted from the ideal methodology (of taking March 31 data as the basis) in respect of 1994-95, which has 27 reporting periods The EPW forgets to inform the readers that the RBI has been following the methodology based on LRF data for several years. Pray, why? It in fact feigns ignorance of this switchover. One can well question the LRFbased methodology but that is not the point that EPW edit is labouring. Having shifted to the LRF-based methodology, what could any one possibly do, if the LRF happens to be March 31 and the financial year has 27 reporting Fridays? If March 31, 1995 is not taken because of the year-end bulge of deposits and c edit, and instead the data of March 17, 1995 are considered, how will one treat the period March 17 and March 31, 1995? Will it be considered as part of 1995-96, in which case one will get 27 reporting periods

in 1995-96. Going by the present methodology, the household sector's financial saving rate would decline in 1995-96 in view of the high base, but this does not mean that the outcome in 1995-96 could be attributed to the estimation of 1994-95, as implicit in the *EPW*'s edit. All this is not to say that the present methodology should be continued for ever. The LRF-based methodology was followed for seven years till 1994-95 and *EPW* has not raised a whiff of an opposition to it. Why, this sudden awakening?

A VASUDEVAN

#### Mumbai

[The Reserve Bank is, of course, not to be blamed that its estimate of household saving in the form of bank deposits in 1994-95 covered 27 fortnights instead of the usual 26 What it can be charged with, as it was in our editorial, is failing to make explicit that its data grossly exaggerated household saving in the form of bank deposits in 1994-95 compared to the previous year both because of the period covered comprising 27 fortnights and because of the March 31 bulge in bank deposits on account of window-dressing by commercial banks and other factors. -Ed]

## **Collapse of Left**

MY heart too sank like Aijaz Ahmed's ('In The Eye of the Storm: The Left Chooses', June 1) as news came that the CPI(M) was about to join the government! A dwarfed dignity and a complete collapse of the Left movement: Communalism, in other words

BJP, is not the main problem. Gruesome soulless poverty, unemployment, exploitation — in other words bourgeois social economy is the fundamental and urgent question. And the matter brooks no delay — with one caution, haste is no speed.

As a Muslim from U P with the heart-rending experience of Karachi Ahmed should have understood it better. BJP does not represent 'Hindutva' nor the general interests of the Hindus, but upper-caste class interests. Ordinary, middle class people are afraid of 'anarchy', but do not at all want the stability of the existing inhuman social order. The conscious and the advanced sections have come to understand that 'When order is disorder, disorder is the beginning of justice'. For the poor illiterate people of India, class struggle alone is the university.

It seems Aijaz Ahmed has a predilection for a broad sweep of thought, or not so much of thought as of the pen. He confuses primary and secondary issues. And I am reminded of A H Chough's poem.

I do not like being moved: for the will is excited:

and action

Is a most dangerous thing; I tremble for something factitious,

Some malpractice of heart and illegitimate process;

We're so prone to these things, with our terrible notions of duty.

Of all the people under heaven's high cope They are most hopeless who had once most hope,

The most beliefless who had most believed.

PROBODII CHANDRA DUTTA

Calcutta

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# **BOP Blues**

F the assessment of the Reserve Bank of India's Annual Report, 1995-96 is to be believed, the country's external sector situation has never been so good in terms of both the current trends and the prospective outlook. But the RBI is clearly over-anxious to prove the success of the government's stabilisation and structural adjustment policies. Last year, even before the ink had dried on the RBI's Annual Report proclaiming the remarkable stability of the rupee, in turn supposedly reflecting the fundamental strength of the country's balance of payments, there was a precipitate fall in the value of the rupee. Again, when the RBI positioned itself against market intervention on the argument that the exchange rate should reflect market forces, the turbulence in the exchange market got worse and the rupee touched Rs 37.94 per dollar in early February, bringing the RBI under pressure to intervene in the market, which it did in a variety of ways, though it now claims that these were no more than "tactical interventions consistent with the fundamentals".

On the surface, the BOP waters seem calm enough just now Foreign currency assets (including SDRs) did suffer a loss of \$ 3,690 mn in 1995-96 from \$ 20,816 mn to \$ 17,126 mn due to rapid import growth and the play of expectational factors encouraged by the RBI's initial stance of non-interference in the market which resulted in holding back of receipts and hastening of payments leading to, what the RBI now calls, a "free fall" of the rupee both in the spot and forward markets The RBI's forced exchange market operations resulted in net sales of foreign exchange of \$ 1,682 mn between October 1995 and February 1996. But soon thereafter remittances improved and in the next four months the RBI made net purchases of \$ 2,214 mn. Foreign exchange assets have continued to rise thereafter and as of September 13 they were \$ 18,298 mn, showing a rise of \$ 1,172 mn since the end of March. The exchange rate also has not shown any significant weakness after the February upheaval, ranging between Rs 34 and Rs 35.75 per dollar. In trade-weighted terms, while the nominal exchange rate at 39.17 (base 1985=100) was 12.8 percent lower than in March 1993 (when the rupee is claimed to have been in reasonable equilibrium) the effective exchange rate in real terms was 4.9 per cent

But while there may be no cause for anxiety for the present, it would not do to ignore the many latent sources of vulnerability as the authorities seem to be doing. Take the behaviour of the export-import sector this year so far after three years of accelerated growth. In dollar terms, the rate of growth of exports as per DGCI and S data (at \$ 10.837 mn) has slumped to 11.5 per cent in April-July 1996 from 27.7 per cent in the

comparable period last year (at \$ 9,724 mn) and an average growth of about 20 per cent per annum in the past three years. While official agencies remain unshaken in their conviction that a genuine and sustainable uptrend in export growth is firmly in place, it should not be surprising if the moderate growth this year sets the trend for quite a while till a fresh bout of 'export promotion' by the government happens to coincide with an acceleration of world trade growth. Exports had grown by 14 per cent per annum in dollar terms between 1985-86 and 1990-91, suggesting that a certain export potential had been built up. Export growth in the past five-year period, on the other hand, works out to a little less than 12 per cent per annum. The rise of 20 per cent per annum in exports in the last three years occurred in the wake of a significant recovery of world trade, the rate of growth of which rose from a range of 3.8 per cent to 4.8 per cent in the three years 1991-93 to 9 per cent in 1994 and 8.7 per cent in 1995. In the next two years, however, the growth of world trade is expected to decelerate.

There are some fundamental factors in the structure of our economy and in the government's policy framework which come in the way of the economy reaping the benefits of growth of international trade fully and on an enduring basis. Most important, a substantial expansion of the production base for exports cannot take place until the rates of domestic saving and investment go up significantly, of which there is no sign. As a result, shortage of investible funds and, more significantly, the exceptionally high rates of interest are curbing the growth of industrial investment and production. The 12 per cent rise in the index of industrial production in 1995-96 is unlikely to be sustained in 1996-97. Significantly, the sharpest decline in the rate of growth of exports this year has been in industrial goods. During the April-June quarter, exports of agricultural and allied items grew by 66.6 per cent compared with 19.4 per cent in the corresponding period of 1995, but exports of ores and minerals grew by 7.4 per cent against 35.5 per cent and of manufactured goods by 4.6 per cent against 28.9 per cent last year (this of course includes gems and jewellery, exports of which have suffered due to reduced demand in the industrialised countries).

In a situation of reduced export growth, the high import propensity of the economy may turn out to be, as in the past, an important source of external sector instability. No doubt, this year so far (April-July) imports at \$11,920 mn show a slower growth of 6 per cent compared with 39.2 per cent last year, thanks to the 2.4 per cent decline in non-POL imports which is reflective of subdued industrial activity. Once the normal import propensity begins to assert itself, the growth of imports

is unlikely to be as low and the trade deficit is sure to widen.

It needs to be noted in this regard that because of significant data revisions and inconsistencies it is difficult to make an accurate assessment of external sector trends. While there have always been some differences in data on imports and exports. particularly imports, between the DGCI and S and the RBI, these differences have grown very large in the last two years. As per DGCI and S data, total imports in 1995-96 were \$ 36,370 mn showing a rise of 26.9 per cent over the previous year's \$28,654 mn, whereas as per RBI data imports were \$41,405 mn in 1995-96 showing a rise of 30 per cent over \$ 31.840 mn in 1994-95. Thus the RBI figure exceeded the DGCI and S one by as much as \$ 5,035 mn. In the preceding two years too the difference was \$ 3,186 mn in 1994-95 and \$ 1,763 mn in 1993-94. Taking account of differences in exports, which have not been so large, the trade deficit as shown in the RBI's BOP data is found to be twice or near-twice that as per DGCI and S data -\$ 8,938 mn against \$ 4,539 mn in 1995-96. \$ 4,983 nin against \$ 2,324 mn in 1994-95 and \$ 2,386 mn against \$ 1,068 mn in 1993-94. There was a time when these differences were attributed mainly to import of defence equipment and of civilian aircraft, which may have played a role in recent years also During the recent period, exchange rate fluctuations may have tended to exaggerate the valuation differences between the two sources - the RBI using the average exchange rates for a month and DGCI and S the exchange rates as reported by the nunistry of commerce in advance with revisions only once in three months. There are two areas where the import data in the RBI's BOP enjoy alead in payments. First, when imports are made on suppliers' credit or when machinery and equipment imports are made on a cash basis the RBI records as imports the advance payments made for such imports, whereas the DGCI and S records the capital goods only when they actually arrive. Similarly, in the cases of imports under external assistance or those under commercial borrowings, the RBI incorporates them when payments are made and thus takes a lead in recording as compared with the DGCL and S

Major differences in data occur also between the RBI and the ministry of finance. Only a couple of months ago, the new finance minister had indicated in his *Economic Survey 1995-96:* An *Update* that the merchandise deficit was \$ 7,015 mn, but the figure has now been placed by the RBI at nearly \$ 2 bn higher at \$ 8,938 mn. Differences occur in relation to other items as well - for example, not private transfers in 1995-96 are shown at \$ 7,480 mn in the RBI data and at \$ 6,150 mn in government data

Be that as it may, there is no doubt that the pressures on the external sector are slowly building up. Fears about the vulnerability of the external sector stem also from the casual manner in which the government is talking about replacing debt flows with non-debt creating flows, as though the latter impose no cost on the economy. The logic of a liberal policy on foreign capital is to augment resource inflows on the capital account and to expand exports of goods and services on the current account and thus minimise the country's balance of payments constraint. If, given the strategy that India has pursued recently, portfolio investment by FIIs of \$ 10 bn, \$ 4.8 bn of FDI actually received and nearly \$ 20 bn of FDI approved up to May this year do not inspire confidence that the cost of servicing these inflows will be offset by increased export earnings from these investments, there can be little hope of any enduring resolution of the balance of payments constraint on the development process Foreign direct investors have focused overwhelmingly on the domestic market rather than on exports. Foreign direct investment may in the event actually exacerbate the foreign exchange constraint. In the first place, under a liberalised import regime the import content of production of foreign companies would be higher and, if they do not focus on exports, the net outgo on account of imports of goods and services in respect of FDI-based projects will be significant and growing. Second, the servicing cost of both FII investment and FDI, including royalty payments, will be substantially larger than the servicing cost of even commercial borrowings. Payments under 'investment income' in the BOP have already reached \$ 5.5 bn in 1995-96 against \$ 4.1 bn in 1990-91 and \$3.8 bn in 1992-93. This may turn out to be as serious a source of destabilisation of the external sector as an unsustainable level of debt.

WOMEN'S BILL

## **Not History, Surely?**

THE tabling of a bill reserving seats for women in parliament and its relegation to a parliamentary subcommittee for reconsideration are both significant markers in the charting of women's rights in the structures of democratic institutions in the country.

The bill aim, at a constitutional amendment to Article 330 stipulating that "not less than one-third of the total number of seats filled by direct election to the House of the People (Lok Sabha) shall be reserved for women (including the number reserved for SC/ST women) and such seats may be allotted by rotation to different constituencies in a state". A parallel legislation is Article 332A amending the reservation for SC/ST which

provides that of the seats reserved for SC/ST candidates one-third are to be reserved for SC/ST women. If these provisions come into force then there would be a minimum of 18( women in the Lok Sabha against 76 today While the idea has been bandied about for some time, no political party has given in serious consideration. Even the present government's approach has been cautious it has been stressed that the bill after all is ar extension of the provisions in the 73rd and 74th constitutional amendments which provide for reservation of seats for women a the local government level. Having tabled it the UF government refused to ensure its passage by what has appeared to observers as deliberate mismanagement. It was also clear that the bill had not been sufficiently discussed among the members of the ruling front No groundwork seems to have been done before the bill was presented, nor, it has beer suggested, had sufficient care and though gone into the drafting of the bill. In the event the government was persuaded, rather willingly, to refer the bill to a select com mittee before any discussion on it could take place. It is hard to believe that the UF government's parliamentary tacticians had no anticipated just such an outcome. Ir other words, having ensured that a 'historic move had been recorded, the UF governmen let it slip into oblivion, even if temporarily

What has been remarkable is the level o discussion and debate on the bill. Nobody parliamentarians, political parties or ever women's groups by and large, appears to have been prepared for the move. At one level, women parliamentarians have reported the level of the responses in the central hall of parliament. The taunts and the unsubtle sexist remarks that have been made 'ir private' suggest that to political parties and most of their leaders, the issue of women's rights is largely a matter of how much political mileage may be obtained from it without it being allowed to infringe on existing privileges and powers. On the other hand women's groups and activists with their long experience of how the state has been adept a accommodating certain demands withou actually integrating these into the structure of its institutions, have been justifiably cynical about the bill as well as its future course. Interestingly, the experience at the local government level has been quoted by both those for and against the bill. At the panchayat level, while it is a fact that more women have now entered decision-making bodies, in a number of states studies have found that these women are often proxies fo male contestants at the elections.

But the issue clearly needs to be looked a from a long-term perspective. There is no gainsaying that legislating for women's representation in decision-making bodies does not automatically ensure their in

volvement in their functioning, no reven that gender-sensitivity in governance and policymaking will be an inevitable outcome. However, Indian legislative history is full of instances where laws have prompted articulation of needs - in fact that would appear to be more the norm than the exception. The problem with such legislative change has been that they have been more or less deliberately so constructed as to limit the benefits which they profess to provide. The opportunity provided by its detailed consideration by a parliamentary committee must be used to ensure that the bill to provide for reservation for women in parliament is not attenuated in this fashion.

#### **RANCHAYAT RAJ**

#### Kerala's Initiatives

Nirmal Mukarji writes:

KERALA's experience in decentralisation has been of the one-step-forward, two-steps-back variety. Every past government in the state that tried to decentralise somehow fell. This had the effect of making parties on both sides of the political divide nervous about grasping this nettle when in power. In this context the decentralising measures taken by the present government of Kerala in its very first hundred days are noteworthy.

The previous UDF government had taken two retrograde steps. The first was when, soon after coming to power in June 1991, it amended the District Administration Act in such a way as virtually to disempower the district councils that had at long last been elected only a few months earlier at the instance of the predecessor LDF government. The second was when, under the compulsion of the Constitution (73rd Amendment) Act, 1992, it passed a wishy-washy Kerala Panchayat Act, 1994, which did meet the constitutional requirement in letter but utterly failed to do so in spirit. Thus, while it helped to bring elected village, block and district panchayats into existence, it left these 'institutions of self-government' without anything worthwhile to do. In order to remedy this highly unsatisfactory state of affairs, the present government, within six weeks of taking office, set up a committee to suggest how local bodies, both rural and urban, could be enabled to function autonomously in their respective domains. The committee is headed by S B Sen, a former deputy chairman of West Bengal's planning board, who brings with him the wealth of his home state's pioneering experience with panchayats their strengths as well as their weaknesses. The committee's recommendations, expected later this year, cannot but lift Kerala's panchayats and municipalities from the rockbottom level at which they are now.

The other measure that the present government has taken is to reconstitute its planning board, bringing in the noted economist, IS Gulati, as its deputy chairman. The new board has quickly resolved to decentralise the planning process in Kerala, with at least 35-40 per cent of the Ninth Plan to consist of schemes formulated and implemented by the local bodies, i.e. panchayats and municipalities, within their respective areas of responsibility. In order to empower these bodies to undertake this task in a scientific and participatory manner, the idea was conceived of a People's Campaign for the Ninth Plan, and the campaign was formally launched on August 17. There is a high-level Council of Guidance headed by EM S Namboodiripad and composed of leaders of political parties, vice-chancellors of universities, heads of centres of excellence and leaders of mass movements. The Council has a panel of vice-chairmen consisting of the present and former chief ministers, opposition leaders and eminent academicians. What is commendable in this innovative idea is its emphasis on the people as the primary actors. Equally praiseworthy is the effort to involve all political parties. Hopefully, this will minimise the danger of a future government of another political hue backtracking. It is to be hoped that the intended decentralisation is not negated by backdoor re-centralisation, considering that the programme is being run by the state planning board in collaboration with the local administration department, which sounds ominous.

The atmosphere of decentralisation generated by the new government is reflected in a recent decision to encourage panchayats to take up power projects. According to Kerala's minister for power and co-operation, a district panchayat has already come forward to take up a small power project. Also according to him, local functionaries of the state electricity board (KSEB) will be attached to the municipalities and panchayats, where popular committees will review their functioning. The minister has stated that similar committees will be set up to monitor power projects These will have the district collectors, representatives of the people and KSEB officials as members. There lies the rub. Here are committees stiff with collectors and KSEB staff and yet the minister would have us believe that these are popular committees. But let that pass.

On present evidence Kerala seems to be on the way out of the one-step-forward and twosteps-back pattern. For, all the new initiatives so far have been in a forward direction. The question does arise, however, whether they are forward enough Will Kerala be able to break out of the development – only bind that has kept panchayats stunted everywhere all these decades? In his dissenting note to the Asoka Mehta report of the latter 1970s, EM S Namboodiripad had said: "I cannot think of the panchayati raj institutions as anything other than the integral parts of the country's administration with no difference between what are called the 'development' and 'regulatory' functions." This wholistic vision is captured in the phrase 'institutions of self-government' which panchayats and municipalities are now constitutionally required to be. But to quote E M S again: "the ghost of the earlier idea that panchayati raj institutions should be completely divorced from all regulatory functions and made to confine themselves to developmental functions only is haunting [us]." Dare one hope that the S B Sen Committee and the Kerala government will pay heed to these sage words set down 20 years ago by the senior statesman who now heads the Council of Guidance of the People's Campaign for the Ninth Plan? Should, in other words, Kerala not think in terms of a people's campaign for decentralised governance rather than merely for the Ninth Plan? Is it not time to move on from development to selfgovernment?

#### **UTTAR PRADESH**

#### Caste and the 'Kisan'

THE realignment of political parties in Uttar Pradesh on the eve of the elections there suggests an attempt to revive the 'kisan' movement (of rich and middle farmers) that had been lying dormant for quite some time

The mercurial farmer-leader, Mahendra Singh Tikait, after having enjoyed a certain amount of popularity among his caste men in western UP and publicity in the national media some years ago (when his followers besieged New Delhi), had been sulking in obscurity for the last few years. He had been marginalised by other political forces in UP. which since 1989 has seen a succession of governments based on shifting alliances between different parties. The farmers, many among whom had been Tikait's followers, had been dividing their loyalties between Mulayam Singh Yadav's Samajwadi Party (SP) and the Janata Dal. The BJP during its reign in UP from June 1991 to December 1992 had disappointed the farmers by refusing to meet their demands for concessions in electricity rates, among other

Tikait has now struck up an alliance with Ajit Singh, the political chameleon who has been hopping from one party to another, to form a political party called the Bharatiya Kisan Kamgar Party (BKKP) to contest the elections. This suits both leaders. Tikait hopes to revive his declining fortunes among the Jat farmers and Ajit Singh, after his exit from

the Congress, hopes to find a berth in politics through the new party. Tikait's demand for agricultural incentives which stimulates fantasies of a modern rich lifestyle among the farmers and Ajit Singh's evocation of the memories of his father Charan Singh – whose fame as a Jat leader still holds sway among farmers of his clan – are expected to capture the farmers' vote-bank. The BKKP has also tagged itself to the United Front bandwagon in UP, thus hoping to get some support from the OBCs (represented mainly by Mulayam Singh Yadav's SP) among the farming community, primarily the small farmers.

Attheother end of the agricultural spectrum is the Bahujan Samaj Party (BSP) claiming to represent the dalits who form the bulk of the poor peasants and landless labourers. Its leaders, Kanshi Ram and Mayawati, after two rather disastrous bouts of unprincipled alliances — the first with the SP and the second with the BJP — have now tied themselves to the apron strings of the Congress. Here again, both the BSP and the Congress are playing on casteist calculations. While the Congress hopes to rally the Brahmins and upper caste voters (its traditional votebank in UP), the BSP is mobilising its dalit supporters.

These two sets of alliances – the BKKP-UF and the BSP-Congress have been hurriedly knocked up purely to ensure the victory at the polls of their respective candidates. There is no guarantee that the alliances will survive the polls. Once the election results are out, and if none of the alliances gets a majority, a fresh realignmen will follow, with elected MLAs from one alliance walking over to the other in order to form a government and get ministerial berths.

It is obvious that both the alliances are papering overthe basic contradictions among the various segments of the farming community in UP—those between the aspirations of the upwardly mobile rich farmers and of the small-holding farmers; between the interests of these landowning tariners on the one hand and the struggle for sheer survival of the oppressed farm labourers and poor peasants on the other.

The ability of these 'kisan' leaders to continue to thrive on caste loyalties alone and the inability of the class-oriented Left parties to make a dent into the agrarian politics of UP indicate the level of political consciousness among the farming community there. Even after being duped again and again by their leaders – whether a Tikait pursuing his personal ambition or a Charan Singh changing sides to become prime minister – they still cling to their casteist affiliations and remain loyal to these leaders. In this respect the dalits have fared no better. The blatant contradiction between

Mayawati's anti-Manu rhetoric and her alliance with parties like the BJP and the Congress (which she calls 'Manuwadi') in practice either remains totally imperceptible to the dalits or they rationalise such contradictions by asserting the need for caste solidarity.

The farmers and peasants of UP are yet to break out from their traditional caste and clan boundaries, although both are increasingly articulating their respective economic demands and social rights. As a result we find such strange alliances manipulated by their leaders at the top for their personal political interests as that between the Congress-led feudal upper caste gentry and the BSP-led depressed castes who are oppressed economically and socially by the same gentry. What Marx said about the French farmers in the mid-19th century is in many ways applicable to the agricultural community of UP - as well as many other parts of the Hindi heartland; "They cannot represent themselves, they must be represented. Their representative must at the same time appear as their master, as an authority over them, as an unlimited governmental power that protects them against the other classes and sends them rain and sunshine from above."

**GUJARAT** 

## **BJP's Woes**

A correspondent writes:

WHO is to be blamed for pulling down the Bharatiya Janata Party (BJP) government in Gujarat? The BJP is crying foul at the nexus between the United Front Government at the centre, the Congress Party, the governor of Gujarat, Krishna Pal Singh, and the leader of the newly formed Rashtriya Janata Party, Shankersinh Waghela. It can be argued that the on-the-spot recognition given by the deputy speaker Chandubhai Dhabi on September 3 to the splinter group of the BJP and the immediate adjournment of the assembly thereafter, when it had assembled to decide the trust vote on Suresh Mehta's government, was unconstitutional. But the fact remains that ever since Waghela's revolt in October last year against the central leadership of the BJP, and L K Advani in particular, politics in Gujarat was getting murkier and murkier due to the infighting within the BJP, so much so that in the past one month it was difficult to decide whether the state government actually commanded a majority in the assembly

In spite of winning a two-thirds majority in the Gujarat assembly 18 months ago, the central leadership of the BJP committed the mistake of allowing the hardliners of the Sangh parivar to run the state government. Non-Sangh party workers, among whom Shankersinh Waghela and Kashiram Rana were prominent, were sought to be sidelined. The party organisation functioned in an autocratic manner leaving no room for accommodation of the dissidents' view. The Patel lobby, backed by the RSS-VHP, could never digest the humiliation of Keshubhai Patel's resignation from chief ministership as a result of Waghela's revolt. After that Gujarat witnessed politics of vengeance played out in the BJP which culminated in the defeat of Waghela and his supporters in the Lok Sabha elections and the humiliation of senior leader, Atmaram Patel, at a public function by the RSS-VHP lobby. The enthusiastic response to Waghela's rally in Ahmedabad on August 20, after his expulsion from the party, indicated public support for the Waghela faction's claim that it had been unjustly treated by the party leadership.

When Dilip Parikh as leader of the Waghela group requested the governor to give it separate recognition in the assembly claims and counter-claims regarding majority support to the government started to be raised. Soon chief minister Suresh Mehta had to admit that he enjoyed no more than a waferthin majority in the house. Further, by allegedly keeping 16 MLAs incommunicado (they were apparently not allowed to meet even their wives and close family members). making them pledge loyalty to the party in front of Gandhi's statue at Sabarmati and parading them before journalists at a press conference at Gandhinagar, the BJP, instead of strengthening the chief minister's case, gave credence to the view that the most strenuous efforts, including offers of lucrative positions, were being made to keep party MLAs within the fold. Of the 94 MLAs intended to be paraded before the president, 17 were said to have their signatures on the splinter group's list as well. Finally, the violence in the assembly building on September 18 gave the centre the grounds for taking the position that the trust vote in favour of Suresh Mehta could not be considered as a free and fair verdict. All through the crisis, the speaker of the house, H L Patel, could not come to the rescue of the BJP as he was bed-ridden and ultimately passed away on September 17. While the central government's decision to bring the state under president's rule is certainly questionable and goes against the known positions of many of the constituents of the United Front on the use of the centre's powers against state governments in precisely this type of situations, the actions of the BJP central and state leadership over past year and a half largely contributed to the nemesis of the party's government in the state.

Apart from the gentle but persistent rise in the annual inflation rate to near 6 per cent, it is the higher rate of increase than in the preceding 12-month period in the prices of 'food articles' under primary articles as well as 'food products' under manufactures that appears disquietening. Annual inflation as measured by the consumer price index has not shown any significant decline. Thus the slower increase in the prices of manufactured products following incipient recessionary conditions in industry is one of the factors responsible for the continued suppression of the overall inflation rate. Export-import trade growth is experiencing a sizeable deceleration this year, which may also be reflecting the sluggish production activities.

## **Macroeconomic Indicators**

| Macroeconomic in                                       | - Carcan             | U13                    |                                           |                              |                        |                      |                         |                         |                      |                             |                 |                      |
|--------------------------------------------------------|----------------------|------------------------|-------------------------------------------|------------------------------|------------------------|----------------------|-------------------------|-------------------------|----------------------|-----------------------------|-----------------|----------------------|
|                                                        |                      | ights                  | Aug 24, _                                 |                              |                        | V                    | ariation (F             |                         |                      |                             |                 | ****                 |
| Index Numbers of Wholesale                             |                      |                        | 1996                                      | Over                         |                        | 2 Months             |                         |                         | 1995-96              | 1994-95 1                   | 993-94 1        | 992-93               |
| <b>Prices</b> (1981-82 = 100)                          |                      |                        |                                           | Month                        | Latest                 | Previous             | 1996-97                 | 1995-96                 |                      |                             |                 |                      |
| All Commodifies                                        |                      | 100.0                  | 313.1                                     | 0.9                          | 57                     | 8.9                  | 4.3                     | 3 2                     | 49                   | 10.4                        | 10.8            | 7.0                  |
| Primary Articles                                       |                      | 32.3                   | 326.8                                     | 0.7                          | 69                     | 92                   |                         | 3.1                     | 5.7                  | 12.7                        | 11.5            | 3.0                  |
| Food Articles                                          |                      | 17.4                   | 370.4                                     | 0.8                          | 9.0                    |                      |                         | 6.0                     | 97                   | 119                         | 44              | 5.4                  |
| Non-Food Articles Fuel, Power, Light and Lubrica       | ents                 | 10.1<br>10.7           | 333.9<br>324.3                            | 0.6<br>0.6                   | 4.4<br>14.1            |                      | 4.3<br>13.4             | · 2 2<br>·0 1           | 1 L<br>0 I           | 15.5<br>2.4                 | 24 9<br>13 1    | -1.4<br>15.2         |
| Manufactured Products                                  |                      | 57 O                   | 303.2                                     | 1.0                          | 3.4                    | 10 2                 | 1.6                     | 39                      | 54                   | 10.7                        | 99              | 7 9                  |
| Food Products                                          |                      | 10.1                   | 297.9                                     | 3.7                          | 5 2                    |                      | 67                      | 13                      | 0.3                  | 81                          | 12.3            | 6.8                  |
| Food Index (computed) All Commodities (Average Bas     | eie \                | 27.5                   | 343 8                                     | 1.7                          | 7 8                    | 6.8                  | 7.5                     | 51                      | 6.6                  | 106                         | 70              | 5.8                  |
| (April 1-August 24, 1996)                              | *****                | 100.0                  | 292.5                                     |                              | 4.1                    | 11.9                 | 4.8                     | 6.2                     | 77                   | 10.9                        | 8 3             | 10.1                 |
|                                                        |                      |                        | Latest                                    |                              |                        | v                    | ariation (l             | Per Cent)               | Point to P           | ount                        |                 |                      |
| Cost of Living Indices                                 |                      |                        | Month                                     | Over                         | Over 12                |                      |                         |                         |                      | 1994-95 19                  | 03-94 1         | 992-93               |
| Copt of Bridge                                         |                      |                        |                                           | Month                        |                        |                      | 1996-97                 |                         |                      | ,                           |                 |                      |
|                                                        |                      |                        | 220.07                                    |                              |                        |                      |                         |                         |                      |                             |                 |                      |
| Industrial Workers (1982=100)                          | )<br>5—100\*         |                        | 339.0 <sup>7</sup><br>263.0 <sup>10</sup> | 1.8<br>0.8                   | 83<br>96               | 11.4<br>10.1         | 6.3<br>7.8              | 8 J                     | 8.9                  | 9.7<br>9 9                  | 9,9<br>8 3      | 6 I<br>6 8           |
| Urban Non-Man Emp (1984-85<br>Agri Lab (1986-87=100) @ | J LUUJ "             |                        | 252 0 <sup>7</sup>                        | 2.0                          | 72                     | 14.1                 | 63                      | 63                      | 7 2                  | 111                         | 112             | 06                   |
| @ Based on linking fac                                 | tor of 5 8           | 39 betwee              |                                           |                              |                        |                      |                         | 1995 96                 |                      | • • •                       | · · · ·         | - **                 |
|                                                        |                      |                        |                                           |                              |                        | ·····                |                         |                         |                      |                             |                 |                      |
|                                                        |                      | Aug 16                 |                                           |                              | Fisc                   | al Year So           |                         | anation                 | <del></del>          |                             |                 |                      |
| Money and Banking (Rs crore                            | e)*                  | 1996                   |                                           | lonth .                      | 1996-9                 |                      | 995-96                  | 1995                    | .96                  | 1994-95                     | 15              | 93-94                |
|                                                        |                      |                        |                                           |                              |                        |                      |                         |                         |                      |                             |                 | -                    |
| Money Supply (M <sub>3</sub> ) Currency with Public    |                      | 630312<br>123876       |                                           | (0.8)                        | 28476 (4<br>5715 (4    |                      | 178 (2 2)<br>162 (7.4)  | 71034 (<br>17372 (      |                      | 8617 (17.4)<br>8806 (22.9)  |                 | 7 (19,3)<br>0 (20 9) |
| Deposits with Banks                                    |                      | 501095                 |                                           | (1.1)                        | 20760 (4               |                      | 62 (7.4)                | 53702 (                 |                      | 8956 (16.0)                 |                 | 5 (18 7)             |
| Net Bank Credit to Govt                                |                      | 277720                 | -356 (                                    | -0.1)                        | 20310 (7               | 9) 153               | 18 (6.9)                | 34994 (                 | 15.7)                | 16325 (7.9)                 | 2885            | 5 (16 3)             |
| Bank Credit to Comml Sector                            |                      | 339806                 |                                           |                              | 1095 ( 0               |                      | 69 (2.6)                | 51246 (                 |                      | 4991 (18.4)                 |                 | 61 (7.5)             |
| Net Foreign Exchange Assets<br>Reserve Money           |                      | 82431<br>191930        |                                           | (0.8)<br>(2.3) -             | 5274 (6<br>1-) 52401   |                      | 19 (-0 9)<br>158 (4.5)  | 1233<br>25058 (         |                      | .3298 (44.3)<br>0608 (22.1) |                 | (110 9)<br>2 (25.2)  |
| Net RBI Credit to Centre                               |                      |                        | , 4299<br>5 -2821 (                       |                              | -2401 (-1<br>11347 (9  |                      | i6 (14.1)               | 19855 (                 |                      | 2130 (2.2)                  |                 | 60 (0.3)             |
| Ad hoc Treasury Bills                                  |                      | 36300                  |                                           | 9170                         |                        | 355                  | 10400                   |                         | 5965                 | 1750                        |                 | 6300                 |
| Scheduled Commercial Banks                             |                      | 16024                  |                                           | (1.3)                        | 10010 - 4              | 25 20                | 01.01.                  | AE 407 -                | 110                  | 2620 11 11                  | 6014            | 4 / 10 4 5           |
| Deposits<br>Advances                                   |                      | 450364                 | } 5487<br>∣ –2363 (                       | (1.2)                        | 4) 18019<br>1-) 2659-  |                      | (0 (=() 6)<br>(63 (0.5) | 45486 (<br>40540 (      |                      | 3630 (16.1)<br>0638 (23.8)  |                 | 4 (18 6)<br>66 (7.3) |
| Non-Food Advances                                      |                      |                        | -2303 (<br>-1313 (                        |                              | -2039 (-1<br>-3200 (-1 |                      | 8 (-0.5)                | 43024 (                 |                      | 7797 (23 4)                 |                 | 75 (5.8)             |
| Investments                                            |                      | 174211                 | 1874                                      | (1.1)                        | 10070 (6               | (1) 51               | 76 (3.5)                | 14887 (                 | 10 0) 1              | 4172 (10 5)                 | 2864            | 1 (26 9)             |
| * Based on March 31 figures :                          | after clos           | ure of go              | overnmen                                  | t accoun                     | ts, except             | for 1995-            | 96 (full ye             | ear) and 19             | 996-97 wh            | ere the ban                 | king data       | relate to            |
| March 29, 1996.                                        | <del></del>          |                        |                                           |                              |                        |                      |                         | <del></del> <del></del> |                      |                             |                 |                      |
| Index Numbers of Industrial                            | Weights              | April                  | 1005                                      | 06 10                        | 0.1.05                 | 1002.04              |                         | ear Avera               | ges                  | (1) 1/07                    | 00              | 100 00               |
| Production (1980-81=100)                               |                      | 1996                   | 1995                                      | 96 19                        | 94-95                  | 1993-94              | 1992-93                 | 1991 9                  | 1990                 | -91 1989                    | 1- <b>9</b> ()  | 988-89               |
| General Index                                          |                      |                        |                                           |                              |                        |                      |                         |                         |                      | (8 2) 196 4                 |                 |                      |
| Mining and Quarrying                                   | 11.5 2               | 37.0(2.1)              | 265.7(                                    | 6.8) 248                     | 8 8 (7.5) 2            | 31 2(3.4)            | 223.7(0.6               | 222 5(4                 | 5) 221 20            | (63) 2116                   | (79) 19         | 9.1(3.7)             |
| Manufacturing Electricity                              |                      |                        |                                           |                              |                        |                      |                         |                         |                      | (89) 190 <i>7</i>           |                 |                      |
| Bieculcity                                             | 11.4 5               |                        |                                           |                              |                        |                      |                         |                         | -                    | (7.8)219.70                 |                 | 0.2(7.3)             |
| Canital Market                                         |                      |                        | 2, Mon                                    |                              |                        | 97 So Fa             |                         |                         |                      | and of Fisca                |                 | 002 04               |
| Capital Market                                         |                      | 1996                   | Ago                                       | Ag                           | o iro                  | ugn rea              | k Trough                |                         | 1995-90              | 5 1994-9                    |                 | 993 94               |
| BSE Sensitive Index (1978-79                           |                      | 3392(1                 |                                           | 3350(-                       |                        | 367 406              |                         |                         |                      | 3261(-13                    |                 | 9(65.7)              |
| National Index (1983-84=100)                           |                      | 1527(-0.               |                                           | 1539(                        |                        | 549 183              |                         |                         |                      | 1606(-12.                   |                 | 0(79.2)              |
| BSE-200 (1989-90=100)<br>NSE (Nov 5, 1995=1000)        |                      | 340(-1,<br>9           | .4) 344<br>89 1002                        |                              |                        | 345 41<br>976 119    |                         | 385                     | 345 (-6.3)           | 368(-18.                    | 2) 431<br>-     | 3(92-3)              |
| Skindia GDR Index (Apr 15, 1                           | 994=100              |                        |                                           |                              | 33 9)                  | 63 9                 |                         | 91                      | 79(1-3)              | •                           | 78              | -                    |
|                                                        |                      |                        |                                           |                              |                        |                      |                         |                         |                      |                             |                 |                      |
|                                                        | une <u>Ci</u><br>996 | 1996-                  | for Fisca                                 | 995-96                       |                        | 5-96                 | 1994-95                 | 5 19                    | 93-94                | 1992-93                     | 190             | 1-92                 |
|                                                        |                      |                        |                                           |                              |                        |                      |                         |                         |                      |                             |                 |                      |
|                                                        |                      | 37860 (24<br>10836 (11 |                                           | 37 (30.0)<br><b>24</b> (29 9 | ) 106465<br>) 31831    | (29.3) 8<br>(21.4) 2 | 12330 (184<br>16233 (18 |                         | 7 (30 4)<br>3 (20 4) | 53688 (21.<br>18537 (3.     | 81 1786         | 6 (-1 5)             |
| Imports: Rs crore 9                                    | 694 4                | 41641 (17              | 7.9) 353                                  | 29 (39 4                     | 121647                 | (37.1) 8             | 38705 (21.)             | 8) 72800                | (15.7)               | 63375 (32,                  | 4) 4785         | I (10.8)             |
| US \$ mn 2'                                            | 728                  | 11918 (                | 5.9) 112                                  | 50 (39.2)                    | 36370                  | (28.7) 2             | 28251 (21 )             | 7) 2321                 | 12 (6.8)             | 21882 (12                   | 7) 19411        | (-194)               |
|                                                        | 060<br>455           | 8922 (-2               | 2.3) 91<br>781                            | 30 (44.1<br>-4792            | , 49214<br>? -         | (29.6) 2<br>-15182   | 22538 (29<br>-637       | 1) 17470<br>75          | 5 (10 6)<br>~3259    | 15782 (12<br>-96            | 3) 1404 /<br>87 | 3809                 |
|                                                        | 128                  |                        | 082                                       | -1526                        |                        | -4539                | 201                     |                         | -1039                | -33                         |                 | 1545                 |
|                                                        | Aug 30,              | Sent 1                 | . Mar 31.                                 | <del></del>                  |                        | <del></del>          | Varia                   | tion Over               |                      | ·                           |                 |                      |
| Foreign Exchange Reserves                              | 1996                 | 1995                   | 1996                                      | -                            | th Ye                  | ar Fisc              | al Year So              |                         | 5-96 19              | 94-95 19                    | )3 94           | 992-93               |
| (excluding gold)                                       | -                    |                        |                                           | Age                          |                        |                      |                         | 95-96                   |                      |                             |                 |                      |
| Rs crore                                               | 64146                | 60713                  | 58726                                     | -3                           | 5 34                   | 432 5                | 420 -5                  | 315                     | 7302 1               | 18402 27                    | 430             | 5385                 |
| US \$ mn                                               | 17985                | 19063                  | 17126                                     |                              |                        |                      |                         |                         | 3690                 |                             | 724             | 731                  |
|                                                        |                      | <u>_</u>               |                                           |                              |                        |                      |                         |                         |                      |                             |                 |                      |

| Weekended Friday                                    |               | Au             | gust 1996            | 5       |                |         | July         | 1996     |          |                | Jur             | e 1996          |                 |
|-----------------------------------------------------|---------------|----------------|----------------------|---------|----------------|---------|--------------|----------|----------|----------------|-----------------|-----------------|-----------------|
|                                                     | 30(RF)        |                | 16(EF)               | 9       | 2(RF)          | 26      | 19(RF)       | 12       | 5(RF)    | 28             | 21(RF)          | 14              | 7(RF)           |
| Instruments                                         |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| Call money rate                                     |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (weekly weighted average: RBI)                      | 7.49          | 10.36          | 7.42                 | 2.84    | 3.78           | 5.34    | 1.13         | 1.57     | 5.80     | 10.94          | 10.89           | 10.91           | 10.75           |
| Call money rate                                     |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (Range:weekly)                                      | 0.25-         | 9.25-          | 0.10-                | 2.00-   | 0.25-          | 3.00-   | 0 10-        | 0.75-    | 0.05-    | 10.50-         | 0.25-           | 10.70-          | 0.10-           |
| m                                                   | 10.75         | 11.00          | 11.00                | 5.00    | 6.25           | 10.50   | 1.25         | 5.00     | 10.85    | 11.00          | 11.05           | 11.50           | 11.00           |
| Freasury Bills:                                     | 4.60          | 4.60           |                      | 4.60    | 4.00           | 4.60    |              |          |          |                |                 |                 |                 |
| 91-Day (On tap or ad hoc)                           | 4.60          | 4.60           | 4.60                 | 4.60    | 4.60           | 4.60    | 4.60         | 4.60     | 4 60     | 4.60           | 4.60            | 4.60            | 4.60            |
| 91-Day (RBI Auction):<br>Primary                    | 9.96          | 9,96           | 9.46                 | 8.46    | 9.04           | 9.46    | 9.21         | 9.88     | 11 04    | 12.41          | 12.41           | 10.41           | 10.41           |
| Secondary DFHI                                      | 7.70          | 7,70           | 7.40                 | 0.40    | 7.04           | 7.40    | 7.41         | 7.00     | 11.86    | 12.41          | 12.41           | 12.41           | 12.41           |
| (mid-point of bid and offer                         | 8.58          | 9.34           | 7.34                 | 5.84    | 6.95           | 8.31    | 5.84         | 9.96     | 11.62    | 12.04          | 12.01           | 12.04           | 12.03           |
| All SGL trading                                     |               |                | *                    |         |                | 4.5.    |              | 7.70     | 11.02    | 12.01          | 12.01           | 12.07           | 12.03           |
| (Weighted YTM)                                      | 7.74          | 9 73           | 8.45                 | 7.96    | 8.22           | 8.01    | 6.64         | 7.91     | 7.58     | 10.83          | 11.14           | 10.67           | 10.94           |
| 364-Day (RBI Auction)                               |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| Primary                                             | 12.61         | •              | 12.61                | •       | 12.61          |         | 12.61        | •        | 12.87    | *              | 12.97           |                 | 12.94           |
| Secondary: DFHI (mid-point)                         | 11.48         | 11.46          | 11.26                | 11.16   | 11.20          | 11.14   | 10.90        | 11.08    | 11.42    | 11.48          | 11.45           | 11.45           | 11.39           |
| All SGL trading                                     |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (Weighted YTM)                                      | 12 63         | 12.24          | 12 27                | 11.94   | 10.93          | 10.63   | 10.59        | 11.61    | 11.29    | 12.08          | 12.06           | 12.22           | 12.27           |
| State Govt loans (Coupon rates)                     | -             | -              | 13.85                | -       | -              | -       | -            |          | -        | -              | -               | -               |                 |
| All SGL trading (Weighted YTM)                      | 13.68         | 13.86          | 13.69                | 13.69   | 13.68          | 12.76   | 14.05        | 1271     | 12.04    | 12.00          | 1417            | 10.44           | 10.00           |
| GOI Securities                                      | 13.00         | 13.00          | 13.09                | 13.09   | 13.06          | 13.76   | 14.05        | 13.71    | 13 84    | 13.82          | 14.16           | 12.64           | 13.88           |
| Primary Auctions                                    | 13.85         |                | *                    |         | 13.62          |         | *            | 13.72    |          | 13.85          | •               |                 | 12.70           |
| •                                                   | ) years)      |                |                      | C       | 2 years)       |         | 14           | years)   | (10      | years)         | •               | •               | (3.400          |
| Secondary : All SGL trading                         | , , , , , , , |                |                      |         | - yours,       |         | (-           | · years) | (10      | years,         |                 |                 | (3 years)       |
| (Weighted YTM)                                      | 13.73         | 12.48          | 12 18                | 12.59   | 13.27          | 12.53   | 12.52        | 12.60    | 12.74    | 13.88          | 12.93           | 13.61           | 13.13           |
| PSU Bonds yield -                                   |               |                |                      |         |                |         |              |          |          | 2011-0         |                 |                 |                 |
| Tax free: NSE                                       |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (traded, weighted)                                  | 13 77         | 13.44          | 13.56                | 13.53   | 14.10          | 13.77   | 13.44        | 14.01    | 13.98    | 12.40          | 13.60           | 13.32           | 12.74           |
| NSE (Range weekly)                                  |               |                | 13.18-               |         |                |         |              |          | 13.35-   | 12.40          | 12 57           | 12.69-          | 12.74           |
|                                                     | 14 26         | 13.62          | 13.71                | 13.97   | 14.35          | 14.22   | 13.64        | 14.08    | 14.48    |                | 14 01           | 13 45           |                 |
| Taxable: NSE (traded,                               |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| weighted)                                           |               | 17.08          | **                   | 17.36   | •••            | 17.31   | 17 95        | 16.00    | 17.59    | 17 18          | 18.54           | 17.80           | 16.82           |
| NSE (Range: weekl                                   | y) .          | 17 00-         | • •                  | 16.40-  |                | 17.51   | 1661-        |          |          | 14 62-         | 17.17           | 16 85           | 16.25           |
| Commercial Bills:                                   |               | 17.15          |                      | 17 92   |                |         | 18 33        | 18.3     | 18.33    | 19.03          | 18.93           | 18 49           | 17 68           |
| DFHI (Rediscount rate)                              | 12.50-        | 13.00          | 13.00                | 13.00   | 13.00          | 13 00   | 13.00        | 13.00-   | 14.00    | 15.00          | 15.00           | 15.00           | 15 00           |
| Lot III (Itobiobouill Into)                         | 13.00         | 12.00          | 1.5.00               | 10.00   | 1.7.00         | 1500    | 1.5.00       | 14.00    | 15.00    | 1.7.00         | 1.5.00          | 15.00           | 1.7 ()(         |
| CP:Primary market (90 days)                         | 13.00-        | 13.00-         | 13.00-               | 13.00-  | 13.00-         | 12.00-  | 13.00-       |          | 14.50-   | 15.50-         | 15.50-          | 15.50-          | 15 50           |
|                                                     | 15.50         | 15.50          | 15.50                | 15.50   |                | 13.50   | 15.50        | 15.50    | 15.50    | 16.00          | 16 00           | 17 00           | 15 85           |
| Secondary: DFH1                                     |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (Discount rate)                                     | 14.00         | 14.00          | 14.00                | 14.00   | 14.00          | 14.00   | 14.00        | 14.00-   | 15.00-   | 16.00          | 16.00           | 16.00           | 16 00           |
|                                                     |               |                |                      |         |                |         |              | 15 00    | 16.00    |                |                 |                 |                 |
| Market/NSE                                          | •••           | •••            | •••                  |         | •••            | •••     | 13.50        | •••      | •        | •••            |                 | 14 00           | 14-50-          |
| Other Bellevier and the Automotive                  |               | 0.50           | 10.00                | 10.00   |                | 10.00   | 10.00        | 12.00    | 13.50    | 12.00          | 12.50           | 12.50           | 15.00           |
| CDs: Primary market (one year                       |               |                | 10.00-               |         |                |         |              |          |          | 13.00-         | 13.50-<br>16.00 | 13 50-<br>16.00 | 13.00-<br>16.00 |
| Secondary: DFHI (Discount rate                      | 11.75         | 11.75<br>13.00 | 13.00<br>13.00       | 13.00   | 13.00<br>13.00 | 13.00   | 13.00        | 13 00-   | 14.00-   | 16.00<br>15.00 | 15.00           | 15.00           | 15.00           |
| Secondary. Divin (17)Scount rate                    | 13.00         | 1.5.00         | 1.5 (1)              | 13.00   | 13.00          | 15.00   | 1.3.00       | 14.00    | 15.00    | 15.00          | 15.00           | 1.7.00          |                 |
| Inter-corporate deposits                            |               | 17 00-         | 17.00-               | 17.00-  | 17.00.         | 17 00-  | 16 00-       |          |          | 19.00-         | 19.00-          | 20 00-          | 20 00           |
| (30/90/180 days)                                    | 18.00         |                |                      | 20.00   |                |         | 19 00+       |          | 20.00+   | 21.00          | 21.00           | 22.00           | 22.00           |
| (                                                   |               |                | (22.00-              |         |                |         |              |          |          |                |                 |                 |                 |
|                                                     |               |                |                      |         |                |         |              |          | +26.00)+ | +              |                 |                 |                 |
| UTI-1964 Units (Week-end                            | ŕ             | ,              | -                    | ,       | ,-             | •       |              | *        | •        |                |                 |                 |                 |
| secondary market                                    |               |                |                      |         |                |         |              |          |          |                |                 |                 | 1.5             |
| price in rupees)                                    | 13.60         |                |                      | 13.60   |                | 13.60   |              |          |          | na             | na<br>24 oo     | an<br>an        | 16.2            |
| Hundı Rate                                          |               |                | 24 00-               |         |                |         |              |          |          | 24.00-         | 24.00-          | 24.00-          | 24.00           |
| Mamagan June Itania.                                | 30.00         | 30.00          | 30.00                | 30.00   | 30.00          | 30.00   | 30,00        | 30.00    | 30.00    | 30 00          | 30.00           | 30.00           | 30.0            |
| Memorandum Items:<br>(i) Forward premia on the US d | allar         |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| in the domestic inter-bank r                        |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (annualised in per cent per a                       |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| (Weckly average)@                                   |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |
| Spot/Cash                                           | 6.01          | 13.92          | 12 47                | -0.19   | 2.40           | 7.51    | 0 96         | -0.97    | 2.28     | 6.32           | 8.07            | 7 12            | 6.6             |
| One-month                                           | 8.41          | 9 69           | 7 25                 | 4.25    | 6.44           | 6.74    |              | 2.00     | 4.79     | 7 05           | 9.98            | 9 92            | 10.3            |
| Three-month                                         | 10.03         | 10.40          | 8.80                 |         | 8 60           | 8.51    | 5.73         | 5.62     | 7.15     | 9 28           | 12 13           | 12.09           | 12.8            |
| Six-month                                           | 11 05         |                | 9,99                 | 9.16    | 9.83           | 9.63    | 8.46         | 8.56     | 9.40     | 11.15          | 13.15           | 13.16           | 13.9            |
| (ii) RBI Reference Rate (Rs/US\$                    |               |                | 35.68                | 35.76   |                |         |              |          | 35.13    | 35.06          | 34.99           | 35.03           | 34.8            |
| (iii) Havala Rate (Rs/US\$) (Dubi                   | i) 38.80      | 38.60          | 39.00                | 38.80   | 39.00          | 39.00   | 39.00        | 38.90    | 39.00    | 39.00          | 39.00           | 39.00           | 39.0            |
| no trading * no auction                             | no not -      | vailable       | (_) =                | floatat | ion V          | TM      | eld to m     | aturity  | \$ Fride | v being !      | noliday, Th     | ursday do       | ta              |
| + For the top rated companies                       |               |                | (~) no<br>han top ra |         |                | . M = Y | iorio (O III | acurity  | J ( 1100 | .,ing i        | ionday, ill     | aravay u        |                 |
|                                                     |               |                |                      |         |                |         |              |          |          |                |                 |                 |                 |

Economic and Political Weekly September 21, 1996

NOCIL

## **Capacity Constraint**

NATIONAL ORGANIC CHEMICAL INDUSTRIES (NOCIL), the flagship company of the Arvind Mafatlal group, is a major player in the petrochemicals industry. It set up the first petrochemicals complex and produces downstream products like ethylene, propylene and benzene. It also produces high density polyethylene (HDPE)

Nocil closed the year ended March 1996 with a sales turnover of Rs 1,015 crore, up by 8 per cent from Rs 936 crore in the previous year Other income moved up by 22 per cent from Rs 46 crore to Rs 55 crore Interest costs rose by 46 per cent Provision for depreciation was down by 17 per cent while that for tax was higher by 61 per cent This increase notwithstanding, the company posted a net profit of Rs 91 crore, up by 22 per cent from Rs 75 crore recorded in the previous year A dividend of 25 per cent has been recommended by the company as compared to 45 per cent declared in the previous year

The company achieved record sales of HDPE, butadiene, ethylene oxide and pipes and fittings for the year under review Sale of petrochemicals and polymers standing at Rs 985 crore was higher than in the previous year forming the major chunk of the turnover while rubber chemicals at Rs 150 crore and plastic products at Rs 70 crore also registered substantial increases in volumes

Though the company registered a 10 per cent growth in sales, there was a slow-down in the growth rate. The major factor responsible for the slow down was that the output of most downstream items from the naphthal cracker plant at Thane in Maharashtra had levelled off. As a result there has been very little increase in output from its downstream plants.

Exports of petrochemicals and rubber chemicals during the year stood at Rs 78 crore. The company retained its status as a star trading house Establishing itself as a reliable long-term supplier of rubber chemicals to tyre companies, its products were accepted in the markets of Japan, Australia, and Europe

Nocil is holding talks with UK-based Hanson group for its modermisation-cumexpansion programme. The company has embarked on a Rs 4,600 crore expansion plan at its Thane plant in Maharashtra but, constrained by lack of funds, has not been able to make much headway. The first phase of the project has been completed with the process design and basic engineering package for its naphtha-based plant. The designs for utility centres related to the plant have also been completed. Nocil is to produce 2.25 lakh tonne per annum (tpa) of

polyethylene, 1 8 lakh tpa of polypropylene and 75,000 tpa of benzene and toulene and 30,000 tpa of ethyloxylates

The project has been approved by the International Finance Corporation (IFC) which is picking up 5 per cent equity amounting to \$ 15 mn IFC has also earmarked \$ 40 mn by way of loans with the remaining to be raised by the Arvind Mafatlal group On the anvil is a Rs 1,600 crore rights issue of non-convertible debentures Besides, the company plans to raise Rs 1,100 crore through external commercial borrowings

Royal Dutch Shell hitherto a co-promoter, has decided to sell its stake in Nocil to the Arvind Mafatlal group. The Mafatlals have merged Polyolefins Industries (PIL) and Nocil, and have spun off the agro chemicals division into a new company, DE Nocil, a joint venture with Dow Elanco of US. The company commenced its operation on April 1, 1995.

**PUNJAB TRACTORS** 

# Triumph of Indian Technology

Promoted by Punjab State Industrial Development Corporation (PSIDC), Punjab Tractors was incorporated in 1970 and commenced production in 1974 using indigenously developed technology. With a 21 per cent increase in turnover in 1992-93, a 16 per cent increase in 1993-94, a year when industry was hit by recession, a 27 per cent increase in 1994-95 when industry volumes went up by 19 per cent and a 26 per cent rise in the year ended March 1996, Punjab Tractors has consistently improved its performance with each passing year

Volume growth in all products, a favourable demand trend and continuous emphasis on cost containment all worked to enable Punjab Tractors to come up with another year of satisfactory performance The company closed the year ended March 1996 with a sales turnover of Rs 455 crore. up from Rs 361 crore in the previous year Other income moved up by 50 per cent Interest costs were down by 79 per cent Provision for depreciation moved up by 20 per cent Restricted by a 59 per cent rise in provision for tax, Punjab Tractors ended up with a net profit of Rs 38 crore up by 42 per cent from Rs 27 crose in the previous year Dividend payment up from 100 per cent to 125 per cent has been combined with a one-for-one bonus issue

PTL makes agricultural tractors in the range of 20 to 55 HP and intends to introduce new models in the 20-24 HP range during the year. The company has an installed capacity of 27,000 tractors in the high power range and commands a 14 per cent share of the tractor market. Sold under the brand

name Swaraj, tractors account for the larger part of the company's turnover

Tractor business grew by 13 per cent during the first half and 22 per cent in the second half of the year under review, harvester combines and forklifts registered a growth of 38 per cent and 60 per cent respectively. Casting production grew by 10 per cent to 5 600 tonnes.

The company has a Rs 100 crore expansion plan which is to be implemented over a three year period starting 1996-97. The plan envisages an increase in production capacity from 36,000 tractors to 60,000 tractors. The funds required for the proposed expansion are to be generated through internal accruals.

In 1995-96 the tractor industry is expecting record sales of 1,90,000 tractors, a growth of almost 16 per cent over the previous year. During the first six months of the year the industry sold 9,100 tractors. On the export front, against an average export of 2,000 tractors per year, the industry expects to export 5,000 tractors during the year.

While PTL has already sold 11,825 of its Swaraj tractors, analysts predict it could manage to reach a figure of 26,500 by the end of the year Competition comes to the company from Escorts which is restructuring its tractor and farm machinery equipment activities. By acquiring Ford tractors, in which it has a partial stake. Escorts is planning to add tractors of high horsepower range. It is also planning a technical collaboration with a leading international firm. Greaves, of the Thapar group is also planning to diversify into tractors by the end of the year.

PTL is the third largest seller behind Mahindra and Mahindra and Escorts Though the company's capacity is small compared to the other two, its tractors enjoy a tremendous brand loyalty in the northern states of Uttar Pradesh, Punjah and Harayana, the reason being the company's highly acclaimed research and development cell PTL has made a beginning by looking beyond its traditional markets by slowly making its presence felt in Madhya Pradesh

The company has built up strong R and D capabilities. In anticipation of further growth opportunities and increasing competition the company set up a new R and D and spare parts complex in 1991. The company has the advantage of a good marketing network of 250 dealers. Another strength of the company lies in its ability to develop models suited to local requirements. The tractors manufactured by the company are made wholly with local technology and know how This results in substantially lower capital costs no royalty payments for technology transfer and no outgo of foreign exchange Engines which account for around 30 per cent of the material costs are procured from Swarai Engines a group company and Kirlosk ir Oil Engines Striving towards zero

defects in production, the company has reduced its warranty cost to around Rs 240 per tractor, the lowest in the industry.

|      |                                                             | N              | ocii   | Pun           | •            | Titan         |              |  |
|------|-------------------------------------------------------------|----------------|--------|---------------|--------------|---------------|--------------|--|
|      | Financial Indicators                                        |                |        | Trac          |              | Industries    |              |  |
|      |                                                             | March          | March  | March<br>1996 | March        | March<br>1996 | March        |  |
|      |                                                             | 1996           | 1995   | 1770          | 1995         | 1770          | 1995         |  |
| Inc  | come/appropriations                                         |                |        |               |              |               |              |  |
|      |                                                             | 101457         | 93596  | 45478         | 36096        | 32278         | 25669        |  |
|      |                                                             | 101621         | 95148  | 45563         | 35919        | 34512         | 26077        |  |
|      | Other Income                                                | 5548           | 4550   | 1008          | 671          | 295           | 359          |  |
|      |                                                             | 107169         | 99698  | 46571         | 36590        | 34807         | 26436        |  |
| 5    | Raw materials/Stores and                                    | 45075          | 46273  | 35009         | 28470        | 15910         | 12284        |  |
| 6    | spares consumed Other manufacturing expenses                | 12567          | 16572  | 376           | 309          | 759           | 533          |  |
|      | Remuneration to employees                                   | 8791           | 8010   | 2607          | 1933         | 2822          | 2262         |  |
|      | Other expenses                                              | 18276          | 11742  | 1853          | 1204         | 7569          | 5357         |  |
|      | Operating profit                                            | 22460          | 17101  | 6726          | 4674         | 7747          | 6000         |  |
|      | Interest                                                    | 7267           | 4986   | 52            | 251          | 3422          | 2180         |  |
| 11   | Gross profit                                                | 16141          | 12464  | 6688          | 4633         | 4325          | 3820         |  |
| 12   | Deprectation                                                | 1371           | 1469   | 666           | 556          | 1568          | 1311         |  |
|      | Profit before tax                                           | 14755          | 10977  | 6022          | 4077         | 2757          | 2509         |  |
|      | Tax provision                                               | 5640           | 3500   | 2200          | 1380         | 0             | 0            |  |
|      | Profit after tax                                            | 9115           | 7477   | 3822          | 2697         | 2757          | 2509         |  |
|      | Dividends                                                   | 3065           | 2759   | 1266          | 1013         | 1395          | 1268         |  |
|      | Retained profit                                             | 6050           | 4718   | 2556          | 1684         | 1362          | 1241         |  |
|      | abilities/assets                                            | 12261          | 8130   | 1013          | 1013         | 5228          | 4978         |  |
|      | Paid-up capital Reserves and surplus                        | 12261<br>30274 | 30351  | 11162         | 8606         | 11146         | 9874         |  |
|      | Long term loans                                             | 15987          | 33517  | 1240          | 1580         | 17958         | 12601        |  |
|      | Short term loans                                            | 28862          | 16025  | 63            | 23           | 12376         | 6562         |  |
|      | Of which bank borrowings                                    | 21422          | 14935  | 63            | 23           | 4541          | 820          |  |
|      | Gross fixed assets                                          | 61561          | 57978  | 11598         | 10310        | 29523         | 25602        |  |
|      | Accumulated depreciation                                    | 17739          | 19730  | 4378          | 3735         | 6556          | 5011         |  |
|      | Inventories                                                 | 16652          | 17030  | 6727          | 4410         | 15254         | 11207        |  |
| 26   | Total assets/liabilities                                    | 117899         | 109914 | 23138         | 19954        | 54612         | 40195        |  |
| M    | iscellaneous items                                          |                |        |               |              |               |              |  |
| 27   | Excise duty                                                 | 19502          | 16156  | 4345          | 3389         | 2794          | 2365         |  |
|      | Gross value added                                           | 31259          | 24543  | 8749          | 6467         | 10873         | 8508         |  |
|      | Total foreign exchange income                               | 8309           | 8357   | 372           | 320          | 3743          | 3767         |  |
|      | Total foreign exchange outgo                                | 12149          | 12280  | 354           | 210          | 5722          | 5773         |  |
|      | ry financial and performance ratio                          | 5              |        |               |              |               |              |  |
| .51  | Turnover ratio                                              | 86.1           | 85.2   | 196.6         | 180.9        | 59.1          | 63.9         |  |
| 22   | (sales to total assets) (%) ! Sales to total net assets (%) | 116.1          | 108.8  | 337.4         | 321.7        | 69.1          | 75.5         |  |
|      | Gross value added to                                        | 110.1          | 100.0  | .137.4        | 321.7        | 07.1          | 1.7          |  |
| 3,0  | gross fixed assets (%)                                      | 50.8           | 42,3   | 75.4          | 62.7         | 36.8          | 33.2         |  |
| 34   | Return on investment                                        | 50.0           | 741.5  | ,,,,          | <b>55</b> .7 | 50.4          |              |  |
| .,   | (gross profit to total assets) (%)                          | 13.7           | 11.3   | 28.9          | 23.2         | 7.9           | 9.5          |  |
| 3.5  | Gross profit to sales                                       |                | •      |               |              |               |              |  |
|      | (gross margin) (%)                                          | 15.9           | 13.3   | 14.7          | 12.8         | 13.4          | 14.9         |  |
| 30   | Operating profit to sales (%)                               | 22.1           | 18.3   | 14.8          | 12.9         | 24.0          | 23.4         |  |
| . 37 | Profit before tax to sales (%)                              | 14.5           | 11.7   | 13.2          | 11.3         | 8.5           | 9.8          |  |
| 38   | 3 Tax provision to profit before tax (%                     | 38.2           | 31.9   | 36.5          | 33.8         | 0.0           | 0.0          |  |
| 39   | Profit after tax to net worth                               |                |        |               |              |               |              |  |
|      | (return on equity) (%)                                      | 21.4           | 20.5   | 31.4          | 28.0         | 16.8          | 16.9         |  |
|      | Dividend (%)                                                | 25.00          | 40 00  | 125.00        | 100.00       | 33.00         | 30.00        |  |
|      | Earning per share (Rs)                                      | 74.34          | 121.97 | 37.73         | 26.62        | 6.16          | 5.93         |  |
|      | 2 Book value per share (Rs)                                 | 346.9          | 595.1  | 120.2         | 95.0         | 34.9          | 33.4         |  |
| 4.   | P/E ratio (based on latest and                              | 0.4            | 96     | 188           | 16.5         | 19.1          | 20.2         |  |
| 4    | corresponding last year's price)  4 Debt-equity ratio       | U.4            | 70     | 100           | 10.5         | 17.1          | 20.2         |  |
| 4    | (adjusted for revaluation) (%)                              | 37.6           | 91.9   | 10.2          | 16.4         | 109.7         | 84.8         |  |
| 4    | 5 Short term bank borrowings                                | 57.0           | 7      | 10.2          | 10.4         |               | 5,,5         |  |
| ₹.   | to inventories (%)                                          | 128 6          | 87.7   | 0.9           | 0.5          | 29.8          | 7.3          |  |
| 40   | Sundry creditors to                                         |                |        | ,             |              |               |              |  |
|      | sundry debtors (%)                                          | 81.7           | 71.6   | 819.7         | 638.9        | 77.5          | 138.2        |  |
| 4    | 7 Total remuneration to employees                           |                |        |               |              |               |              |  |
|      | to gross value added (%)                                    | 28 1           | 32.6   | 29.8          | 29.9         | 26.0          | 26. <b>6</b> |  |
| 4    | 8 Total remuneration to employees                           |                |        |               |              |               |              |  |
|      | to value of production (%)                                  | 8.7            | 8.4    | 5.7           | 5.4          |               |              |  |
|      | 9 Gross fixed assets formation (%)                          | 6.2            |        | 125           |              | 15.3          |              |  |
| 5    | O Growth in inventories (%)                                 | -222           | -      | -5254         |              | 36.11         | -            |  |

### TITAN INDUSTRIES

## **New Areas**

Jointly promoted by Questar Investments, with Tata Sons, a Tata group company and the Tamil Nadu Industrial Development Corporation in 1987-88, Titan Industries commenced commercial manufacturing at its Hosur unit in 1989. Sales turnover for the year ended March 1996 stood at Rs 323 crore, up by 26 per cent from Rs 257 crore in the previous year. Other income was down by 18 per cent. Interest costs were up by 57 per cent. Provision for depreciation was up by 20 per cent. In the face of a zero tax provision the company closed the year with a net profit of Rs 28 crore, up by 10 per cent from Rs 25 crore in the previous year. Dividend payment has been stepped up from 30 per cent to 33 per cent. The company produced 3.77 million watches and 1.98 million cases. Production would have been higher but for an industrial dispute during wage negotiations at the company's Hosur plant.

Titan's table clock unit with a capacity to manufacture 1.5 million pieces per annum has commenced commercial production. In 1995-96 the company manufactured 93,000 plastic alarm clocks. A beginning was made in the production of premium table clocks.

The company's jewellery plant and jewellery watches plant, both in their first year of production, produced about 40,000 jewellery pieces and around 2,000 jewellery watches in 1995-96. The company's facility to manufacture complex integrated metal bracelets has been established at a cost of Rs 16 crore in technical assistance from a major Japanese company.

To augment exports and diversify into other fields related to its core competence, the company plans to increase its investment in associate and subsidiary companies. Exports of the company increased by 100 per cent crossing Rs 37 crore in 1995-96. A new range of mid and upmarket watches was launched by Titan International Marketing in many parts of Europe. Available in over 750 outlets across many cities in Europe. The company continued to expand its coverage in west Asia where its products successfully compete with other foreign brands. The company has plans to expand its coverage to several African countries during the course of the year.

Titan Industries has an investment plan estimated at Rs 120 crore over the next two years. The company has stepped up its watch movement manufacturing capacity to 5 million pieces per annum. The assembly capacity of the company's unit at Hosur and Dehradun is also being increased.

## One Word Forward, Two Words Back

**GPD** 

The Srinagar-Leh and the Srinagar-Jammu relationship is not any more equal than the Delhi-Srinagar relationship. That is one aspect of the politics in Kashmir which is more often than not ignored.

LENINIST truths come home to roost in a peculiar way. Common Minimum Programme-Comrade (CMP-Com) Indrajit Gupta must have realised it now. He was talking to the BBC. He probably thought that he would be heard only in England. Little does he realise that the greatest BBCpatriots are to be found in India. Anything English is admired here whereas almost anything English is not admired in England. Imagine the newsprint that our newspapers wasted on Prince Charles' marriage or rather to its break-up. One would have almost thought she was Princess of Gwalior rather than Wales. That royal family also has broken up on the lines of a 'communal' BJP and the patriotic, secular force of the Congress/ CMP. (One is not certain if Madhavrao is directly in the battle against communalism or indirectly with other Congressmen. The other faction's interests are clear and well known.) The breakdown of the royal family in Britain, however, dominates our media presumably because Prince Charles and his meetings with so and so are as important if not more important for our media than, shall we say, Deve Gowda's meeting with Thackeray in Mumbai. CMP-Com Indrajit Gupta forgot it in a moment of weakness and made statements to the British media. The result was inevitable. The tactical line has been laid down already. One forward, two backward. If proof were needed that Lenin is not dated, here was one. The honourable home minister 'clarified' what he said. He had taken or at least attempted to take the Indian understanding of the Kashmir issue a word or two forward. He has been forced to quickly retrace his words, if not actually to eat them.

His explanation is neat. An old horse when it comes to polemics, the home minister was not going to be ruffled by the storm his remarks had raised. He was not going to be bullied by his fellow CMP-Comrades of the CPI(M). His explanation seems to have satisfied the latter anyway. The rest of the nation has Prince Charles' married life to worry about. It is not going to bother what this MP from Medinipur has to say on problem A or problem B. Its preferences are clear. There are enough MPs with their cupboards full of notes to talk about. But then what was wrong in Gupta's statement really? He of course says that he did not talk of the partition of Kashmir. Strictly in de jure terms he is right. But when you talk of different regions, you are still talking of a de facto differentiation. And it was a good thing that he did so. It was time somebody

talked of different perspectives on the future (and the past) of that unfortunate state in different areas of that state. At the present moment the leadership in the valley has appropriated to itself the right to decide what is right and wrong for the entire state. It is also futile to ignore the fact that the Muslims of the valley are speaking also for the Buddhists of Ladakh and the Hindus of Jammu and even the Pandits of the valley. All this is in keeping with Islam-based nationalism (and fundamentalism) within the valley. It is idle to imagine that there is such a thing as Kashmiri nationalism. There is Kashmiri Islamic nationalism.

It is extraordinary that it is unfashionable to raise this kind of argument among the left and liberal circles. Stating a sociological reality is for some reason taboo. It is perhaps thought that saying so is to send wrong signals. Wrong signals to whom? Who is deceived by the protestations of various groups in Kashmir that they are speaking in the name of the entire people of the entire state when in fact they are speaking, if at all, in the name of Muslims of the valley? To acknowledge this or concede this is simply to be aware of the ground realities in the state. Such an acknowledgement would amount to a communal position if one were to argue that the state in India has a right to crush these voices even if they are willing to speak in the name of a region in the state because they happen to be Muslims. Not otherwise.

Gupta's position may not be the one outlined above The old-fashioned Fabian

in him would be shocked that we attribute to him a position like the above. We do not. The thrust of what has been said above is only to underline that there are different regions in Kashmir as there are in any other state in India. If Uttarakhand, according to Deve Gowda or the CPI, has the right to assert its autonomy, why not Ladakh or Jammu? Why should it create a storm if the home minister acknowledged the existence of different regions (and people) which make up that state? What is wrong if these different regions and people had a right to self-expression? The fact of the matter is that it is legitimate and right. To say that is not sending any wrong signals to anyone. It is only to start off a process of a sober review of what we wish to do with Kashmir and, of course, with Indian polity as a whole.

It is extraordinary but true that several liberals who seem to be making several trips to the state have not bothered to hear what the Buddhists of Ladakh have to say on the future of the state. They also seem to believe that the valley decides. Once it is accepted that the valley decides even for those who do not live there, one will have to accept that only such democracy and such selfdetermination will be permitted as Delhi allows. Point is the Srinagar-Leh or Srinagar-Jammu relationship is not any more equal than the Delhi-Srinagar relationship. It cannot be. That is one aspect of the politics in Kashmir which is more often than not ignored. There are different regions there and these different regions should have the right to articulate their point of view independently of each other if a just and human solution to that problem is to be

Indrajit Gupta probably did not mean anything more than that. It is good, old-tashioned liberalism. To attack him and his intentions on that score is sending wrong signals, sending wrong signals to the whole world, not only to the people of the different regions of the J and K.

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## **Quick Decline of UF Government**

BM

Popular discontent over the performance of the Deve Gowda government is gathering rapid momentum. Those who have been striking brave postures and proclaiming that the government will last its full term, if only because no political party or MP wants to face another general election are being short-sighted. The UP election may well turn out to be the catalyst to precipitate a crisis for the UF government.

IT is remarkable that the government in New Delhi should find it relatively easy to 'manage' the holding of assembly election in Jammu and Kashmir, but the UP assembly election should be seen to be posing higger problems and dangers to it. The response of political bigwigs and senior bureaucrats to any ticklish problem just now is that they would prefer to attend to it after the UP election. There is a 'national consensus' on retaining India's sovereignty over troubled Kashmir. The political-electoral contention in UP, however, is uncompromising, with no holds barred. The results of the UP election, according the consensus among political analysts, will determine the shape of governance in New Delhi.

The political parties which have formed or support the Deve Gowda government have not 'resitated to resile from their pregeneral election ideological and political. commitments. Once the principle of accountability to the electorate was violated, political contention was bound to become unprincipled. This has encouraged shifts in the political alliances of parties and personalities. Political power is necessarily a central issue for all parties and personalities They are also bound to try to consolidate and enlarge their popular base by articulating the interests of their specific constituencies. They cannot any longer afford to let their identities be submerged by pretending, as the Congress Party could for a long time, to enjoy the support of all social and economic interests. Regional pulls and pressures as well as communal, caste and ethnic conflicts are now bringing about political realignments Even the Congress, having lost its political hegemony, has been forced to come to terms with this reality. Indeed this is the justification that the Congress leadership has given for the party's alliance with BSP in UP

It is not surprising either that communal, caste and ethnic pulls and pressures often take virulent forms. The resulting social unrest finds a reflection in policy adjustments and new political alignments. The UF and its government is frankly a stop-gap

arrangement. What will happen once this arrangement falls apart is anybody's guess. The fragility of the UF government is already too evident.

The continuation of the lett parties in the government for long is regarded as doubtful. The increasingly strained relations among the leading lights of the Janata Dal, in particular Deve Gowda, Mulayam Singh and Laloo Prasad, are not fortuitous either. The 'outside' support of the Congress provides the UF government a majority in the Lok Sabha. But it is a political liability as well. P V Narasimha Rao's success in trustrating the fitful attempts of dissidents to dislodge him from the leadership of the Congress Party could not have been possible without 'outside' support extended to him on the basis of reciprocity.

Faction forming and infighting among parties is providing adventurers and shady characters with a field day in politics, in the administration and in business. This trend has gained strength in the last five years and is now assuming even more grotesque features. The UF government headed by Deve Gowda has been unable and unwilling to moderate, let alone curb, such goings on.

Deve Gowda, once he was catapulted to the exalted office of prime minister, has been striving from day one to perpetuate a system of policy-making and administration under his personal control. Besides assembling those he considers personally loyal to him to run the prime minister's office as well other sensitive posts, he has had no hesitation in looking for new allies outside the UF framework. He is keen to outgrow the status of a last-choice prime minister. The problems in his way are formidable. His pol:tical base in Karnataka has become shaky. Nervous about the prospects of getting elected to the Lok Sabha. he has opted for the Rajya Sabha. He knows he cannot rely on the parties constituting the United Front for his survival and his political and administrative moves have tended to be informed by this consideration. His meeting with Bal Thackeray in Mumbai, the distribution of largesse to woo farmers in UP and shady deals with multinational corporations, among them Congentrix in Karnataka and Star TV, have raised many eyebrows. His success in winning over the Tikait-Ajit Singh duo may not yield electoral gains for the UF, but Ajit Singh's defection from Congress to the UF does hurt the Janata Dal. But Deve Gowda is inclined to brazen out of such criticism.

Coalition politics and the running of a coalition government require delicate adjustments and compromises. But the manner in which the leaders of the UF coalition. Deve Gowda in particular, are seeking short-term political and personal gains can be very risky too. The UF coalition's internal cohesion is already suspect. There are problems within each party in the front. The Congress Party, the powerful 'outside' supporter, is blowing hot and cold. Popular discontent over the policies and performance of the Deve Gowda government is likely, therefore, to gather momentum. Those who are striking brave postures and proclaiming that the Deve Gowda government will enjoy a full term, because no party or MP wants a general election, are being short-sighted. The assembly elections in UP may turn out to be the catalyst to precipitate a crisis for the Deve Gowda government.

Problems for the government are certainly piling up. The 'please all' budget for 1996-97 has not helped it. The holding of election in Jammu and Kashmir may be trumpeted as a signal achievement. But its aftermath may turn out to be more problematic because the question of autonomy will come to a head and will pose an intractable problem in the domestic political arena. The relations with regional parties and state governments too are becoming more and more difficult for Deve Gowda. Foreign pressures on political-strategic issues - CTBT, for instance - and on economic matters are growing. The position may become menacing after the US armed action against Iraq, without even the formality of sanction of the UN Security Council. The feeble reaction of the government of India cannot escape critical notice. The arm-twisting of India by the US on economic policy issues is likely to become more visible and further expose the vulnerability of the UF government to external and domestic pressures.

The government has failed to pull the economy out of the doldrums. There are indications of a sharp decline in investment and industrial production. The decline in imports of capital goods and raw materials, fall in the rate of growth of operations of the financial institutions and inability of business enterprises to raise resources from the market in the first quarter of 1996-97 have disturbed the equanimity of even the economic policy-makers in the Deve Gowda

government. It was fondly believed by them that after the Lok Sabha elections and the formation of a 'stable' government, foreign investment would come flowing in to provide a material base and psychological assurance for the economy. This hope has not materialised, though economy is becoming increasingly vulnerable to fluctuations in the inflow of foreign capital.

The revival of industrial production in 1955 has turned out to be ephemeral. Investment is tending to be blocked by the liquidity crunch. Stocks and shares of Indian companies are passing into foreign hands at depressed prices. Moves are afoot to facilitate changes in the ownership of Indian companies to suit foreign business interests, even as wider opportunities are being provided to hot money operators to garner speculative gains for repatriation abroad. A dangerous nexus is developing between holders of black rupees and hot dollars with not only economic but also social and political implications.

The standard response of the elite in developing countries in the wake of such developments tends to be a questionable search for what is euphemistically called a 'national government' – a political arrangement for preserving the economic and social status quo. There is also likely to be a hectic search for a 'charismatic leader' who can

manipulate the polity to impose an authoritarian regime, even if democratic forms may not be demolished altogether. There are many candidates in India who are keen to play this role. They talk glibly of their knowledge of India's problems even though they have no popular base in the country and are heading coteries which they claim to be political parties. The people must become aware of the danger which such self-styled leaders pose. This is necessary for the preservation of the democratic order, not to mention equitable socio-economic development. For long vested interests in the Indian economy, society and polity have been nurtured under an increasingly centralised rule of a party which had identified itself with a narrow upper crust of society. Lately, there is also the direct influence of foreign interests in Indian politics. Besides exposing the corruption of the leading lights in the political arena and isolating such politicians, the people must fight for alternative policies as the basis of a truly democratic coalition for clean politics. This alone can lend strength to Indian democracy, regenerate Indian society and revive the economy. It would be tragic if the lust of political parties, including the Left, for power-sharing in a rickety political arrangement is allowed to thwart a meanigful realignment of political and social forces.

Rs 5,000 for AK-47, and Rs 1,000 for pistol. However, this figure is on the low side according to one report; in south Kashmir alone there are 4,000 renegades ( The Times of India, September 16). There are serious charges levelled against this combined force of killing, molestation, and other atrocities. Union minister of state for home, Mohammed Maqbool Dar, had claimed that in six years of militancy 40,000 people were killed. The minister also complained that the surrendered militants have become "hardened criminals" (The Indian Express, July 17) enjoying official patronage and protection. So widespread is the resentment that Kul Jamat Hurriyet Conference (APHC) which refused to participate in elections so long as India does not accept Kashmir is a 'disputed ' territory and ready to solve the problem in accordance with the wishes of the people, asserts that there is a feeling among people that "an elected government will certainly bring relief to the people. People do want a civil administration that is free of the rule of bureaucrats and security forces." They point out that in the first six months of this year, renegades have killed 610 people, damaged 478 building in blasts and torched 562 houses.

This has resulted in a series of criminal acts. Four persons were caught from the office of Forum for Permanent Resolution at Gogjibagh on July 31 and officials say that they were Hizbul Mujahideen (HM) members responsible for killing six persons abducted from the Dal Lake on July 15. But not only had APHC condemned the act but had also called for hartal on July 19 against the killings. Besides these persons were arrested from the office of surrendered militants (Tribune, August 4). On August 21, correspondent for Pioneer, Fayaz Ahmad Kaloo and editor of Greater Kashmir were kidnapped in the presence of a Business Standard correspondent. Latter followed the abductors to a renegade camp at Hazratbal and then to a BSF camp at Jogi Lankar in Ramawari area of Srinagar. On September 3, four National Conference (NC) workers were killed in a grenade attack on their vehicles at Sopore where an election meeting was in progress. Officials claimed this was the handiwork of HM. While HM refuted the charge, the NC leader Farooq Abdullah accused surrendered militants for the attack. On September 10, CPI(M) leader Yusuf Tarigami accused Ikhwan for attacking people campaigning for him.

However, in spite of the demand raised among others by the NC for disarming the renegades and overwhelming evidence of their terror campaigns, union home ministry refused to comply. Their plea was that these renegades are involved in backup of the counter-insurgency operations and also require arms for their protection. Interestingly, largest renegade group Ikhwan and its political front the Awami League split over the issue of guns, with Awami

JAMMU AND KASHMIR

## **Enthroning Subterfuge**

Gautam Navlakha

Armed militancy has been contained for the time being, and a brutalised population compelled to seek temporary relief; yet, neither have the people of Kashmir valley given up their aspiration to be 'azad' nor will the assembly elections engender a democratic solution.

HOLDING of assembly elections in Jammu and Kashmir (J and K) signifies the restoration of the government of India (GOI) control over the territory without winning over the confidence of the people. Protagonists of Indian nation-state can rejoice at the subjugation of a rebellious people and its antagonists can feel vindicated that nation-state is always brought about violently. Once again those who articulate and struggle for a non-coercive democratic perspective receive short shrift. But while a 'problem' has been suppressed, it has not been resolved. On four occasions in the past - 1947, 1952, 1953 and 1975 - the people of India were made to believe that the problem had been solved. Past seven years shows the vacuity of such claims. Each time coercion was employed to subjugate the people in order that the moment of fatigue could be seized as an opportunity to tighten the grip over J and K. The elections and the 'offer' of autonomy are meant to do the

Elections are being held under the supervision of an incredible force deployment of nearly six lakh jawans of the 'Armed Forces of the Union' - there is one soldier for seven Kashmiris. For the purposes of the holding elections, 50,000 troops have been brought in to man the 2,300 polling stations. This force is supposedly meant to fight armed militants who today number between 1,500 and 2,500. Indeed even at the height of militancy they did not exceed 10,000. In other words, they were meant to police the civilians. Over and above these, there are indeterminate number of progovernment militants. Officials claim that since 1990, 2,047 militants have surrendered. Out of these 784 surrendered after August 15, 1995. Militants are allowed to retain their weapons although existing rules provide for paying them Rs 8,000 for a machine gun, League vice-chairman claiming that Kuka Parrey was "more inclined to use the gun while being in politics".

Between January 1 and August 15, 2,511 persons have been killed. Of these 114 were jawans and 1,062 were said to be militants and rest were civilians, During two weeks in August, 170 persons were killed. Strangely, GOI claims that since 1989 total killings were 15,002 of which 6,985 were militants, 6,822 civilians and 1,195 were security forces. The death count so far in 1996 would suggest that this is grossly underplayed. Officials also claim that since 1989, 31,000 youths were picked up. According to union home minister (August 10) of these 16,000 were released after preliminary investigation, 12,000 released after conviction in cases and only 3,000 remained in custody. This list does not contain the number of non-youth persons detained and what became of them.

It is against this background of use of proxy force, of lawlessness and unaccountability of the administration and security forces that sizeable section of people believe that a civilian government would bring some respite. In other words, it is a triumph of brute power that tyranny of past seven years have made the discredited politicians appear better

Admittedly, differences within APHC have not helped matters. APHC dismissed

Shabir Shah for meeting Frank Wisner and senator Hank Brown. APHC feels that the US is working towards an understanding between India and Pakistan. The role of the US is certainly intriguing with their support for elections and allowing the dropping of Kashmir issue from the mandatory agenda of the security council for reasons of 'overcrowding'. There are other considerations at play and deserve to be analysed. Nevertheless, all this is seen as a setback by the APHC. Significantly, the elections held in Azad Kashmir have also contributed to disillusioning the movement. Now, all this is happening when latest assessment of the government is that there are no more than 1.500 to 2.500 militants of which 300 to 500 were foreigners and that militants are finding it difficult to recruit people. It is at this moment that leadership differences have widened, the inovement for 'azadi' appears headless, and is being pushed underground.

This situation should have enabled the government, if it was at all sincere, to roll back the regime of repression as well as to make some bold announcement regarding autonomy. And if people have reconciled to being an 'integral' part of India there was no need to disallow them access to anti-election campaign. Instead, what we have is the government taking extraordinary measures to purchase the acquiescence of its own employees and muzzle all forms of

dissent. In the first place they offered incentives for J and K staff on poll duty. Daily wage earners, yet to complete prescribed seven years for regularisation as on March 31, 1996, and those who perform poll duty would be considered for regularisation after completing two years of service. Simultaneously, the government cracked down on APHC's anti-election campaign and began censoring local newspapers. On August 22, copies of all Urdu and English newspapers were seized for carrying a statement by Shoura-e-Jehad. an amalgam of five militant outfits, calling for a 38-day strike against the elections. In fact, government went to the extent of ensuring that reporters belonging to the national chains were reminded of their patriotic duty with a reminder that those who do not toe the line will be recalled, as it happened during the parliamentary elections. As a result, media coverage, barring few exceptions, provide similar picture. The crackdown on anti-election campaigns, if at all, appears in passing. Peaceful campaigns of APHC have been disrupted. On August 25 at Baramullah, soldiers belonging to 9th Gurkha Regiment rushed out of their quarters at Khowza Bagh and arrested five leaders of APHC who were undertaking door to door campaign. On August 30, when APHC leaders were addressing a gathering in Kupwara town,

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security forces chased away the people On the same day, while APHC leaders were addressing a gathering at Helmatpora mosque, two dozen militants entered the mosque and kept them at gunpoint for four hours until police intervened In Pulwama town on September 11, security forces opened fire on an anti-election campaign which began protesting when four APHC leaders were arrested Same day Shabir Shah was picked up by the security forces along with six of his associates from Kulgam area of Anantnag district On September 14 two people died and seven were injured when security forces opened fire on an anti-election campaign And now the administration has decided to detain APHC leaders for the duration of the election campaign arguing that these leaders were threatening the people It is not explained how mere 2 500 militants can threaten an entire population who live surrounded by nearly 300 times the number of security forces? Moreover, why should the government employees strike work since August 24 forgoing their salaries and notwithstanding the fortiess like confines of their offices if not for their sympathy with the call for poll boycott Indeed whereas armed militancy has been contained for the time being and a brutalised population compelled to seek temporary relief they have not given up their aspiration to be azad

The simple fact is that for the administration there is no difference between in aimed inilitant and unarmed civilian who supports the demand for azadi. Decision to muzzle the APHC or censor the news papers when it knows that armed militancy is in decline is premised on making no distinction between armed and unarmed people. Indeed, it is therefore the announce ment by the union home ministry that security forces will remain and are needed even after the elections. This force deployed to restore authority by instilling fear continues to be required to police an alienated population In other words government no matter what it pretends, knows that it has not won over the population What is worse the government appears disinclined to roll back repression and make any sincere move to win over people. Indeed, the interesting point is that they are unwilling to repose faith even in those groups that are loyal to them This is what makes all talk of autonomy a dubious exercise

In the first place so long as AFSPA remains, the state government will exercise no control over the security forces. Thus the pro-India state government will find its authority severely curtailed. This is corroborated by director general of BSF who said (September 15) that the installation of an elected government will not mean any curb on the functioning of the security forces. This makes mockery of the claims to provide autonomy when the state government will have little say over matters of law and order.

Secondly, all laws made by the central government have been done on the basis of

the May 1954 presidential order. One of the orders deleted section 75 of the J and K constitution of 1939 which had made the council of ministers the final interpreters of the constitution From time to time, the president of India has been specifying subjects over which parliament could make laws with the concurrence of the state government Several of these central laws were applied to the state not by an elected government but by the governor in violation of Article 370 which calls for "acting on the advice of the Council of Ministers" Thus, whereas laws that subverted the autonomy of J and K could be enacted with the help of governor, their withdrawal has been made an issue for the elected government to decide! Why did the government not revoke presidential order of 1954 and withdraw various legislations that violate Article 370? And if GOI was sincere, why was autonomous hill council status granted to Ladakh in the absence of elected state government? Besides the riders attached to what will and will not be accepted even if so resolved by the state assembly makes it clear that nothing substantive will come out of this Prime minister told members in the Rajya Sabha on August 2 that it should not be assumed that the union government would blindly" accept suggestion/resolution passed by the assembly Union home minister resterated on August 7 that 'the final decision (on autonomy) will not be taken here (in Srinagar) It will be taken in Delhi The centre has to decide (The Statesman August 8) So what is being offered? It was left to a discredited politician such as Mufti Mohammed Sayced to point out that leaving

it to the assembly to decide the quantum of autonomy is "ill-advised" because "Jammu region has historically stood for integration with India. Ladakh area wants meiger it is only the Valley that disputes the fact of accession with India' Sayeed also felt that the end result would be reviving the plans tor division of J and K. Significantly, Indrant Gupta told BBC that since maximum autonomy was being considered, it is in fitness of things that aspirations of each of the distinct region be respected. According to him security experts had mooted localising the conflict through partition of J and K years ago in order to localise the conflict In other words it is also doubtful whether the assembly will ever pass resolutions that spell out the quantum of autonomy when it is not clear whether a resolution by the state assembly requires the simple majority or two thirds majority in the assembly. Indeed this could become a device to create divisions

Since autonomy is a non-starter, to expect people to want anything other than temporary respite would be to over read the situation In that sense what the government has achieved is to curtail the manifestation of a movement namely militancy whereas the aspirations articulated by that movement remain intact. While autonomy did not adequately address these aspirations, even the promise of autonomy offered by United Front government cannot be taken seriously All this only lends credibility to the desire of the people to prefer the choice of oming out Assembly elections in that sense are meant to postpone the search for a democratic solution if not to short circuit it



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## President's Rule: Temporary Quiet

Nagindas Sanghavi

The imposition of President's Rule in Gujarat cannot be justified on the grounds that have been given for it. It is an unwarranted act destroying a democratically constituted government in the state, emphasising once again the urgent need for either scrapping or at least drastically modifying Article 356 of the Constitution. In fact the chain of events in Gujarat has shown up every constitutional authority involved in poor light.

THE imposition of the President's Rule in Gujarat is a right step taken for all the wrong reasons. There is no breakdown of law and order in Gujarat and the ministry has obtained a vote of confidence proving thereby its majority in the house, albeit with a lot of arm-twisting. Despite repeated assurances given by the prime minister both in the house and outside, the finale was reached rather swiftly as was expected and even demanded by several participants in this sordid drama. The governor had recommended it, the opposition leader Amarsinh Chowdhari had urged it and Shankersinh Vaghela had hinted at something drastic after the end of the session of parliament. The President's Rule temporarily puts the Gujarat issue in the cold storage, offering no permanent or satisfactory solution to the imbroglio.

A long-simmering and intense power struggle within the Gujarat unit of Bharativa Janata Party exploded in full public view a year ago. Though lulled to quietude, it had never been really settled and its periodic eruptions kept everybody on tenterhooks. The point of no return was reached on May 20, 1996, when after a public meeting at Sardar Stadium in Ahmedabad, prominent leaders of the Vaghela faction were abused and assaulted by party workers; the seniormost amongst them was stripped, physically molested, paraded and bashedup. Instead of punishing the guilty, the party high command pushed the victims into a corner and deprived them of all positions of power and prestige. A defiant Vaghela received the most stringent punishment - of being expelled from the party. The decision of the injured faction to break away and form a separate party converted an intraparty affair into a political issue which rapidly deteriorated into a constitutional crisis hecause a conspiracy of silence kept an embarrassing factor firmly under a wrap.

The crisis in Gujarat revolves around two separate but interrelated clusters of facts converging onto the physical and the mental incapacity or otherwise of the speaker. Operated upon twice within a span of eight months for brain tumour and then subjected to frequent bouts of chemotherapy, the speaker's health became a crucial point in dealing with the political impasse created by the split in the legislative wing of the BJP. The speaker could not attend his office after April and was kept under a strict quarantine. No visitor, not even the chief minister was permitted to visit him. Those who attended him at the Mumbai airport after his second operation in May, affirm that he was not able to recognise even his own wife and was even then only clinically alive. A communique issued in his name but without his signature in the first week of September claimed that he was mentally alert and that all the decisions proclaimed in his name were taken by him and by him alone, on the basis of the papers submitted to him by his staff. The opposition pooh-poohed the claim and alleged that his name and his office were being misused by a coterie around him who guided his hand to sign the various files without his knowing what it was all about. It has been widely reported in the Gujarati press that such signatures often consisted of only the first alphabet of his name in Gujarati script. There was a persistent demand from Gujarat Congress leaders for a panel of doctors to report the actual state of his health, but nothing came out of it.

The political equilibrium in the state has been utterly disrupted by the diametrically opposite and mutually exclusive rulings in several matters pertaining to the validity or otherwise of the split in BJP, issued in the name of the speaker and delivered by the deputy speaker who presided over the assembly and functioned as a speaker in his absence as per Article 180(2).

The split manifested itself in three stages. A memorandum submitted to the governor (August 18) was signed by several legislators announcing their breaking away from BJP and aligning with a newly formed Maha Gujarat Janata Party. Nobody was then aware of the exact number of signatories. The governor rushed to Delhi to consult the prime minister and surprisingly even the ex-

prime minister, and announced the number of signatories to be "significantly substantial". After his return, the governor suffered a mild stroke and was hospitalised. Three days later, 13 persons who had signed the memorandum informed the governor of their return to the mother party and in the next day five more signatories followed suit. All these 18 legislators who had returned were immediately isolated and held incommunicado with a stringency which became somewhat of a scandal. The governor forwarded all the three documents to the legislative secretariat (August 24) and all the signatures on all the three documents were officially certified to be true. The returnees declared that they had signed under duress or were duped into signing the first memo. A few alleged that their signatures had been forged. A criminal complaint has been registered with the police, but the governor has declined to part with the sensitive documents.

The number of signatories and the interval between their submission assume critical significance in view of the Tenth Schedule of the Constitution popularly known as antidefection provisions. If all the stages are telescoped into one, then only 28 legislators have broken away from the party. It is not a split but a few (less than one-third) defectors have left the party and therefore they are disqualified for the assembly membership This was the stand taken in the notification issued by the speaker (August 28). The governor and the deputy speaker declined to concede such telescoping and simply neglected the notification. Both seemed to treat the splitting process by stages - 46 (six more than the magic number of 40, one-third of the party strength) legislators had split from the party to form a new one. After three days there was a split in the splinter group and since the group had only 13 members, they are defectors from MJP. Next day five more MLAs left the new party, but they are also less than one-third of the rump and can be disqualified. If all these 18 returnees are taken as a group, then there is a valid split in the MJP and nobody is disqualified. The only escape route for the returnees would be that when they left MJP it was not a party recognised either by the Election Commission or by the assembly.

The governor, taking cognisance of all such 'goings and comings', asked the chief minister to seek a vote of confidence on the floor of the house. The assembly which was convened on September 3 was discomfited by the deputy speaker who, stepping out of the agenda, recognised MJP with all its 46 members and ordered separate sitting facilities for them. He immediately thereafter adjourned the house sine die defeating thereby its main purpose, namely, to test the strength of the ruling party. The House was

locultoises by use speaker on the senior day at 3:30 pm and several attempts made by the BJP legislators to occupy the chair of the speaker were foiled by the Opposition. The deputy speaker again adjourned the house sine die. Such obstructionist tactics by the deputy speaker deprived the chief minister of an opportunity to demonstrate his majority support in the house. A furious chief minister gave notice for the motion of no confidence in the deputy speaker and decided to convene the house after the expiry of the notice period of two weeks, so that the deputy speaker would be debarred from presiding over the house. The governor for some strange and unexplained reasons, insisted that the vote of confidence ought to be taken on or before September 13 when the deputy speaker would be entitled to be in the chair. The governor, very correctly pointed out his legal incapacity to convene an adjourned assembly, but displayed a very partisan attitude in declining the chief minister's request to send a message to the house which would have prevented the deputy speaker from playing his game once more and would compel the house to decide the issue one way or the other. Meanwhile the speaker had declared the deputy speaker's ruling ab nissi void ('he has no right to do so'). The speaker of the Lok Sabha put his foot in his mouth by supporting the speaker but hastily withdrew his statement by pleading ignorance about the actual position in Gujarat.

The chief minister had no option but to reject the governor's directive and he got the speaker to convene the assembly on September 18. The governor quite unjustly treated the change in date as the breakdown of the constitutional machinery in the state and recommended President's Rule for the state, a recommendation palpably unjustified by facts and invalid by the constitution. The union ministry cold-shouldered the recommendation and no action was taken upon it for the next five days. The speaker died on September 15 thereby further clouding the fortunes of the ministry. Deputy speaker Dabhi became an officiating speaker with full control over the secretariat. The agenda for the assembly meeting on the 18th was the condolence resolutions on the first day and all the remaining business on the next.

By a lucky break for the ministry, Dabhi was indisposed and was hospitalised, giving an opportunity to the first person in the panel of chairmen to preside over the deliberation on the first day. The frustrated leader of the Opposition turned violent and were thrown out of the house with undue and excessive use of force. The panic-stricken chief minister, fearing the probable return of Dabhi on the next day, violated all the precedents, and took full advantage of the absence of the Opposition. The agenda was altered, the

and a vote of confidence in the ministry was passed by 92 votes.

The fast moving train of events shows up every constitutional authority in poor light. The legislators, the legislative secretariat, the deputy speaker, the speaker, the chief minister, the governor and even the union ministry can hardly be absolved of the charge of improper behaviour and blatantly partisan approach. The imposition of President's Rule cannot be justified on the grounds given for it and is an unwarranted act of destroying a democratically constituted government in the state, emphasising once again the urgent need for either scrapping or at least drastically modifying Article 356 of the Constitution. The culprits who dragged the dying speaker into such unseemly controversies must be identified and punished. The deputy speaker's decision to recognise the breakaway group is a legitimate exercise of his powers but he is guilty of wanton obstruction of the chief minister's efforts to seek a vote of confidence from the house. It is interesting to note that though the governor constitutionally heads the legislature (Part IV, Chapter III, Article 168), the legislature secretariat in Gujarat has asserted its autonomy by adopting an independent stance via-a-vis the speaker. While the governor treated him as physically and mentally incapacitated to discharge his duties, the secretary to the legislature has convened the assembly twice under his directions and authenticated several other notifications in his name, treating him as a sick but a competent and functioning authority. But the secretary has overlooked two moot points. It is open to argument whether speaker's runing can be valid if delivered outside the premises of the assembly. Secondly, the secretary has not taken into consideration that speaker's ruling on the disqualification of the memorialists (August 28) violated the established practice as well as the assembly rules framed under proviso eight of the Tenth Schedule of the Constitution.

The Tenth Schedule empowers the speaker to pronounce final and irrevocable decision in the matters of disqualification of the defectors. But Article 180 (2) of the Constitution declares, interalia, that a deputy speaker or any other person presiding over the house "shall act as a speaker". It is not at all clear whether the word speaker used in proviso six of the schedule debars or includes persons discharging such duties as per the above mentioned article. In case of an absentee or an incapacitated speaker, somebody will have to pronounce on any such eventuality. The benefit of the unclear wording should be given to the interpretation which would tacilitate the smooth working of the house. Deciding upon the disqualification is a quasi judicial power of the speaker which does not depend on the opinion of the house. This power is to be exercised in accordance with the directions given in the schedule. All state assemblies, and so also Gujarat, have under Proviso 8-1.d formulated and, adopted detailed rules of procedure the violation of which is tantamount to a breach of parliamentary previleges (Proviso 8.3). Here the speaker himself has violated or at least disregarded the procedural rules and hence he can be held guilty of breach of the privilege. The defectors were given no opportunity to explain their

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case or to account for their stand in the matter. It should also be noted that the legislators whom the speaker disqualified had done nothing in the house to merit any such punishment. A memorandum submitted to the governor is hardly a proper ground for the speaker to act upon, because the speaker, like a judge, should confine himself to the matters presented to him in appropriate manner. Disqualifying a legislator is a long and a tedious process. Jaspal Singh, by defying the whip issued by his party the Janata Dal in the previous assembly was a clear-cut case for disqualification, but it took more than nine months of inquiry proceedings before disqualification could be pronounced. The deputy speaker acted upon the first memorandum presented to the governor to recognise the new party, but neglected the subsequent splits. Parikh's request was not backed by any documents submitted to the house in a proper form. The deputy speaker gave no opportunity to the majority party to have its say in the matter. He also disregarded the agenda of the house in the matter of the vote of confidence in the ministry. The adjournment of the house

sine die was a tactical move, rather than an exercise to uphold the dignity of the house, or to avoid any untoward mishap. Since the rulings of the presiding authority are not subject to appeal or revision, the speaker Patel had no proper authority to declare Dabhi's decision ab nissi void. Dabhi is now the officiating speaker and will control the secretariat till a new speaker is elected. Meanwhile he has quashed the no confidence motion against himself on the ground that it was moved in the house before the notice period of 14 working days had expired.

The legal and the parliamentary aspects of the crisis have been temporarily frozen by the imposition of the President's Rule. A far more important and furious struggle is being unleashed outside the assembly. But it is going to take quite some time before it fully shapes itself. The volcanic eruption within a party proudly claiming to be a disciplined monolith has stunned its leaders and the panic-stricken high command is struggling at damage control measures by biaming it all on 'outsiders' like the governor, the union ministry and even the powerless Congress Party.

## **Washington Takes Aim at Immigrants**

Rajesh Gopalan

Recent legislative moves in the US indicate that immigrants are increasingly becoming the scapegoat of choice for politicians in Washington. Whereas the brunt of this offensive was previously directed at illegal immigrants, it is now beginning to impact legal immigrants with a vengeance.

WHEN Bill Clinton signed the recently passed welfare bill into law on August 22, it set the stage for some of the most sweeping cuts in a system of social security upon which millions of poor and elderly people across the US depend upon for survival. But what has received less prominence is a key feature of the bill that would deny legal immigrants who are not naturalised citizens any access to welfare benefits.

A new version of the 'Personal Responsibility Act', which was passed by the House of Representatives on July 18 makes all legal immigrants ineligible for most forms of weltare, including medicaid, food stamps, aid to families with dependent children (AFDC) and supplemental security income (SSI). The US senate also overwhelmingly passed a bill on July 23 with similar provisions.

Its sponsors claim the bill will save the US government around 60 billion dollars over seven years, around half of which would come from denying benefits to immigrants. According to its provisions, all immigrants will be denied medicaid, which provides

medical insurance to those who qualify under a stringent means test. In addition, it will also deny any cash assistance, such as SSI, which provides support to the elderly, blind and disabled.

As a result, virtually all of the 1.5 million poor and elderly immigrants in the US who currently receive some form of welfare will quite literally, be left to fend for themselves. With no means of support and no medical coverage it appears likely that many will be forced into destitution.

Reflecting the sentiment behind the new provisions, senator Phill Gramm of Texas provocatively declared that immigrants are expected to come to the US "with their sleeves rolled up, ready to go to work, and not with their hands out, ready to go on welfare". Gramm did not elaborate on what is to be done with the elderly and infirm, or indeed, with the children who constitute the majority of welfare recipients.

Both parties are anxious to get the pending business of 'welfare reform' over with before the November election. The bill is now almost guaranteed to be passed into law since Bil Clinton, who vetoed the last two welfar bills, has declared his support for this one praising the 'new spirit of co-operation' tha has been achieved between the Republican and Democrats. It should not come as surprise that the US political establishmen has suddenly found grounds for co-operation for the present bill conveniently intersect a number of their most important pre occupations.

Welfare and immigration are favourit issues for US politicians, particularly during election season, when invective agains 'welfare-mothers' and 'illegal immigrants commonly substitutes for discussion on the problems of the economy and polity. Racism also plays no small part in this: welfare crime and immigration have also long sincentered the political lexicon as 'code words' that carry a less-than-subtle undertone o race-baiting.

Many cite the US media as a prime culpri in the demonisation of welfare recipient and immigrants. In a bizarre and vivid exam ple of this, ABC's prime time live feature a group of young mothers receiving APDC on one of its nightly shows last year. Seate on stage, the young women were harangue and humiliated by the host Diane Sawye who declared that "to many people, these girls are public enemy No 1". Sawyer, who reputedly earns more than seven millior dollars a year, lectured the women tha "taxpayers" were "mad as hell", and deman ded of them to "answer their question: whe should they pay for your mistake?"

Whereas previous attempts, such a Proposition 187 in California specificall targeted 'illegal immigrants' for discrimi natory measures, it now appears that th distinction between legal and illegal is no longer a singificant one for the legislators Legal immigrants in the US are learning to their horror that Washington has made then the target of a wave of punitive and demonstratively hostile legislation.

For example, the new Anti-Terrorism an Effective Death Penalty Act, signed by Bil Clinton on the first anniversary of last April' Oklahoma City bombing, has effectivel mandated the immediate detention an deportation without appeal of any immigrar convicted of a crime, no matter how long ag or even how minor the crime. While the lit covers anyone convicted of most felonic and certain misdemeanours, this also includes, for example, someone found guilty c defacing a passport or even turnstile-jumpin (travelling on the subway without a fare

In the past three months since the bill was signed, hundreds of perplexed immigrant have been arbitrarily detained, often whe trying to re-enter the country after visit abroad, or at federal offices when renewin their green cards. Those apprehended hav

the law has no provision for appeal or for release on bond. Many of those being detained have lived in the US for years with their entire families, and now face the certain prospect of living away from them permanently.

Equally of concern has been pending legislation to make English the official language of the US. On August 2, the House of Representatives passed the English Language Empowerment Act, a bill requiring that all official government business of the US be conducted in English. But even those who support this bill agree that it is a largely meaningless measure. English is spoken by some 97 per cent of the population and virtually all government business is transacted in English anyway.

The bill does, however, convey the feeling that the English language is under some threat in the US, and that it needs to be legally safeguarded from encroachments by other languages – specifically from Spanish and other languages spoken by recent immigrants.

Historically, the attempt to impose an official language has been of significance in that it created an orphan class of distinctly un-official languages whose fate weighed between outright suppression and lengthy neglect. In Tsarist Russia, for example, the imposition of the Russian language throughout the empire under the policy of 'Russification' sought specifically to eliminate the national languages and cultures of the Polish,

subjects by assimilating them. Within the British Isles, the concept of an 'official language' was used as part of official policy to assimilate the Irish, Scots and Welsh into the English fold and into accepting the political and economic domination of England.

Predictably, the Congressional sponsors of this bill have not strayed far from these ideals. In its preamble, the bill warns that the existence of non-English speakers in the polity can lead to "divisions along linguistic lines" and that the solution to this lies in making English an official language to enable immigrants to "better assimilate".

House Speaker Newt Gingrich defended the bill by launching a blistering attack on the teaching of foreign languages in public schools, particularly those attended by non-English speaking, immigrant children. "This isn't bilingualism", he said. "This is a level of confusion which, if it was allowed to develop for another 20 or 30 years would literally lead, I think, to the decay of the core parts of our civilisation".

"Look at the strife in Canada because they do not have a common bond", said Congressman Brian Bilbray of California in an apparent reference to Quebec. But if anything recent history shows that such 'strife' results not by mere virtue of the existence of different languages, but from the attempt to deny them, and subordinate them to an 'official' language.

little too far at this time, and will likely be of immediate benefit only to Bill Clinton and the Democrats in Congress. By opposing the bill and expressing their moral indignation at its 'mean-spiritedness', the Democrats are successfully painting their Republican opponents as extremists, and stand to reap electoral rewards on this basis in November. Meanwhile, the only substantive argument that the Democrats themselves have countered with is that the bill will not be successful in its stated purpose of assimilation — as it does not provide any funding for English language classes.

But while this particular bill may ultimately never pass into law, it has hinted at definite trends underway. Two years ago. Proposition 187 in California enshrined the notion that 'illegal' immigrants were "fair game" for legal discrimination. At that time, by stressing that it only targeted 'illegals', it was clearly intended to reassure legal immigrants and to lull them into a false sense of security that their privileged status granted them an immunity from such targeting. But recent legislative manoeuvres indicate if anything that Proposition 187 was merely the first step.

What many fear now, is that after testing the waters with the anti-terrorism and the welfare bills, what Washington has established with the 'English Language Empowerment Act' is that all immigrants are now to be considered 'fair game'.

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## **Greater Israel and Ethnic Cleansing**

Frederic F Clairmont

The Zionist state of Israel has become one of our century's most arrogant violators of human rights. Combined with US-sponsored state terrorist practices, it is among the world's most adept practitioners of ethnic cleansing

ISRAEL's right to exist as an independent, sovereign political entity is a historical and moral imperative stemming from centuries of oppression, blatant discrimination of its people, not least the unforgivable crimes of Hitler's Final Solution

What were the foundations of the state that emerged 50 years ago of which ethnic cleansing was but one component? Where is the social justice and equity that its founders proclaimed? Does the US caste oligarchy, Israel and the Zionist diaspora that blueprinted these stratagems of terror, expulsion and abusive exploitation of the Palestinian peoples believe that the pursuit of such outrages given their sheer magnitude, are conducive to the survival of the Jewish state?

Tragically, however, the master race ('uber mensch') ideology of Zionism is rooted in racialism, cultural apartheid and liquidation of the most rudimentary attributes of human rights including property rights of others. The tragic corollary of this is the savage and unremitting mass expropriation of Arab lands by every conceivable stratagem of violence, threats and intimidation yoked to the expulsion of its peoples. All this, and much more Israel has executed with sanctimonious impunity.

Such were and are the foundations of Israel that drapes itself in the constitutional toga of democracy United Nations resolutions demanding its unconditional withdrawal from occupied lands are flouted brazenly with the benediction of the US government Successive US presidents, republican or democrat, tweedledum and tweedledee are the unbending advocates of Zionist expansionism

For decades these crimes without punishment were executed with the complicity of the terror state apparatus of the US its money-changer, its strategic handler, and ideological fellow traveller. What this means is that Israel has been reduced to the level of a major West Asian political tout in the service of maintaining the rule of capital and the socio-political status quo

In sum, the aims of the Zionist superstate with a population of 57 m (growing at 25 percent yearly) would have been unattainable without the massive and sustained power of the US corporate media, the military and multi billion dollar money muscle of the US An appalling price, however, is exacted for this Israel, the economic and military powerhouse, has become the geo-political spearhead of US imperialism whose rapacious quest is its unquestioned geo-political hegemony of West Asia and control of its energy sources. Is it surprising that one third of US foreign aid' is shovelled into Israel and Mubarak's banana republic, albeit in highly unequal proportions?

Where does Mossad end and the CIA begin, and vice versa, is not a facetious question, as Moshe Dayan quipped. As with the US, the foulest of deeds continue to be galvanised in the name of 'treedom' and democracy' That international law has been trampled on is of singular irrelevance.

Likud's Shamir encapsulated pithily the oppressor state's unmitigated racialism and contempt of international law. We are going to talk and talk with the terrorists [i.e., the Palestinians resisting the horrors of their oppression] about negotiation but while we re talking we are going to send in the scrapers and the buildozers on the lands we ve liberated (sic). What's more is that Palestinian labour will build those roads and settlements. He should have added at quasi slave labour wages.

It is one of the biggest hoaxes of the 20th century to have billed the apartheid state a democracy Such are the perversions of the corporate media, not least *The New York Times* and *The Washington Post* Apart from the peoples of the occupied lands, the 85,000 Arabs within Israel proper (18 per cent of the total population) is an oppressed national minority The call by certain Israel democrats for the oppressor state to become "a state for all its citizens" shows no glimmer of realisation

Indeed that formula is anathema to the theory and practice of Zionism whose ideological kinship with Nazidom is all too

evident Aiso, within the Jewish population itself the victous class polarisation is daily becoming more glaring

South Africa's apartheid system has been formally dismantled thanks to the armed liberation struggle, but that of Israel in its most obnoxious forms persists. Never mind No sanctions will be adopted against it in the US dominated UN-general assembly, not to speak of the US Congress whose pro-Israel propensities and the all-encompassing power of the Zionist lobby require no publicity

The common denominators of Israeli annexationism have been mass expulsions, beatings, disappearances, demolition of homes, imprisonments, systematic torture not to speak of aerial and artillery bombardments against defenceless Arab villages, the wanton killing of old men, women and children

In so doing the Zionist state has become one of our century's most arrogant violators of human rights. That is not all. Combined with US sponsored state terrorist practices it is indeed one of the world's most adept practitioners of ethnic cleansing.

#### THE OSLO DEAL

For the criticsof Yasser Arafat the Oslo Agreement represented a crooked deal between Arab collaborators and the I abour government. In this perspective the handshakes of Arafat with Shimon Peics and Netanyahu are fig leaves. The deal was flawed from the start. What triggered the desire of both Rabin and Peres and the Israeli ruling class for an agreement was the emergence of one of the most noble battles against the occupation the Intifada. What has happened since 1993? Nothing fundamental since the occupation has not ended.

What Oslo signified was a continuation of the occupation under another name. What the Israelis did not want, as the victory of Netanyahu demonstrated, was a genuine partnership with Palestinians but rather the creation of an Israeli client state. Give Arafat the title of 'president' they are saying but it would not change Gaza and the West Bank from being Bantustans. The analogy with South Africa is appropriate. They are similar to the Homelands in South Africa. The test case was Netanyahu's outright rejection of the formula, land for peace.

The Oslo deal sanctified the occupation and made the creation of a viable Palestinian state unworkable. The Palestinian autonomous government would thus become an instrument of the occupant and a permanent

bostage of US/israeli state terrorism. Arafat's presidency is one without power What the PLO precariously have are a number of highly fragmented cities and villages surrounded by the military and the settlers. They are not viable entities

Netanyahu won a marginalised electoral victory based on his repudiation of any kind of compromise with the PLO and on the slogan of Greater Israel. The one single issue on which the eight different factions in Netanyahu s shaky ultra right wing and fundamentalist coalition were able to agree was the expropriation of Arab lands.

Netanyahu's claim that he is doing no more than following in the footsteps of his Labour predecessors is true According to the settler publication Nekuda the so-called freeze' of the previous Labour government saw 50 per cent expansion in the number of settlers in the West Bank and Gaza from 1 05 950 to 1 51 324 in about four years After all noted Netanyahu in his speech to the US Congress which was received with thunderous ovation he could not be expected to do les What modesty and restraint The tact is at such tempestuous rates of annexationism and within a very short time span there won t be any Arab land left to expropriate

Likud's and Labout's US paymasters have whined from time to time at the scale of appropriations but they have condoned the settlements. Ariel Sharon master terrorist and rapist of South Lebanon has obtained the coveted pitze of infrastructure minister. The green light has now been given to further expansion. After his tour of West Bank settlements, interior minister. Ely Suissa granted millions of shekels for establishing new settlements with the apologetic utterance that while. I don't think this is sufficient, but it's a good start.

#### JERUSALEM THE TEST CASH

The question of self determination was never raised at Oslo What the recent Arab summit in Cairo stressed was that the pre requisite of peace not only in the occupied lands, was the setting up of a Palestinian state in the. West Bank and Gaza with Jerusalem as its capital Shortly after Israel annexed east Jerusalem, David Ben Gurion declared that the walls of the Old City should be demolished to expunge the Islamic heritage

Successive governments of the oppressor state, as one *Financial Times* analyst noted on July 15, 1996 (and 21so see Walio

Khalidi, Isiam, the West and Jerusalem, Hood Books, London, 1996) did something less striking but far more effective that included the building of massive settlements in the surrounding hills underpinned by military force as well as discriminatory housing policy. There was never any ambiguity in the mind of Ariel Sharon as to what that policy should be to transform a very small Jewish minority into "a Jewish majority for ever

This policy once again involved the mass expropriation of Arab lands, the ringing of Jerusalem with four big clusters of Jewish settlements on the surrounding hills. This would create a Greater Jerusalem, as a component of Greater Israel, that would be peopled, again Sharon, 'by at least one million Jews' "In Jerusalem', he thundered 'we built and created historical facts that can no longer be changed. We did it openly

This sounds just grand but Sharon and his gang of big time state terrorists must realiste that the scale of such rape is not immutable even if backed by billions of US greenbacks. Deployment of such unrestrained power ignores the lessons of the past notably the force of Arab nationalism and what has been called not inaccuritely the power of the

Arab street' of which the Intifada is a conspicuous illustration

The fires of Arab nationalism are burning strongly in such US client states as Saudi Arabia, Jordan Not least within the occupied territories. The US undeclared war against Iran Libya, Syria and Iraq have tanned these flames. It is well for Sharon and his religious fundamentalists to listen to the words of one of the leaders of Hamas.

Our strategy must be used at strangling the settlements wherever they are We can take to the streets to confront the Israeli bulldozers and do this daily In this way we can turn the life of the settlers into a hell (quoted in *The International Herald Iribune* September 13 1996)

It would be foolish to pretend that these are idle words. This time however Intifada as one of the greatest of resistance movements, will not be fought with the neolithic weapons of stone and sticks. Its fires will inevitably spread beyond the contines of Gaza and the West Bank it recalcitrance and aggression do not give way to compromise and common sense. I wonder if Netanyahu and his US Congressional predators are listening or have they lost the cipacity of so doing?

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## **Neo-Liberalism and Daily Life**

James Petras Steve Vieux

Data on the effects of unemployment, underemployment and low-paid employment in the US reveal a strong tendency for the downwardly mobile to direct their anger inward, to become depressed, hostile towards their family and to withdraw from neighbours, friends and former colleagues. This behaviour is aided by the major political parties, the mass media and academic publicists who point to the inevitability of 'globalisation', the virtues of 'market competitiveness' and 'need' for labour flexibility – which presents the problem of the individual victim as the product of impersonal forces beyond her/his control.

ONE of the most puzzling aspects of contemporary life is the gap between growing socio-economic deprivation of a wide swath of wage and salaried workers and the virtual absence of political radicalism. At best there is general malaise, increasing voter alienation, voting against incumbents, public opinion polls showing a majority in favour of a third party, disgust with 'politics', politicians, Washington, etc. But these are views and opinions that don't materialise in any new parties, leaders or programmes to challenge the major economic and political institutions that are the source of downward mobility, employment insecurity and declining public services, social benefits and wages. In fact some of the very conservative politicians who propose to deepen the social cuts and further downward mobility are able to manipulate this diffuse voter malaise to gain public office in order to further punish their electorate and direct their anger at least temporarily at groups below or outside or at their neighbours, families and themselves.

What happens to people who lose their jobs or are confined to low paying part-time or full-time work? Rather than simply attribute the lack of revolt to general or abstract processes ('globalisation') or structural conditions ('the fragmentation and dispersing of work-sites'), or to ideological affinities ('gut conservatives', 'machismo', racism) or to historical identities (part of the 'deep South'), all of which may play a role, it is important to examine the sociopsychological effects of these negative changes induced by business on workers.

'Globalisation' has been around for several centuries and is as much an effect as a cause: it is pretty much known that state policy has played a major role in determining whether capital invests 'at home' or 'abroad'. And state policy is a function of the correlation of social forces – the capacity of different

classes to mobilise resources to influence state economic policy.

It is not impersonal global economic forces that are at work here but an economic strategy rooted in the interests of the upper class and the corporations. This strategy, which we refer to as neo-liberalism, aims to shift wealth upward by stripping away or weakening the benefits, protections, norms of pay and employment and working class organisations characteristic of the post-war period.

In the labour market this means that employees are facing an intensification of the insecurity that is typical of the working class condition under capitalism. Forty years of 44 hours per week employment at decent pay with benefits and a secure pension was for many a reality and many more a dream which stabilised and oriented working class life in the first 30 years of the post-war period. Over the past 20 years in the US a concerted effort has been made - in the Congress, the regulatory agencies, in the boardrooms, in international trade agreements - to uproot the certainties and securities of the earlier period. In this paper we explore the socialpsychological results of three trends in the labour market characteristic of the neo-liberal period: worker displacement, contingent work and the spread of low-wage labour. Our key question is why does the corporate globalisation strategy not provoke any countervailing response?

Clearly the bureaucratisation of trade unions, their decline to almost insignificance is one factor, as is their subordination to the 'globally ovented' Democratic Party. But what about the workers themselves? Before one jumps to discussing 'national' and 'political' responses, it is important to examine the 'pre-political', individual, primary and secondary group relations that result from corporate restructuring. It is our hypothesis that the socio-psychological (subjective) effects at the micro level affect

the capacity of classes – in this case wage and salaried groups – to respond with political efficacy to class adversaries.

Hence our assumption is that a precondition for political action is mentally healthy individuals who turn against employer abuse and identify it as such, rather than inward into chronic conditions of depression or other mental disorders. Secondly, we will argue that individuals who direct their anger toward abusing those they live with are less likely to engage in radical political action. Conversely, strong families, solidarity and loyalty between spouses and within couples is a precondition for directing anger upward and outward to the sources of deprivation and downward mobility. We do not argue that strong domestic ties necessarily lead to radical political action; what we are saying is that domestic violence and child abuse is the result of transmitting corporate violence from the victim to their next of kin or those they live with. The victim becomes the victimiser, which precludes political opposition and creates a bond between the employer as victimiser and the displaced worker as victim/victimiser. For example, while conservatives proclaim the importance of supporting 'family values' their social policies put great stress on the family. The employee that absorbs the 'family values' rhetoric without the means to sustain his family may then try to force the spouse to conform to the conservative ideology (family duties, exclusive child rearing by the family, etc) even as, for example, women are obligated to engage in full-time employment outside the home. Finally, downwardly mobile individuals who withdraw from friends, former work-mates and from community involvement are less likely to 'socialise' their individual predicament, create elemental bonds which are the preconditions for political action. Conversely, individuals who group together with other displaced and/or low paid workers, or who retain ties to unions and begin to discuss their conditions are more likely to search for broader social solutions rather than blame themselves, seek multiple employment, etc.

This essay explores precisely the socialpsychological consequences of restructuring in order to understand why downward mobility is not associated with political revolt. This study is 'diagnostic' rather than 'prescriptive'; it looks at the first link in the chain of causes and effects that connects what C Wright Mills described as the 'private discontents' that lead to public action.

#### CAPITAL MOBILITY

A key element in 'neo-liberal restructuring' is capital mobility: from one geographic region to another, from one sector of the

economy to another, from labour intensive to capital intensive. The result is a growing 'transitory relation' between employers and employees. The workers' experience on the job is constantly in flux. There are only temporary connections and links with fellow workers, with employers, with the surrounding work and living environment. Hence there are many relations but they are surface or superficial. Transitoriness becomes a way of life where there are no deep commitments and little basis for social solidarity. The result is the decline of social support systems, atomisation and an increasing sense of individual vulnerability. When disaster hits the impact is crushing.

During the 1980s, 20 mn workers were displaced, fired without possibility of recall. Over the decade the percentage of blue collar workers among the displaced fell from 65 per cent to 55 per cent [US Congressional Budget Office:9]. Hurt worst were many of the older, less educated workers with long tenure on their previous jobs. They took longer to find new jobs, suffered greater than average wave reductions when they did find a 10b or were displaced from the labour market entirely. Displaced workers tended to spend just under 20 weeks unemployed, with older workers, women and non-white workers taking longer [US Congressional Budget Office: 19, 211. Surveyed one to three years after losing their jobs, half of the displaced were either still not working or were earning less than 80 per cent of their old salaries, some of them substantially less [US Congressional Budget Office:xii]. Of the displaced white collar workers, twothirds of administrative support workers such as secretaries were re-employed in similar jobs but fewer than one-half of managers and executives were able to find jobs similar to their old ones [Caves and Kreps 1993].

The displacements have continued in the early 1990s at a brisk pace. Between the start of the recovery in the spring of 1991 and the spring of 1994 the largest corporations in the US had announced plans to cut more than 1.8 mn jobs [Forbes, April 25, 1994: 242-43]. Of firms reporting cuts to the American Management Association the percentage of manufacturing firms which downsized fell as the decade progressed while the percentage of service firms (financial, business and professional, etc) grew sharply [AMA 1994:1]. Permanent displacements gradually came to be regarded not as a singular, conjunctural development but as the reflection of a 'deep structural change' in a 'prolonged era of job loss' [Fortune, September 20, 1993: 54-56; Wall Street Journal, March 16, 1993].

Unemployment is a source of psychological stress which has consequences for the mental well-being of the unemployed person. The meaning and experience of unemployment noted by researchers —

financial pressure, the destabilisation of daily routines, activities and identities and the disruption of plans and hopes - all contribute to chronic stress. Unemployed workers have been shown to suffer higher levels of psychological symptoms compared to employed workers As one scholar put it "...unemployed individuals fare more poorly than employed individuals on virtually all aspects of psychological functioning" [Barling 1990, 1992]. Symptoms range from increased negative mood to increases in anxiety and depression following the layoff as well as greater number of psychosomatic complaints and greater levels of parapola and hostility [Liem and Liem 1990:184-85]. A majority of 20 or more time series studies on suicide found that unemployment had negative consequences [Dooley and Catalano 1988:5]. Mortality rates were generally higher for the unemployed. A study done in England and Wales, for example, found that "unemployment increased the risk of mortality by 20-23 percent" [Barling 1992: 192].

Given the large number of executive and management employees who were forced out of management and into such areas as administrative support or sales, the psychological consequences of underemployment – working below one's credentials – should be noted. Underemployment has adverse psychological effects. A study of the underemployed found that one-fifth of those surveyed considered their lives to have taken a serious turn for the worse as a result of their condition [Barling 1992:221].

In many ways small and large, the stress of unemployment has adverse consequences for family life. Ross and Sawhill's longitudinal study of 5.000 families found a positive relationship between unemployment and marital instability [Ross and Sawhill 1975]. Economic stress may also increase, short of separation or divorce, levels of marital conflict [Moen, Kain, et al 1983]. Increases in the unemployment rate are associated with increases in the divorce rate [Barling 1990:204].

There is strong evidence of a link between child abuse and unemployment. For example, one study examined all child abuse cases reported to the authorities in the US during 1967 and 1968. 13,000 cases. This data were supplemented by a sample of incidents from 39 cities and countries. The numbers of fathers unemployed at the time of the abuse was higher than in the population at large and nearly half of the fathers had been unemployed in the year before the incident [Gill 1971, discussed in Barling 1990:206; Jones 1990]. A variety of studies using different methods indicate a connection between spouse abuse and unemployment. Both studies of women in battered women's shelters and emergencies rooms and large surveys based on random samples indicate higher than average levels of spouse abuse in families where the father is unemployed [Barling 1990:200].

#### PART-TIME WORK

The contingent workforce in the US is composed of part-time, temporary and subcontracted workers. The total contingent workforce is estimated to make up over 25 per cent of the workforce. Part-timers those working under 35 hours per week are the largest part of contingent workers [Belous 1989:20]. Most of the growth of part-time unemployment since 1979 has come from the growth in involuntary parttime workers - workers who would prefer full-time work [Tilly 1991:10]. The percentage of part-timers in the workforce has grown from 2.1 per cent in 1957 to 18 per cent in 1991. Two-thirds of part-time workers were in clerical, sales and service occupations. Part-time work grew at an enormous pace in the 1980s: "Between 1979 and 1987, it increased about four times as fast as full-time or voluntary part-time employment" [Levitan and Conway 1992:48]. Some 17 per cent were in managerial, profession and technical positions [Levitan and Conway 1992:45]. The desire of employers to cut labour costs has been the driving force behind the growth of parttime labour not the work preferences of employees [Tilly 1991:10].

Women make up two-thirds of part-time workers. The men are largely retirees or teenagers. The part-time workers typically receive lower wages than full-time employees. In 1992 part-time hourly employees earned 62.3 per cent of the wages of full-time workers [US Senate Hearing 1993:26]. One quarter of part-time workers earn the minimum wage compared to one in 20 full-time workers [Tilly 1991]. In 1985 about one-half of full-time, full-year workers had pension plans while fewer than 20 per cent of part-time workers were covered [Levitan and Conway 1992:53]. Part-time workers are far less likely to receive paid vacations, holidays, personal or funeral leave in large and medium-size US workplaces. In smaller companies, where huge numbers of jobs have been created in recent years, the situation is much worse in these areas. as it is for health insurance coverage and pension plans [US Senate 1993:26-27].

Despite the rapid growth of part-time work, study of its social-psychological consequences for the individual and family life is still not very far advanced [Rotchford and Roberts 1982; Barling 1990:239]. In the US the rate of growth of participation in part-time work by males was higher than for women, though female participation in absolute terms far exceeded that of males. Internationally, there is evidence of the start of a decline in womens' participation in part-time work [ILO 1993:20]. A large government sponsored survey of self-selected

respondents in Canada turned up much worker dissatisfaction with pension and other benefits and a strong sentiment that part timers were more badly treated than full timers and exploited by employers in order to save benefit and other costs [Canada Commission of Inquiry 1983 85] A very extensive survey of European employers and union representatives covering large businesses in eight countries found that the employee representatives most often criticised the lack of career opportunities lack of job security and lack of fringe benefits when asked to describe the disadvantages of part time work for the employees [European Foundation 1993 122 23]

US researchers have found part time workers to be especially dissatisfied with job security, impersonal treatment by employers and underuse of their skills and abilities [Feldman and Doeipinghaus 1994]

The bulk of part-time workers now are women and such work poses errous problems for them and for family life. Part time workers reported that they felt excluded on the job from access to organisational interpersonal and skill development areas Currously, given what is known about the pay and benefits of part time work there is mixed evidence about the job satisfaction of part time workers. Some studies have found that women experienced more satisfaction and happiness at work than full timers while other inquiries have found significantly less satisfaction among part timers [cf Barker 1993 52 and McGinnis and Morrow 1990] As we shall see women part timers have significant areas of conflict between their family and work roles (role conflict) as well as role overload. One may speculate that the high levels of job satisfaction may reflect satisfaction with a carefully crafted delicately balanced schedule of work and home responsibility - and a reluct incc to alter the current schedule more than satisfaction with the conditions ip by and benefits of the job per se (For a similar argument used in a different context see McRae (1989))

There is good reason to think that women suffer more stress than men because of the conflicts between their roles at work and in the home (role conflict) as well as the sheer magnitude of the tasks they are forced to try to accomplish (rol- overload) [Emmons et al 1990 86 Piotrkowski Rapoport and Rapoport 1987 256] While there is some increase in husband's participation in work around the home wives still perform a disproportionate share of this work [Fmmons et al 1990 86] Women therefore experience more conflict between their roles married employed women experienced more role conflict than did women who were housewives [Emmons et al 1990 86] Poorer families and particularly the women in these families which lacked the resources to manage the conflicts between home and

work, by employing domestic help for " example, were likely to experience stress as tensions stemming from work spilled over into the family and vice versa [McRae 1989 42] Occupational stress has been associated among male blue-collar workers. with a variety of psychological symptoms and disorders, including alcohol-related problems. Though there are fewer studies of female blue collar workers there is evidence to suggest that this association holds for them as well [Bromet et al 1990 135] Studies of temale blue-collar workers have found a strong relationship between stress in the family and marital conflict on the one hand and depression and depressive symptoms on the other [Bromet et al 1990 136] According to a recent study of women and part-time work women workers did not report lower role conflict or role overload [Barker 1993] Why this should be so and its consequences for the lives of women and families are important areas of inquiry for future investigation given what is known about stress on the job and at home

Perhaps the most disturbing consequence of part time work is the high rate of spouse and child abuse in families where the husband is working part time. A national probability sample conducted in the US in the 1980s focused in part on employment status and domestic violence and found that physical child abuse occurred in 26 per cent of the homes in which the father was employed on a part time basis, the highest of all the rates reported. As for spouse abuse, spouse abuse, was highest when the husband was employed on a part time basis." [Barling 1990 206]

An important feature of part time work in the US is the heavy participation of teenagers in this work. In recent years between one half and two thirds of all high school juniors have held part time jobs at some time during the year. Very often, they work heavy schedules over one half of all employed high school seniors and almost one quarter of all employed sophomores worked more than 20 hours per week.

Psychologists who have studied this phenomenon have tound adverse consequences for these teenagers in the areas of school performance and involvement, deviance and participation in family life when the teenagers worked more than 20 hours per week. The students tended to do less homework to take part less often in school activities to drink and take drugs more frequently and to assume a greater degree of independence and autonomy from their parents and engage in delinquent acts Later studies replicated the earlier results In addition longitudinal studies showed that teenagers who later went on to work 20 hours per week or more were already significantly withdrawn from school and independent from their parents but that part-time work furthered these attributes along with delinquency and drug use [Steinberg, Pegley and Dornbusch 1993, Steinberg and Dornbusch 1991].

#### LOW WAGE WORK

One of the most disturbing features of the neo-liberal economy is the expansion of low wage work The percentage of the workforce in low wage work for year round, full-time workers fell from 24 1 per cent in 1964 to 12 per cent in 1974 The proportion of workers in low wage work remained stable between 1974 and 1979 By 1990 the percentage was back up to 18 In absolute numbers 7 8 mn were low wage workers in 1979 compared to 14 4 mn in 1990 [Mishel and Bernstein 1994 127] The overall direction of these trends held true for all races but with larger expansions of lowwage work for blacks and Hispanics [Mishel and Bernstein 1994 1281

While the rate of those receiving low earnings has increased for all age groups since 1979 young workers are more likely to receive low wages. The percentage of tull time year round workers in the 18 to 24-year old category who received low wages rose from 22.3 per cent in 1974 to 39.2 per cent in 1989. Expansion of low wage employment has contributed to what has been described as one of the most significant income developments over the past two decade, the drop in family income of the youngest families trying to raise children.

Households headed by persons under age 25 experienced a drop in family income of 26 3 per cent between 1973 and 1986 As one labour economist put it, 'the relative income position of the nation's youngest families has deteriorated fairly sharply and continuously over the past two decades (1967 86)" [Grant Foundation 1988 16, 18] Married couples lost 11 per cent of their incomes in the 1973-86 period while female headed familes with no spouse present lost 32 4 per cent of their income White families lost 194 per cent of their real income in the period compared to a 467 per cent loss among black families headed by a person in this age group

Given these trends it is not surprising that poverty has increased over time among this age group and that young families have higher poverty rates than do families generally. The percentage of families in poverty headed by a person under 25 increased from 15.3 per cent to 32.6 per cent in 1989. In 1989 the percentage of all families with incomes below the poverty line was 10.9 per cent, the percentage for young families was 32.6 per cent.

The spread of low-wage work does not automatically mean an increase in the number of families below the poverty line. The family income of a family with two low wage workers may suffice to lift the family above the poverty line. What it does mean is the spread of economic hardship and insecurity.

An illness - for many of these workers are uninsured - a lost job or an employer cutback of hours may easily plunge the family

Economic hardship has been linked to increase marital tension and, eventually, higher levels of marital instability (separation and divorce) [Liker and Elder 1983] Divorce is more likely among low income people, a finding which has held good over decades of research Unskilled work has also been associated with greater marital instability [Raschke 1987 603] It may be that stressful and unsatisfying work experience are displaced into the home where they lead to conflict [Piotrowski Rapoport and Rapoport 1987 2661

There is considerable evidence that stress ful living conditions - including unemploy ment low income and/or discrimination are associated with child abuse and neglect [Kadushin and Martin 1981 16 19] The widespread notion that child abuse and neglect occur to the same extent at all levels of the class structure is false. As one researcher comments Every national survey of officially reported incidents of child neglect and abuse has indicated that the preponderance of the reports involves families from the lowest socio-economic levels' [Pelton 1981 24, Starr 1988 132 Kadushin and Martin 1981 161

This is not simply a result of the greater vulnerability of the poor to exposure and reporting Particularly telling is the fact that the majority of fatal victims of child abuse and neglect are from poor families [Pelton 1981 29] Because of the greater visibility and the greater exposure, abuse fatalities are proof against the reporting biases which, it has been argued, plague child abuse statistics The fact that the incidence is so much higher among the poor is therefore of broad significance for understanding the social incidence of abuse

#### CONCLUSION

Our brief survey of the available data on the effects of unemployment, under employment and low plud employment reveals that there is a strong tendency for the downwardly mobile to direct their anger inward to become depressed, hostile towards their family and to withdraw from neighbours friends, former workers This behaviour is aided and abetted by the major political parties the mass media and academic publicists who point to the inevitability of 'globalisation, the virtues of 'market competitiveness' and the 'need' for labour flexibility, which presents the problem of the individual victim as the product of impersonal forces beyond her/his control Insofar as there is an absence of an ideology (and institutions to transmit it) which identifies the negative outcomes as a product of corporate calculation based on class interests opposed to those of labour, the downwardly mobile workers have as their only 'reterence groups' their immediate circle - themselves, their families and their acquaintances Whatever aggressions and frustrations accumulate, they are deflected downward and inward rather than outward. as the wealth of data we have cited shows

The problem of advocates for the downwardly mobile workers then is how to accompany' the fall with channels of communications and ideology which creates new sites of activity outside of the home, provides activity in the extra timeframes for costructive action directed at the source That teaches family values of solidarity based on the common need to counter corporate abuse instead of domestic violence and child abuse

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## **Interrogating Anthropology**

Mary E John

Fictions of Feminist Ethnography by Kamala Visweswaran, Oxford University Press, Delhi, 1996, pp xii + 205 Rs 345 First published in 1993 by the University of Minnesota Press, Minnesota

KAMALA VISWESWARAN's book stands out as one of the more innovative and courageous efforts to deconstruct, if not undermine the discipline of anthropology by an insider The book consists of nine discrete essays loosely interconnected by virtue of their production at the conjuncture of anthropology, post-structuralist theory and teminism in the US. In her introductory chapter Visweswaran acknowledges that her book is largely aimed at North American audiences, even though she also expects to beread in south Asia. The book is most obvious interest for an Indian reader (but by no meanits only one) lies in those essays which draw upon fieldwork experiences during her project on Tamil women's participation in Indian nationalism, a project that is not yet complete Taking my cue from Visweswaran's un certainties about shuttling between cultures and her belief that "different audiences might require different forms of writing and theorising' (p.11) this review exploies the significance of her book for an Indian audience

As an ethnography that is self-consciously experimental Fictions of Leminist Ethno graphy does considerably more than practice the by now quite well known and well worn) precepts of the experimental turn in the discipline, which questioned older assumpt ions of 'writing culture. First of all according to Visweswaran, the much proclaimed new ness of experimental anthropology during the 1980s was something of a misjudgment - a significant number of US women anthropologists have for instance, been working across genres, employing modes of fiction autobiography and so on, as far back as the earlier part of this century. Secondly, much of the trademark self-reflexivity of the newer approaches designed to interrogate the ethnographic authority underwriting the ability to represent other cultures for the west has too often served instead to reinforce this very authority. While the first two chapters of Visweswaran's book are engaged in retrieving marginalised anthropological voices (such as Franz Boas first generation of female students) for their relevant feminist critiques of mainstream positivistic assumptions, the remaining chapters are devoted to a demonstration of the kind of deconstructive method Visweswaran has come to inhabit

The titles of some of the chapters -'Betrayal An Analysis in Three Acts', 'Refusing the Subject', 'Feminist Fthnography as Failure' - provide some indication perhaps, of the author's special concern with the apparently less than successful aspects of the ethnographic enterrise Negative experiences in the field, that are usually only taken to be failures that must subsequently be overcome, serve here as a kind of touchstone, enabling the author to reflect on questions of form method, the status of fiction and the position of the anthropologist 'Deconstruction stands for the textual ability to undermine authority. by actively working with the problem of the effects of relations of power - whether between the investigator and the investigated, among her interviewees themselves, within the family or netween nationalist discourse and the women it came to interpellate

Within our Indian context the careers of ocial and cultural anthropology (whether housed in the discipline of sociology or not) have engendered nothing akin to the tlurry of questionings, simultaneously methodological and political of which Lictions of Feminist Ethnography is an exemplar Nor have feminist inroads into the discipline of anthropology here made any significant impact on its overall frames of reference or methods of inquity. This is not the place to try and fathom such divergent legacies, except to note in passing that a critique of the making of Indian anthropology and sociology is long overdue (My point is not to show up Indian anthropology for being behind the times, but simply to wonder at the considerable distance that continues to separate the discipline from contemporary experiences and issues)

Since the author does not directly address the specificity of the institutional field she is working within, we are left with the assumption that the overwhelming problem for the new ethnography has to do with representing cultural difference. For a feminist ethnographer this translates into the reality of the failure of sisterhood—the breakdown of 'fables of rapport' the silences, betrayals and refusals to speak. In one of her chapters, Visweswaran stages an account of an interview that failed, but the moral of this story is not that the anthropologist will try

and do better next time Instead, she draws suggestive contrasts and connections between 'fieldwork' and 'homework' Experiences of failure in fieldwork appear to have sensitised Visweswaran to her takenfor-granted 'home' in the US, which, like most ethnographers, she had left behind in order to enter the 'field' The US turns out to be a place neither she nor North American anthropology more generally have sufficiently reclaimed as a site for ethnographic investigation for 'homework As Visweswaran puts it, "home once interrogated is a place we have never before been" (p 113)

We thus get a remarkably imbricated account of the predicaments and complexities of contemporary US identity politics from the perspective of a second generation Indian-American of mixed parentage Much of its value lies in the way Visweswaran is able to contextualise and historicise the making of the Indian-American community within the deceptive multi-culturalism' of the US This includes NRI s indifference towards, if not erasure of, native American 'Indians', as well as the active promotion of conservative anti-alfirmative action lobbyists such as Dinesh D Souza Thus the feminist ethno grapher's purpose is hardly one of simply reclaiming an identity or a community

My second generation hyphenated identity is formed in the process of negotiating political atfinity and alliances of coming to terms with whom I owe allegiance, and where my accountabilities lie, activating at times membership in Asian American and south Asian coalitional identities, at other times identification as woman of colour or Third World woman' (p. 139)

Since Visweswaran's overall concerns have to do with the possibilities and limits of reconstituting the home' and the 'field' across cultures, how might one respond to her representational strategies regarding India, her teminist interventions within Tamil nationalism?

One of the most important tasks she performs is to confound the expectations of her western audiences, eager for native voices and stories from the field. Given the normative power of western feminism, now ready to receive 'Third World women' in all their fascinating difference, Visweswaran's multiple cautions are timely and necessary. As Visweswaran underscores, western ethnographers, including feminist ones, not only have to unlearn their assumptions about gender, but must confront informants' refusal to speak on cue into the tape recorder.

At the same time the strong emphasis on problems of failure in the field seems to place an overwhelming burden precisely on these experiences of failure, and on the particular women interviewed, such as

'Uma', 'Janaki', 'M'. While I, for one, am happy to see the category of experience rescued from its precipitate ejection by poststructuralist theory, its effective theorisation requires a more active engagement with the relevant historical context of contemporary India and Tamil Nadu. The notion of 'conjuncturalism' offered in the book as a way of dealing with interactive global cultural processes does not quite address the site of fieldwork/homework in India as a sociopolitical location constituted by intellectual and political engagements. There is something abstract about the brief discussion of nationalism, the family and marriage that is offered; moreover, the very plausibility and ordinariness of the problems Visweswaran encountered get crowded out in the process.

Thus, for instance, the fact that one of the women she interviewed, Uma, did not reveal to Visweswaran that she had been a child widow (which was betrayed to the author by Uma's friend and co-nationalist Janaki) seems quite understandable, considering the over-determined status of the 'widow' ever since social reform movements produced her as the emblematic figure most in need of redemption. I am therefore unclear what to make of Visweswaran's claim that the tamily does not change during nationalism (p 57). In different parts of India – south and north – the family changed intensely, if under complex patriarchal and colonial

conditions that precluded 'autonomous struggle' by women. (For instance, the breakup and transformation of the Namboodiri-Nair alliance in Kerala under the pressures, amongst other things, of the nationalist ideology of conjugality, may not even be the most dramatic historical example one could cite.) Given the crucial importance of regional, as well as caste/class/gender difference (which is another way of saying that the very shape caste, class and gender issues take are fundamentally affected by regional considerations), one must also pause before applying an essay such as Partha Chatterjee's 'Nationalist Resolution of the Women's Question' without any mediations: Can an analysis of 19th century Bengal speak directly to 20th century Tamil Nadu?

I have raised these doubts in order to point ahead to the fuller exploration of questions of the family, marriage, social reform and agency for women during Tamil nationalism that Visweswaran's present book leads us to expect. Having overturned the orthodox anthropological requirement of writing a monograph before venturing into the escay, there is no telling just what may lie in store, when so much of the western ethnographic structure has broken down. Given Visweswaran's accountability to multiple audiences, and her recognition that such an accountability may require different accounts, we are not likely to be disappointed.

typology is used to clarify regional political configurations. Raghavan shows that in the Narmada valley, commercialisation and redefined property rights generated three tendencies, dominance of the 'malguzars', though the instruments of control evolved; struggle over rents and rights of occupancy tenants; and vulnerability of peasants operating on insecure rights, poorer soil, and perpetual indebtedness. Bates studies one source of central Indian commercialisation, "the presence of backward reserves of cheap grain and labour" (p 367), mainly migrant labour from Chhattisgarh. They were 'overexploited' in the malguzar-dominated wheat area, and somewhat better-off in the cotton areas of Berar, but in either case, came from "a tribal form of economy which in itself acted as an obstacle to the penetration of capital" (p 348). Amin examines "dimensions of dependence" in eastern UP sugar milling in the 1930s - polarity of interests between cane-growers and mills, and maltreatment of the former by the latter. The unbalanced bargaining "stemmed from conditions specific to the region - a consequence of peasant dependence which had now acquired a new dimension through the growth of sugar mills" (p 256).

All the remaining essays of the volume can be discussed together, because they address, implicitly or explicitly, a single question of broad and inter-disciplinary interest. The question can be phrased as. When does commercialisation enable development? If 'development' is defined as sustained rise in productivity, it is identical, at least in the long run, with high or rising rates of investment in land Analytically, two types of explanations are possible for under investment in land: (1) dominance of non-profit incomes -- rent, tribute or interest over profits, a situation attributable directly. power-relations, but perhaps fundamentally, to sheer scarcity of land and capital relative to tillers; and (2) madequate state intervention in extending supply of scarce resources - formal credit, water which can augment land, knowledge and skills which equip and empower labour, etc.

Within this framework, several lines of reasoning can occur to explain why commerce did not necessarily generate development in colonial India. I shall deal with three of these, land-scarcity, credit-scarcity, and infrastructure-scarcity.

Eric Stokes' essay contrasts eastern and western UP primarily in terms of demographic situations which gave rise, in the poorer east, to early land-scarcity and stronger rentier relations. Curiously, the study no more than casually mentions the fact that western UP received much greater landaugmenting public investment. Kaiwar too stresses population density as a factor in western India's regression from prosperity

## A Random Selection in Agrarian History

### Tirthankar Roy

Agricultural Production and Indian History edited by David Ludden; Oxford University Press (Oxford in India Readings: Themes in Indian History), New Delhi. 1994; pp x + 382, Rs 395

THIS book contains a selection of essays on agrarian history of colonial India, presented with a well-written introduction on the evolution of the discipline, and with a useful and comprehensive annotated bibliography. The essays themselves are taken from works well known in the field, and are deservedly reprinted.

Beyond a shared concern in 'commercialisation' of agriculture in a loose sense, there is little in common among the essays, as one can guess from the book's generous all-inclusive title. Some, in fact, are more about regions than about agriculture. The detailed themes include: rise of commodity production (B B Chaudhuri on Bengal, A Satyanarayana on coastal Andhra), production and exchange relations (Sugata Bose on Bengal, T C A Raghavan on central India, Shahid Amin on eastern UP sugarcane), migrant labour (Crispin Bates on central India), and explanations of eco-nomic growth or stagnation (Eric Stokes on UP, Vasant

Kaiwar on Bombay Presidency, Ian Stone on UP, and partly Satyanarayana). Some of the articles, to be taken up next, can only be discussed individually.

Chaudhum's work on Bengal is too tamiliar to need any introduction. The article here describes the progress of commercialisation crop by crop, and shows how local factors interacted with the more rapidly changing macro-economic conditions aiding exports. Satyanarayana's research on coastat Andhra is similar in spirit, but covers a wider range of activities connected with agriculture. Bose and Raghavan deal with class structure. Disputing the celebrated 'jotedar thesis', proposed by Rajat and Ratna Ray, which generalised for colonial Bengal an organisation dominated by 'village-controlling rich farmers', Bose distinguishes three types of organisations: the jotedar-sharecropper complex of north Bengal, peasant smallholding of eastern Bengal, and small-holding with demesne labour in central Bengal. This to stagnation, but goes one step further, and attributes high-fertility demographic regime to social practices enabling easy access to subsistence Population recurs also in Bose's account of the eastern Bengal peasant, "weighed down by scarcity of land" (p 301).

Kaiwar argues that most other theories of under-investment that preceded him shortage of capital, or proximity to the technical frontier at given private resources - are wrong. He does not, in my view, succeed in this critique. Kaiwai's own data do not disprove that capital was scarce, but suggests that it was scarce only in regions where risks to lenders were great. In general, and as one would expect, credit-supply was positively correlated with prospects of return over risks across space and overtime. The point he misses is that high risk was endemic in Indian agriculture, and so too, therefore, was high cost and small quantity of credit supplied. On the technical barrier, Kaiwar points out that in theory it was possible to raise yield by changing practices. Maybe, but since it is not shown whether these changes were costneutral or not, one wonders whether capital wasn't the main reason why such changes did not happen widely. If anything, the belief that capital was scarce appears stronger after his critique, pending more careful analysis.

The few instances of actual development show how important infrastructure. especially cheap commonly-shared water. could be as a positive stimulus. On canal irrigation in northen India, E Whitcombe's sceptical assessment has been influential. While the scepticism may be well-founded. a possible implication of her study, that the canals were on the balance harmful to the cultivators, is so absurdly counter-intuitive. that the issue demanded further probing. Stone offers a more credible judgment. He argues that in the Upper Doab, canals did in fact have the expected positive effects: shift to higher-valued crops, increased area and yield, lowering of risks, higher labourdemand, and better food-security. Satyanarayana illustrates for coastal Andhra, not only the positive specialisation-effects of canals, but also the general stimulation to commerce and industry that followed in the wake of a broad-based infrastructural development of which canals were a part.

Let me state more generally the important conclusion common to these articles, implicit in each one of them, and ignored in the editorial introduction. It is, public investment inattered, above all. It is strange that, invariably, the essays go about the task of explaining the connection between commercialisation and underdevelopment by

means of essentially local variables, without pausing to ask how consequential was the colonial state us an investor in common assets, by the standards of British practices in other colonies, and of developing economies elsewhere? My impression, indirectly confirmed by the essays, is that the British Indian government created so little public goods and productive assets, and especially little in rural India, that it is unnecessary to look for any other cause of the region's poverty and underdevelopment by 1947. I may be wrong, but at any rate appropriate standards and informed positions on the role of the state are necessary before assessment of any local changes can be made.

The preceding criticism suggests what is not right with the volume. It does reflect scholarship, as it is meant to, but does it passively. The discipline is sufficiently evolved to have enabled a volume focused upon a set of narrowly defined questions. Instead, what we have is a rather arbitrary collection – the same title, introduction and bibliography could well have accommodated different combinations of authors and articles. Having said that, one must acknowledge that a group of individually important works reprinted together always represents a useful teaching-aid for the profession, and this volume is no exception



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## **Budgetary Policy and Economic Growth**

#### Errol D'Souza

The share of capital expenditures in government expenditures has been slipping and the tax reforms have not yet improved the income elasticity of the tax system. In order to keep the economy on a high growth path direct measures to boost savings and public investment are required, both of which measures require a new thrust to economic policy management that is missing in the budget.

1

THE motto of the United Front government, according to the finance minister is growth with social justice. Moreover, growth is seen as a precondition for social justice because "unless the country's GDP grows at over 7 per cent per year in the next 10 years, we will not be able to abolish poverty and unemployment" (budget speech). The problem in keeping growth going is twofold. First, "we cannot sustain a 7 per cent growth unless we can revitalise infrastructure sectors" (budget speech). Second, "the biggest challenge that we face is the fiscal challenge" (budget speech). To tackle the fiscal challenge the strategy proposed has two planks - to raise more revenues together with establishing a credible public expenditure management policy. It is with this emphasis on growth that this article is concerned. Given the preoccupation with growth we ask how tax reforms - the only area of reforms that has been comprehensively implemented in successive budgets and which has generated a large consensus - given the current economic conjuncture can contribute to promoting this objective and what sort of supporting policy measures can be of help in this regard. We review the expenditure and revenue patterns during the reforms period and some of the specific budgetary proposals this year before analysing the impact of tax reforms on economic growth.

The scenario on the expenditure front has deteriorated over the years. The Tax Reforms Committee had stressed that control over the growth of public expenditure is a prerequisite for the success of tax reforms and there has been a marginal attempt to rein in the growth of expenditures. The trend growth rate of central government expenditure during 1985-86 to 1990-91 (the pre-reforms period) for instance was 13.66 per cent and from 1990-91 to 1995-96 (the reforms period) this has fallen to 11.45 per cent. However, it is the composition of these expenditures which is proving to be a constraint on the management of fiscal policy and the expenditure management and Reforms Commission proposed to be set up will have to deal with these harder issues in the interests

of the promotion of fiscal stability. Current transfer payments (interest, subsidies, etc) averaged 30.11 per cent of total central government expenditures in the pre-reform: period. In the reforms period this component of expenditures has mushroomed with the figures being 35.88 per cent in 1990-91 and 40.55 per cent budgeted for 1996-97 (Table 1). Similarly, consumption expenditures as a proportion of central government expenditures which had averaged 36.94 per cent in the pre-reforms period have increased from 33.94 per cent in 1990-91 to a budgeted 38.96 per cent in 1996-97. The increase in transfer payments and consumption expenditures has been at the cost of capital expenditures which is the growth promoting component of government expenditure.

Capital expenditures as a proportion of central government expenditures had averaged 32.62 per cent in the pre-reforms period and declined sharply from 30.18 per cent in 1990-91 to a budgeted 20 49 per cent in 1996-97. To get growth going, transfer payments and consumption expenditures will have to be reined in so as to make the funds available for capital expenditures. As interest payments are a major part of transfer payments - they amount to 72.28 per cent of transfer payments in 1996-97 - the bite will have to be centred on subsidies and grants to states in order to curtail the component. This conflicts with the objective of the United Front government to transfer more resources to the states and to help vulnerable sections of the population. Similarly, most of the increase in consumption expenditures in 1996-97 comes from provisions for likely revisions of salaries and pensionary benefits (by Rs 4,000 crore over last year) and the National Programme of Nutritional Support to Primary Education (Rs 788.21 crore over last year), both of which do not give scope for reductions. It is no wonder then that the finance minister has taken the step of postponing a decision on this important matter with the hope that the Expenditure Commission will be able to build a consensus on the matter. It is easier. however, to have consensus on taxation when all tax rates are to be reduced and so in absolute terms everybody gains. When not all expenditures are to be reduced, however, some interest that is represented in the agenda of a political party will not be promoted and the resistance this generates will make it hard to attain consensus. With a coalition of political parties sharing power the veto is a more credible blocking strategy when some interest is threatened and that makes expenditure compression much more difficult. It seems then that expenditure management in a way that will promote the capital expenditures of government will not be forthcoming.

The finance minister realises this and so has resorted to the strategy of making funds available for capital expenditures, especially infrastructure, through raising more resources and attempting to garner extra-budgetary support rather than through expenditure management. To further this a 2 per cent special customs duty on imports has been proposed which is expected to raise Rs 1,600 crore in the current year and this money will be used for infrastructure development. At the margin this measure will raise the price of imported inputs and reduce the competitiveness of Indian industry. To the extent, however, that the resources so raised increase infrastructure investment and this crowds in private investment and improves the cost efficiency of production, the escalation in input costs will be neutralised. Second, an infrastructure development finance company is to be established with an authorised capital of Rs 5,000 crore (the largest investment in a public sector company since the reforms period) with contributions from the finance tomistry, RBI, and financial institutions. Third, Rs 200 crore has been set aside for the National Highways Authority for building and maintaining national highways. This comes at a time when the capital expenditure on roads and bridges had declined in the last year. Financial provisions have been made for irrigation, soil conservation and watershed management in the agricultural sector. The fourth measure is an indirect measure in that it gives no direct resources to the government but provides an incentive to the private sector to invest in infrastructure through tax rebates on the proceeds from investments in equity shares and debentures that are used to create

new infrastructure facilities, or to generate or distribute power. India spent much less as a proportion of GDP than other developing countries in the 1980s on infrastructure investment and the evidence is strong that infrastructure investment crowds-in private investment [Serven 1996]. The impact of these measures should therefore be favourable in improving the resource allocation towards investment expenditures.

On the revenue side of the budget there have been wide-ranging cuts in customs and excise in the spirit of continuing the tax reforms. The share of direct taxes in the centre's tax revenues has increased from 15 86 per cent in 1990-91 to a budgeted 26 19 percent in 1996-97 This is a significant increase from the average of 16 39 per cent in the pre-reforms period. The corporation tax has shown buoyancy being 12 41 per cent of the centre's net tax revenue in 1990 91 and increasing to a budgeted 19 67 per cent in 1996-97 (Table 2) Similarly the income tax share has improved from 2.91 per cent in 1990-91 to 5 07 per cent in 1996-97 The increased share of direct taxes has however not compensated for the fall in indirect tax revenues and the share of centre's net tax revenue in GDP which averaged 8-29 per cent in the pre-reforms period fell to 7.52 per cent in the reforms period (Table 2) Hence the endeavour of the Tax Reforms Committee to enhance the income elasticity of the tax system has not materialised as yet It is noteworthy that customs duties which had come down from 48 03 per cent of the centre's tax revenues in 1990 91 to 39 71 per cent in 1994-95 are budgeted to go up to 45 77 per cent in 1996 97 and this incre ased reliance on customs (due to higher imports) and the depreciating rupee) is reducing the contributions of the two major direct taxes - the corporation tax and the income tax (Table 2) It is a well known result in fiscal theory that indirect taxes exert a greater deflationary impact on the economy than do equal yielding direct tixes [Peston 1971] D'Souza 1996] and so this drift in the substitution of direct taxes by customs duties has negative implications for growth

This budget has halved the surcharge on corporate tax - a measure that will benefit all companies - but in an attempt to reduce the "laxity in the tax system has introduced a 'minimum alternate tax (MAT) The finance minister instead of directly tackling this laxity which enables companies to avoid paying taxes by using the investment exemptions and depreciation allowances in the tax code has sought to indirectly resolve the problem by introducing the MAT Many zero tax paying con , anies (Reliance SAIL Tisco) had earlier capitalised indefinitely on unabsorbed depreciation by carrying it forward and setting it off against future income and this provision has been now

plugged Prima facie it seems that equity has been promoted in the sense that there is no discrimination that allows a distinction between corporations that pay and those that don't pay taxes Economic thinking on the matter is a little more sophisticated. The general equilibrium impact following Harberger (1962) results in capital in the industry newly taxed now having to cover the costs of the tax as well as provide a return to the owners of capital. This results in a rise in the relative price of the industry along with a fall in its output and an outflow of capital from the industry. The wage rate falls (rises) if demand for the industry's output is price elastic (inelastic) and factor substitution in the industry is inelastic (elastic). It is quite possible then that labour will bear a greater share of the burden than otherwise would be the case and this is inequitable

Some of the impact of the introduction of the MA I will be offset by other tax reductions like the halving of the corporate tax suicharge The tax on long-term capital gains for dome tic companies has been reduced from 30 per cent to 20 per cent, bringing it into line with the tax on foreign companies Customs duties on chemicals metals, plastics, electronic and telecom equipment, edible oils allopathic medicine, and yarn have been reduced. Moreover, over the next two years the number of excise duty rates will be reduced from eleven to four and a system of self a sessment for the levy of excise duty has been introduced. In terms of growth impact the effect of MA1 depends on the alternative uses of funds (apital in the former zero tax companies now has to make provisions for MAT which will transfer resources to the government instead of being used to further capital accumulation within the firm. To the extent that these resources are used by the government for infrastructure investments that directly promote private investment or to reduce the fiscal deficit which indirectly raises investment through a reduction in interest rates the impact will be growth promoting provided such investments in absolute terms can more than substitute for those which were undertaken by funds provided as a result of the investment provisions and depreciation allowances that were earlier not diverted to MAT

The amendment to the Companies Act of 1956 in order to permit non-voting shares up to 25 per cent of the issued equity capital will create obstacles to the natural evolutionary process of the growth and decay of firms The idea that takeovers of domestic firms should be constrained ignores the role of takeovers in an era of slow growth which calls for the radical restructuring of industries so as to enhance productivity. Takeovers often do the job of revamping old production practices and management strategies that are no longer viable and that too in an orderly manner rather than through the costly exit of the firm as it gradually decays in a competitive environment. More importantly however, such a legislation implicitly and talsely assumes that the board of directors of a company is altruistically motivated and always acts in the interests of shareholders and nevertog reserve the interests of managers or their own positions as board members

It also does not appleciate that the essence of the arrangement between a principal (stockholder) and an agent (managers and board of directors) is that the former hire the latter to take some actions on his or her behalf. The essence of this contract is the co operative arrangement between the principal and agent whereby the principal retains control rights over the firm but delegates a wide range of decision right regarding production the hiring of labour, ctc, to the agent. The non-voting share negates this benefit of specialisation by effectively passing on control rights as well to the agent who to the extent he is not altrus ac will not promote the interests of the principal Agents would use this instrument to insulate themselves from the discipline of the outside market for control at the expense of the

TABLE 1 LONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT FATERLITUPES

(Rs crore)

|                                     | 1990 91 | 1991 92 | 1992 93 | 1993 94 | 1994 95 | 1995 95<br>(RL) | 1946 97<br>(BE) |
|-------------------------------------|---------|---------|---------|---------|---------|-----------------|-----------------|
| Current transfer payments           | 37777   | 42917   | 45847   | 51976   | 59465   | /1972           | 83007           |
|                                     | (35 88) | (3852)  | (37 39) | (36 64) | (36 99) | (39 55)         | (40 55)         |
| Capital expenditures                | `317X^  | 29122   | 29916   | 33482   | 38658   | 38448           | 41919           |
|                                     | (30.18) | (26 14) | (2440)  | (2360)  | (24.05) | (21 13)         | (20 49)         |
| Consumption Expenditures            | 35739   | 39375   | 46855   | 56395   | 62616   | 71549           | 79751           |
| · · · · · · · · · · · · · · · · · · | (33 94) | (35 34) | (38.21) | (39.76) | (38 96) | (49 32)         | (38 96)         |
| Total governme it expenditure       | 105298  | 111414  | 122618  | 141553  | 160739  | 181969          | 204697          |
| Net centre 5 tax revenue            | 42978   | 50069   | 54044   | 53449   | 67454   | 81088           | 95002           |
| Non tax revenues                    | 11976   | 15962   | 20084   | 22004   | 23629   | 29103           | 33035           |
| kecovery of loans                   | 5712    | 6021    | 6756    | 6191    | 6345    | 7411            | 7048            |
| Disinvestment of equity             |         | 3038    | 1961    | -48     | 5607    | 357             | 5000            |
| Fiscal deficit                      | 44632   | 36324   | 40173   | 60257   | 57704   | 64010           | 64612           |

Notes Figures in brackets are percentages to total government expenditures issues of bonus shares are treated as reductions in capital expenditures

Source Bulget Documents 1996 97

shareholders of the firm and this has a negative impact on the efficiency of the economy. Most importantly it violates the fundamental basis of the contract between a principal and agent by giving to the agent the right which properly belongs to the principal—i e, the right to change the control aspect of the contract by preventing the right of the principal (stockholder) from firing the agent. This raises a barrier in the efficiency of the contract between shareholders and managements with negative consequences for growth.

Non-voting shares will also allow a dilution of the norm in certain areas of economic activity whereby foreign firms' equity participation is limited. Currently foreign firms are restricted to keep their equity up to 50 per cent in the mining sector and 49 per cent in the telecom sector. Foreign financial institutions are allowed 75 per cent foreign equity with a condition that this equity should be at least \$ 5 million and so with the introduction of 25 per cent nonvoting shares foreign financial service companies will be given de facto control over the firm. Several foreign firms have been claiming that they find it difficult to locate Indian partners with whom they can participate in their proposed ventures here.2 What foreign firms have in essence been claiming is that there are transaction costs to entering into a contract which locks them into a relationship with Indian firms as such contracts by their very nature are incomplete and leave out many contingencies. There are four types of costs associated with longterm contracting [Hart and Holmstrom 1987]: (1) the costs of anticipating the various eventualities that may occur, (2) the cost of deciding and reaching agreement on how to deal with such eventualities, (3) the cost of writing the contract in a way that is sufficiently clear to be enforceable, and (4) the legal cost of enforcement. When contracting costs are high and long-term contracts are difficult, Hart and Moore (1990) show that efficiency is sensitive to who owns the physical assets that are used in production - specifically, complementary assets such as organisational styles of functioning as regards the co-ordination of production activities and the means of production should be owned together. The government should thus do away with the insistence on joint ventures; once of course the desirability of foreign investment has been established) and instead regulate foreign firms in terms of their exports, minimum setup equity. etc., and not facilitate their entry through the policy of non-voting shares.

П

The finance minister believes that the "economy is on a high growth curve" and that in order to remain on that curve we need

more reforms and not less. The Disinvestment Commission has been set up, an expert committee to rewrite the Income-Tax Act of 1961 has been announced, an Expenditure Management and Reforms Commission will soon be announced as well as a committee to rewrite the Companies Act, 1956, a discussion paper on subsidies will be presented soon, and details of a restructured PDS will be announced soon. Meanwhile this budget has continued the policy of wideranging cuts in customs and excise duties with the aim of furthering tax reforms - the reforms that the previous government will be remembered for. The tax reforms are intended to subscribe to the objective of reactivating investment and thus getting the economy on to a higher growth path through the following mechanism. The impact of the reductions in customs and excise duties would be to reduce the after-tax prices of a whole range of commodities and that would bring down inflation. With these declining prices exports would become more competitive and foreign demand would increase and in the home market as well consumers would benefit from the reduced prices and be induced to increase domestic demand. This would not only increase capacity utilisation, but entrepreneurs noting the pick-up in demand would invest more in capital goods by the workings of the mechanism of an accelerator process. The cut in taxes thus kills two birds simultaneously - inflation and unemployment. Moreover various other measures, like reducing the tariffs on capital goods imports, allowing firms to take credit for excises paid on purchases of equipment, and unifying and reducing the tax on corporate incomes, were implemented to reduce the user cost of capital and directly boost investment.

In order to understand what conditions make it-possible for tax reforms to contribute to growth we use a simple macro-economic model. The government has three target variables - the level of output, the price level, and the balance of trade surplus. Given the debate and the lack of agreement about the assignment pattern of policy instruments to various targets and the trade-offs between these targets in developing countries (Ross 1988], we concentrate on those conditions where none of the targets are fully satisfied. This less demanding method has the advantage of generality as various schools of thought can be accommodated within its ambit. Whatever values the government chooses for the three above-mentioned target variables, the following goods market equilibrium must hold for the economy:

$$S(Y^d) + T(Y,t) = I(r,g,Y) + G(Y) + B(P,Y)$$

vhere

$$0 < S_{\gamma^d} < 1$$
;  $T_{\gamma}$ ,  $T_{i} > 0$ ;  $I_{r} < 0$ ;  $I_{g} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I_{\gamma} > 0$ ;  $I$ 

Savings (S) is a positive function of disposable income,  $Y^4$ , where  $Y^4 = Y - T$ . As the movements in the interest rate in India are sluggish, and interest rates in the organised sector of the money market are generally sticky [Pandit 1991], the rate of interest has no impact on the magnitude of savings which is determined mainly by disposable income.' We postulate total tax revenue (T) to rise with increases in aggregate output (Y) and an index of tax rates (t). Investment (I) depends negatively on the real rate of interest (r), and positively on aggregate output (Y) and government capital expenditures (g). Government expenditure (G) which is

TABLE 2: TRENDS IN REVENUES OF CENTRAL GOVERNMENT

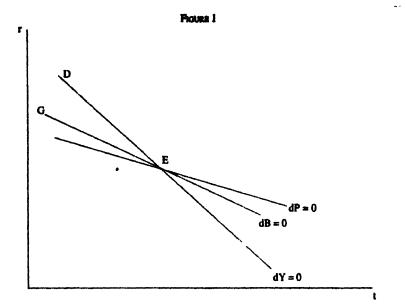
(Rs crore)

|                                         | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994-95 | 1995-96<br>(RE) | 1996-97<br>(BE) |
|-----------------------------------------|---------|---------|---------|---------|---------|-----------------|-----------------|
| Corporation tax                         | 5335    | 7853    | 8899    | 10060   | 13822   | 16250           | 18688           |
| •                                       | (12.41) | (15.68) | (16.47) | (1882)  | (20.49) | (20.04)         | (19 67)         |
| Income tax                              | 1250    | 1627    | 1831    | 1355    | 3468    | 3812            | 4819            |
|                                         | (2.91)  | (3.25)  | (3.39)  | (2.54)  | (5.14)  | (4 70)          | (5.07)          |
| Customs                                 | 20644   | 22257   | 23776   | 22193   | 26789   | 35352           | 43485           |
|                                         | (48.03) | (44.45) | (43.99) | (41.52) | (39.71) | (43.60)         | (45.77)         |
| Union excise duties                     | 14100   | 16017   | 16367   | 17224   | 21064   | 23022           | 24697           |
|                                         | (32.81) | (31.99) | (30.28) | (32.23) | (31.23) | (28. 19)        | (26.00)         |
| Net centre's tax revenue                | 42978   | 50069   | 54044   | 53449   | 67454   | 81088           | 95002           |
| Total direct taxes                      | 6818    | 10100   | 11923   | 12301   | 18211   | 21062           | 24877           |
|                                         | (15.86) | (20.17) | (22.06) | (23.01) | (27.00) | (25 97)         | (26.19)         |
| Non-tax revenues                        | 11976   | 15962   | 20084   | 22004   | 23629   | 29103           | 33035           |
| GDP at market prices                    | 535534  | 616799  | 705328  | 801032  | 945615  | 1084915*        | 1245320*        |
| Central government                      |         |         |         |         |         |                 |                 |
| expenditure                             | 105298  | 111412  | 122618  | 141853  | 160739  | 181969          | 204697          |
| Total direct taxes/GDP Net centre's tax | 1.27    | 1.64    | 1.69    | 1.54    | 1.93    | 1.94            | 2.00            |
| revenue/GDP                             | 8.03    | 8.12    | 7.68    | 6.67    | 7.13    | 7.47            | 7.63            |

Notes: Figures in brackets are percentages to net centre's tax revenue.

\* These figures are calculated from the fiscal deficit/GDP ratios in the Budget documents.

Source: Budget Documents, 1996-97.



negatively related to output<sup>4</sup> has two components. Government consumption expenditure (c) is a fraction of total government spending and equals  $(1-\alpha)G$ . Government investment expenditure (g) equals  $\alpha G$ . Most tests for India show that public investment (especially infrastructure investment) crowds-in private investment. Hence, an increase in public investment expenditure (g) increases private investment. The balance of trade (B) is just exports minus imports measured in units of the domestic good and is related negatively to the domestic price level (P) and total output.<sup>5</sup>

The price level of the economy (P) obtains from the following general relationship:

$$P = P(Y,t) \qquad ...(2)$$

where,  $P_v$ ,  $P_i > 0$ .

There are many ways in which the positive relationship between output and the price level can be justified. One standard argument is that if money wages are sticky and diminishing returns to variable factors prevails, any increase in output will result in a rise in the price level. On the other hand, if there is an increase in output that is accompanied by the slack in the labour market tightening, the bargaining power of labour improves which translates into demands for higher money wages that get passed on as higher prices as in a conflicting claims theory of inflation [Rowthorn 1977; Patnaik 1986; Kumar 1986].

That taxes have price-inflating effects is the notion captured by the derivative P. Again there are several well known mechanisms at work here. Increases in indirect taxes are known to have an immediate cost-push effect on prices. Also, increases in either direct or indirect taxes may lead to wage letaliation as income earners attempt to re-establish their relative income earning parities [Dernberg 1974, Hicks 1975; Kumar

1983; D'Souza 1992] Yet another mechanism is that proposed by Mankiw (1987) who posits two revenue sources to finance government expenditures – the inflation tax and tax rates on output. Both taxes are distortionary and impose a welfare cost that is increasing on their rates of taxation and so at the optimum the marginal cost of each tax has to be equated in every period.

This implies that as government expenditure changes, inflation and non-inflation tax rates move together.

To study the effect of tax cuts on the target variables identified — the price level, the balance of trade, and the level of output — we construct iso-price, iso-balance-of-trade and iso-output lines in (r,t) space which depict constant levels of the target variables. To do so we totally differentiate equations (1) and (2) and solve for dP and dY. To derive the iso-output equation we then set dY = 0 and obtain

$$\frac{d\mathbf{r}}{dt}\bigg|_{\mathbf{d}\mathbf{v}=0} = \frac{\mathbf{T}_{t}(1-\mathbf{S}_{\mathbf{v}}\mathbf{d})-\mathbf{B}_{p}\mathbf{P}_{t}}{\mathbf{I}_{r}} < 0 \qquad ...(3)$$

The reason for the downward slope of the iso-output curves is easy to see. A reduction of tax rates has two effects. One is that it increases disposable income and hence the consumption expenditure that stimulates demand. The other effect is of a reduction in the price level through (2) which makes exports more competitive and boosts foreign demand whilst increasing the surplus in the balance of trade. However, a reduction in tax rates must be accompanied by a rise in interest rates in order for the same level of output to prevail and that entails a reduction in investment which causes the iso-output

TABLE 3: GROSS DOMESTIC SAVINGS AND INVESTMENT

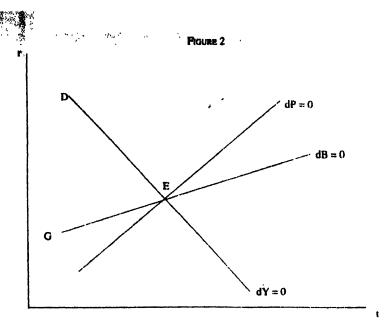
(Rs crore)

|                               | 1988-89 | 1989-90P | 1990-91P | 1991-92P | 1992-93P | 1993-94P | 1994-95T |
|-------------------------------|---------|----------|----------|----------|----------|----------|----------|
| Household sector              | 68200   | 82513    | 106276   | 109269   | 118704   | 139146   | 178696   |
| Per cent of GDP               | 17 23   | 18.06    | 19 84    | 17.72    | 16 83    | 17.37    | 18.90    |
| Financial assets (nct)        | 27132   | 37214    | 46353    | 62049    | 59328    | 86131    | 105302   |
| Per cent of GDP               | 6.86    | 8.15     | 8.66     | 10.06    | 8.41     | 10 75    | 11 14    |
| of which                      |         |          |          |          |          |          |          |
| Currency and                  |         |          |          |          |          |          |          |
| bank deposits (net)           | 7567    | 12598    | 14371    | 22446    | 20284    | 33453    | 47365    |
| -                             | [27 89] | [33.85]  | [31.00]  | [36 17]  | [34 19]  | [38.84]  | [44.98]  |
| Non-bank deposits and         |         |          |          |          |          |          |          |
| trade debt (net)              | 1023    | -233     | -515     | -24      | 661      | 5286     | 4302     |
|                               | [3.77]  | [-0.63]  | [-1.11]  | [-0.04]  | [1 11]   | [6 14]   | [4.09]   |
| Net claims on                 | •       |          | •        | •        |          |          |          |
| government                    | 5004    | 6026     | 7331     | 4420     | 3508     | 6038     | 10074    |
| •                             | [18 44] | [16 19]  | [15.82]  | [7 12]   | [5.91]   | [7.01]   | [9 57]   |
| Other contractual savings     | 13538   | 18823    | 25166    | 35207    | 34875    | 41354    | 43561    |
| •                             | [49 90] | [50 58]  | [54 29]  | [56 74]  | [58 78]  | [48.01]  | [41.37]  |
| Physical assets               | 41068   | 45299    | 59923    | 47220    | 59376    | 53015    | 73394    |
| Per cent of GDP               | 10 38   | 9 92     | 11.19    | 7 66     | 8 42     | 6.62     | 7 76     |
| Private corporate sector      | 8319    | 11650    | 14940    | 19490    | 19841    | 27666    | 35966    |
| Per cent of GDP               | 2.10    | 2.55     | 2.79     | 3 16     | 2.81     | 3.45     | 3.80     |
| Public sector                 | 8101    | 7423     | 5436     | 11888    | 10820    | 4372     | 15986    |
| Per cent of GDP               | 2.05    | 1.62     | 1.02     | 1.93     | 1.53     | 0.55     | 1 69     |
| <b>Gross Domestic Savings</b> | 84620   | 101586   | 126652   | 140647   | 149365   | 171184   | 230648   |
| Per cent of GDP               | 21.38   | 22.24    | 23,65    | 22 80    | 21 18    | 21 37    | 24.39    |
| Ner inflow of foreign         |         |          |          |          |          |          |          |
| resources                     | 10931   | 13005    | 17959    | 3678     | 14063    | 2149     | 8493     |
| Aggregate Investment          | 95551   | 114591   | 144611   | 144325   | 163428   | 173333   | 239141   |
| Per cent of GDP               | 24.14   | 25.08    | 27.00    | 23 40    | 23 17    | 21.64    | 25.29    |
| <b>Gross Domestic</b>         |         |          |          |          |          |          |          |
| Product                       | 395782  | 456821   | 535534   | 616799   | 705328   | 801032   | 945615   |
|                               |         |          |          |          |          |          |          |

Notes P. Provisional Estimate.

Figures in square brackets are shares of Net Household Financial Asset savings. Source Report on Currency and Finance, RBI, 1994-95.

T: Tentative Estimate.



curve to have a negative slope. As for a fixed value of t smaller values of r will result in higher investments, it follows that iso-output lines representing higher levels of output must be closer to the origin.

Similarly, we can derive the equation for the iso-price line by setting dP=0 to yield

$$\frac{dr}{dt}\bigg|_{dP=0} = \frac{T_{i}(I - S_{vd}) + \frac{P_{i}}{P_{i}}}{+ T_{v} - (1 + \alpha I_{g})} \frac{P_{i}}{G_{v} - B_{v}} \{S_{vd} (1 - \Gamma_{v}) + T_{v} - (1 + \alpha I_{g}) G_{v} - B_{v}\}}{I_{i}} ...(4)$$

The iso-price lines can be positively or negatively sloped depending on how strong are the demand inflating effects relative to the demand deflating effects. The demand inflating effects that must be countered by a decrease in investment in order for the economy to remain on the same iso-price line are the increase in consumption and investment as a result of the fall in the tax, i.e.,  $T_i(1-S_{\gamma^d}) + \frac{P_i}{P_{\gamma}}I_{\gamma}$ . The demand-deflating

effects are the increase in savings and tax revenues amongst other factors located in the curly bracket that come into play as a result of the fall in the tax generating a rise in output so as to keep the price from changing, i e,

$$\{\frac{P_{i}S_{v}i(1-T_{v})+T_{v}-B_{v}-(1+\alpha I_{s})G_{v}\}.$$
 The

deterioration in the foreign trade balance is caused by an increased domestic demand which results in a rise in imports or a fall in exports as output is diverted to the domestic market. The iso-price lines will slope upwards the greater are the demand-deflating effects relative to the demand-inflating effects. Also, any movement upwards along a particular iso-output line implies a fall in tax rates and from (2), lower price levels. Hence, iso-price lines that intersect the vertical axis (r-axis) higher up represent lower price levels.

In a similar fashion we derive the isobalance-of-trade equation by substituting the solutions for dP and dY into the total differential for B(Y,P) and then setting dB=0 to obtain:

to obtain: 
$$\frac{dr}{dt} \bigg|_{dB \to 0} = \frac{T_t(1 - S_{\gamma^d})}{l_r} - \frac{B_p P_t \{ S_{\gamma^d}(1 - T_{\gamma}) + T_{\gamma} - l_{\gamma} - (1 + \alpha l_g) G_{\gamma} \}}{(B_{\gamma} + B_p P_{\gamma}) I_r}$$
 ...(5)

The interpretation of (5) follows along lines similar to that of (4). The graphs of equations (3) to (5) are drawn as Figure 1<sup>8</sup> when the demand-inflating effects dominate the demand-deflating effects in (4) and (5) and in Figure 2 when the reverse holds, i.e., the demand-deflating effects dominate the demand-inflating effects. The circumstances that Figure 1 depicts are more likely to prevail in an economy where some combination of the following hold:-

- (1) The tax revenue induced by the increased domestic aggregate demand as a result of the fall in the tax rates ( $\frac{P_t}{P_y}$  T<sub>y</sub>) is less than the tax revenue lost due to the fall in the tax rate (T<sub>t</sub>).
- (2) Tax cuts are not passed on to consumers but result instead in a rise in the profitmargins of entrepreneurs or in the compensation of employees, i e, P, is small.
- (3) The current level of economic activity is characterised by strong distributive conflicts that results in inflation, i e, P, is large.
- (4) An increase in output does not exert a strong inducement to purchase importables, i e, B, is small.
- (5) There is a large inducement to spend out of the increase in disposable incomes that result from a tax rate reduction.

(6) The fraction of government expenditure devoted to investment is such that its impact on private investment (αl<sub>g</sub>) is limited.

The above six conditions have obtained in the Indian economy in various combinations since the reforms of 1991. The first condition was demonstrated for the post-reforms Indian economy when we noted above that the tax revenue/GDP ratio has fallen. It has been noted by many commentators that even if prices were slashed following a policy announcement of tax cuts they soon reverted back close to their previous levels. The current account/GDP ratio which was -3.2 per cent in 1990-91 and reduced to-0.1 per cent in 1993-94, rose subsequently to -1.6 per cent in 1995-96 reflecting the import compression up to 1993-94. Also, as argued above the Capital expenditure share of government expenditure fell 10 per centage points during the reforms. The Gross domestic savings/GDP ratio also fell from a peak level of 23.65 per cent in 1990-91 to 21.37 per cent in 1993-94 before climbing up again to 24.39 per cent in 1994-95. In Figure I the area DEG represents the economic outcome for a cut in tax rates which results in increased output, lower price levels, and an improvement in the balance of trade surplus. For the economy to move in to this area from point E in Figure I there is the requirement that interest rates rise and accompany the fall in tax rates, i e, a restrictive monetary policy prevails.

The principal monetary policy lever of the Reserve Bank of India in the reforms period due to the absence of well developed secondary markets for government securities has been the minimum lending rate (MLR) by virtue of the commitment to reduce the indicators of 'financial repression' that represented pre-reforms monetary policy instruments: the cash reserve ratio and the statutory liquidity ratio. Despite the reductions in the MLR, the real value of the MLR have been kept high so as to secure a high interest rate spread that will enable banks to recapitalise and so as to limit inflationary credit expansion. The commitment to reducing inflation and the deficit in the balance of trade and to increasing output has resulted in the economic outcome that a reduction in tax rates must be accompanied by a tight monetary policy. The result is that government can only fulfil its targets regarding prices, output, and the balance of trade, by accepting a reduction in investment that accompanies the tight monetary policy. The reduction in gross domestic investment as a percentage of GDP up to 1993-94 is explainable then in terms of the combination of factors prevalent that result in the economic situation depicted by Figure I. Declining capital expenditure by government and high interest rates affected investment expenditure adversely and the slow output growth was unable to counter the effects of these two determinants of investment. Despite an improvement in the gross domestic investment/GDP ratio in 1994-95 which is associated with the higher GDP growth rate in that year, the ratio is still below its value in 1990-91.

The major implication of tax cuts reducing investment expenditure is that there is a reduction of the growth rate. In order for tax policy to not result in such a growth reducing outcome it is necessary for the economic configuration to be given by the representation in Figure 2. This outcome is possible if the iso-balance-of-trade line and the iso-price line are upward sloping resulting in an expansion of the conical-shaped area DEG and the possibility of tax cuts being accompanied by a reduction in the interest rate which then triggers off investment expenditures in the economy. The iso-price line can be upward sloping if distributive conflict and hence inflation is low, there is a surge in imports which widens the trade balance, the savings rate improves, and there is a recovery in the tax revenue/GDP and government capital expenditure/government expenditure ratios. In the period after 1993-94 inflation has come down, there has been a deterioration of the trade balance and the savings rate has gone up. However, due to the tax system not exhibiting an improved income elasticity interest rates have remained high. Even if tax administration and enforcement improves the tax system can be rendered more income clastic with improved economic growth. There is thus a case for policies that increase the role played by the demand-deflating factors so that the isoprice line slopes upwards. The import option though contributing to the demand-deflating factors that enhance the possibility of an economic configuration represented by Figure 2 would not promote our objective if it simultaneously results in a reduction in the balance of trade surplus and so is not an option that recommends itself favourably. Also, often the government is not in a position to ensure that tax cuts are passed on to consumers instead of inflating profit-margins or to control the distributive conflict in the economy. Expenditure reforms so that the share of capital expenditures in total government expenditure increases are doubtful as we argued above and in any case will take time to materialise. Expenditure reforms can also have the effect of resulting in an upward sloping iso-price line and enhancing the possibility of Figure 2 like situation for the economy. At this juncture, given that interest rates have no effects on the volume of savings in the Indian context as we argued earlier, a direct approach that boosts savings is called for.

Household savings in the reforms period has on an average been 79.7 per cent of

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gross domestic savings and accounts for most of the variation in the savings rate. In the reforms period the share of various components in household savings have changed considerably. The share of household savings in physical assets has declined and the share of net financial savings has gone up from 43.62 per cent in 1990-91 to 58.93 per cent in 1994-95. The components of net financial household savings have also changed considerably. Thus, net claims on government and some components of contractual savings (Units of Unit Trust of India) have witnessed declining shares. whereas the component of net currency and bank deposits have been rising. Hence, the data reveal that the savings composition is moving in favour of financial savings and that too in favour of currency and bank deposits followed by contractual savings, mostly in life insurance, pension and provident funds. Even though there may be errors in the estimate of household savings in physical assets given their derivation as a residual in the estimation of total capital formation, the composition of household savings is moving in favour of liquid financial assets.10 It is in enhancing these types of savings by providing tax concessions along with increasing the share of capital expenditure in total government expenditures that will result in the outcome that Figure 2 depicts. This budget makes no attempt to generate higher savings that will make the growth potential of Figure 2 possible and due to its failure on this count will not be able to serve its major objective of getting growth going. And if we cannot sustain growth, then we cannot make dents on poverty and unemployment.

Of course, tax concessions to savings in the form of deductions, exclusions and tax credits implies sacrificing the principles of inclusiveness and transparency that the Tax Reforms Committee laid down as a guideline for policy proposals. The Tax Reforms Committee would view the promotion of tax shelters for savings as contributing to a decline in horizontal equity. That is because identifies income, defined comprehensively as possible as the ideal tax base on which to apply the tenet of taxation according to the ability-to-pay. What we are proposing instead on the basis of the Indian macro-economic situation is that the ideal base for taxation is that income which is not saved. This implies that there is a distinction between people who consume and take out from the societal pool of resources and people who save and so in as much as these savings get converted to investments add to the future pool of the resources of society. Treating all the possible uses of income as equivalent is in our view tantamount to treating people unequally and the Tax Reforms Committee proposals discriminate

against those who promote national savings. Inasmuch as two individuals are equal only to the extent that they have identical tastes. opportunities, and resources, it would imply that two people with the same resources (income) but with different tastes (for present versus future consumption) are by definition unequal. A basic principle of tax theory which is the cousin of the horizontal equity principle is the vertical equity principle which states that unequals should be treated unequally. Inasmuch as those who consume are not the equals of those who save, it is perfectly valid to treat savings from income to a lower rate of taxation and so more favourably than consumption from income. Savings is not just a residual after one subtracts consumption from income. It is a forward-looking activity that expands the pool of resources for investment that enables the introduction of new machinery and technology which reduce costs, widen the market, and expand profitability. Tax policies favouring savings over consumption will make resources available for private investment plans to be implemented and will stimulate economic growth.

#### Notes

- 1 From 1995-96 (RE) a new category of capital expenditures and receipts have been added to the budget in the form of the issue of bonus shares by public sector enterprises to the government. For instance, ONGC issued Rs 1,035 crore as bonus shares in 1995-96 and that has been shown as both a capital expenditure as well as a capital receipt. As we view the budget as expressing the financial position of the government vis-a-vis the rest of the economy we do not include this category of expenditure and receipts. Consequently the total expenditure and receipts of government stands reduced by the amount of the issue of bonus shares
- 2 Credit Lyonnais Securities (Asia) for instance had voiced strong reservations against forming joint ventures with local stock brokers and in its application before the Foreign Investment Promotion Board (FIPB) had stated that there were vast differences between the nature of business, business philosophies and commercial expectations of foreign and local brokers The equity norm was bypassed for the Sony Corporation in 1994 when it was allowed to set up a 100 per cent owned company in India after it made similar claims before the FIPB.
- 3 Other studies for developing countries such as Giovannini (1983) also reveal that interest rates are not significant determinants of savings.
- 4 Taylor (1993) emphasises that a "minimally adequate country model" must include the feature that taxes and other receipts increase more rapidly than the real spending of government when economic activity goes up.
- 5 Weignore the effect of exchange rate changes by considering an insular economy in the sense that the domestic interest rate is determined independently of those prevailing abroad and domestic absorption is not influenced by exchange rate changes.

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5 We are ignoring the Cavallo effect here -1 e, increased interest rates form a mark-up price element which leads to a cost-push effect on prices. See Bruno (1979).

7  $\frac{P}{P_{y}}$  is the expression for the extent of the change in output as a result of the fall in the tax when dP = 0

8 It can easily be verified that  $\frac{dr}{dt_{dP=0}} - \frac{dr}{dt_{dB=0}}$ 

> 0 and this property is reflected in the slope of the iso-price line and iso-balance-of-trade lines in Figure 1.

9 Maninohan Singh had announced on many occasions that any tax cuts not passed on to consumers will invite penal action. These were always made immediately after a budget was presented with no follow-up action.

O Ghosh (1996) argues that the jump in the savings rate in 1994-95 may be due to the increased net factor income from abroad, the savings from which by families of migrants would have got erroneously absorbed in the estimate of gross domestic savings. However, the better savings rate has resulted in all sectors - household, private corporate, and public sectors. The significant event with regard to households is the increased financial intermediation that has resulted.

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## Union Budget 1996-97

## **Limits of Resource Mobilisation under Market Conditions**

#### Arun Kumer

Though many concessions have been given to the private sector (including foreign capital), investment and especially the inflow of foreign capital remain uncertain. Even to maintain the current level of investment, more and more concessions may be needed. This creates inequity and problems for resource mobilisation which worsen the budgetary position leading to slow-down of public investment and the capacity to fight poverty.

Market-based solutions to increase investment activity also cause economic fluctuations to increase, resulting in uncertainty and speculative activity whose victims are the poor. They reduce the degree of freedom of the state governments to operate programmes suited to their needs.

THE Union Budget for 1996-97 has come late, presented by the new government which assumed office in June. However, it is hardly different from the interim budget as presented by the previous government in February 1996. In essence, not only does this imply a continuity in policies as spelt out by the previous regime but actually endorses them. This is surprising only to those who expected that the new regime, consisting of forces favouring social justice, would chart a new (alternative) economic path, consistent with the different social and political framework of some of its vocal if not dominant constituents (belonging to Left and socialist hues). However, it has been clear that no alternative path is likely to suddenly emerge with the present conjuncture of political forces [Kumar 1995b] since the ground work for such an alternative path has not been prepared.1

The budget speech of the finance minister in keeping with the rhetoric of the vocal sections of the new regime repeatedly refers to social justice. But many have pointed out since then that words have not been backed with funds from the budget. It was also expected from the new regime dominated as it is by regional parties and forces that the states facing a budgetary crisis would receive funds generously. But this is not so and the budget continues the pattern of the previous year showing no new emphasis [Kumar 1996].

The finance minister has stressed the need to invest in infrastructure, both rural and for the modern sector (power, transport and telecom). Yet here also the funds from the budget are comparable to the allocations last year (in some cases the revised estimates and in others the budget estimates) so that no new thrust can be said to have been given [Kumar 1996]. What then is the finance minister's scheme of things?

He has left resource mobilisation to the market forces to a greater extent than in previous years. Naturally, the question arises whether this would deliver the goods and what would be the consequence of such a policy for the country?

## Budget and Market Forces

#### CONCESSIONS FOR RURAL AREAS

The budget for 1996-97 has not allocated markedly larger funds for the creation of the rural infrastructure or the modern infrastructure but has proposed various measures to encourage private investments in these sectors. For instance, there are announcements regarding the creation of the rural local banks, the Rural Infrastructure Development Fund (RIDF) and state level agriculture development finance institutions. These schemes are supposed to funnel private funds into rural areas for the development of agriculture and rural infrastructure.

The New Economic Policies are supposed to make the financial system viable in the sense of being profitable. So the proposed schemes would be expected to be viable in the above sense. What kind of activities will these be? If such activities existed in the rural areas, would they not have already been financed by the existing financial institutions? Hence the budgetary proposals cannot give a push to the rate of investment in the present structure of rural activities.

Clearly, newer activities are anticipated by the government. These perhaps relate to the new thrusts in agriculture, based on capital-intensive farming, like horticulture and floriculture and food processing. Other concessions to rural areas announced in the budget point in the same direction since they are for power tillers, tractors and drip irrigation. The budgetary package is aimed at the rich farmer and to facilitate corporate sector entry into agriculture. It needs to be remembered that there has been pressure in the last few years for the relaxation of the various land ceiling laws so as to enable large farms to come up.

The budget does not focus on the existing activities in agriculture in which the bulk of the rural populace is involved. Hence this segment is unlikely to witness increased profitability and as such will not be able to benefit from the new market-based concessions contained in the budget. The budget proposals can only increase the

existing differentiation in agriculture. It may accelerate the changes in the cropping pattern away from the more traditional crops as corporatisation of agriculture occurs.

Similarly, for rural infrastructure, the schemes that could have fetched market related rates of returns probably have been financed. The real problem lies in the development of activities which would be loss-making in the short run (or even long run) like rural roads, assured drinking water supply, village primary schools, primary health centres, etc. The institutions now proposed to be set up are unlikely to finance these activities. So the need for public investment in rural infrastructure is strong if the bulk of the rural population is to be catered to.

Since the budgetary allocations for rural areas have risen marginally and most of the investments are expected from private capital, the above arguments would suggest that there will be growing differentiation in rural India both in terms of incomes and quality of life.

#### DIRECT TAXES

Direct taxes fall on the income of the well off (currently on the incomes of those who annually earn at least six times the per capitu income). Though salaried persons dominate in numbers, the bulk of these taxes are paid by those with property incomes [Kumar 1994]. Hence direct tax concessions benefit mostly the propertied classes.<sup>2</sup>

The real concessions in the budget are to the corporate sector, like reduction of the surcharge on corporate tax, concessions to investment in infrastructure and R and D, concessions on long-term capital gains and on depreciation provisions. Increased provision under medical insurance is also to boost the corporate hospitals which are coming up in the metropolitan centres.

The creation of a central depository and the steps towards the privatisation and computerisation of the insurance sectors are also likely to benefit the corporate sector through increased availability of funds. The threat of opening up insurance will mean greater market orientation of this sector and result in the shift of funds to where profits are mgn (the corporate sector). Computerisation is a high cost solution as the banking sector has demonstrated, requiring minimum charges to be raised and resulting in pricing out of the markets the less well off. The insurance sector is moving in the same direction in spite of the provision of schemes for the less well off.

Changes are proposed in the Companies Act 1956 but the direction of modification is unclear. Given other indications it can only be to reduce the degree of regulation and control on the corporate sector. Coming at a time when scams relating to the corporate sector and politicians are coming thick and fast and are linked to the freeing of controls on these entities, this bodes ill for the economy.

The corporate sector must have heaved a sigh of relief that there are no measures to unearth their black incomes. If anything, they will be enabled to generate more black incomes. Relaxations in MODVAT procedures and self-assessment can only result in more output evasion and price misdeclaration. In this context it is worth noting that while corporate profits have soared in the last three years, excise collections are rising rather slowly. The finance minister himself suspects that evasion of excise may have increased.

But the big sop to Indian corporate sector is the proposal that they can issue nonvoting shares up to 25 per cent of their issued equity capital. This will reduce the threat of takeover that Indian businesses have faced in the process of expansion. Even in cases of joint ventures with foreigners, Indian partners unable to match the financial muscle of their foreign collaborators are either forced to concede a dominant share to latter or to stall growth. In cases like Maruti, the government has not conceded to the demand of Suzuki and this has led to stagnation in investments. In case of DCM-Daewoo, Daewoo is taking the dominant share by buying out the DCM share.

If 25 per cent of the equity is without voting rights, then it would be easier to maintain the status quo. However, the question arises why should anyone buy shares without voting rights? Clearly, they would be like bonds. As such, they would be purchased only if they offer an assured and higher return than regular equity/bonds. It could even offer a minimum fixed return and a variable part linked to the dividend declared by the company if it is above the minimum guaranteed. Many small investors who in any case have no say in the running of companies may then prefer this instrument to regular equity. Given the attractiveness of the scheme to Indian corporate sector some innovations are likely to be seen in the near future. While the corporate sector has much to be happy with, there is one proposal which they are unhappy about, the Minimum Alternate Tax (MAT).

pay no corporate tax in spite of earning large profits. This has reduced the buoyancy of corporation tax. Companies have been using a plethora of available deductions and concessions to lower their tax liability. MAT is supposed to force companies to pay a minimum rate of tax, 30 per cent of book profits. An exception will be made in case of companies investing in infrastructure, Given the pressures, an exception may also be made for export profits. Hence the phenomenon of zero tax companies will not disappear. It will be slightly more difficult to remain a zero tax company.

Accounting jugglery by clever accountants and tax lawyers along with a large number of concessions and deductions are always available to companies to engage in smart legal tax dodges. For instance, companies present one set of accounts for declaring dividends to their shareholders and another set of accounts for paying taxes. The idea is to maximise the former while minimising the latter.

The issue is why does the government not eliminate this (legal) dual accounting practice? The other issue is that the government can eliminate most of the deductions and concessions presently allowed so as to simplify the tax regime which would make black income generation more difficult. While MAT may bring in a thousand crores of additional revenue, checking black income generation by the corporate sector may bring in many times more taxes [Kumar 1994]. In brief, while the introduction of MAT is a positive step it is not what is needed since it continues to keep the tax structure complex which enables black incomes to be generated - a far bigger problem. MAT seems to be a diversion so that the government does not have to traverse the real path of corporate taxation.

#### FDI AND FIL

Foreign capital continues to obtain concessions from budget to budget. It has been argued that this is required since the country is running a current account deficit and will continue to do so in the near future because of (a) the large debt and interest payment obligations, and (b) imports exceeding exports (to enable technological upgradation). Thus, private capital inflows are seen to be essential to cover the current account deficit and maintain a healthy reserves position.

This is presented as the rationale for making India attractive for both Foreign Institutional Investors (FII) and Foreign Direct Investment (FDI). The finance minister has proposed that India should aim at getting around \$ 10 bn of FDI annually. To obtain this order of investment, various concessions have had to be given and more are seen to be necessary. It is argued that no distinction need be drawn between essential and inessential goods since from the point of view of allocative efficiency there is no difference between them. This

is the justification for import of low priority goods or their production in the economy by foreign capital even if this pre-empts resources from essential activities.

It is even argued that labour-intensive industry set up by FDI should be preferred to high-technology low-employment-generating investment. Hence FDI in potato chips is thought to be better than in microchips (electronics). However, this argument is flawed since the comparison is invalid. While technology for potato chips is indigenously available that for micro-chips is not. So the economy need not bear an additional burden for the former but may choose to do so for the sake of the latter.

Ceteris paribus, the profit earned on potato chips will increase the current account deficit when the dividend is repatriated. To cover this, capital would have to be attracted which would require additional concessions. The dividend servicing requirements of FDI are likely to be much higher than the interest payments on borrowings in the foreign money markets (not that one should borrow for inessential imports or production) so that the outflow can be substantial. Finally, while micro-chips are likely to increase production and productivity elsewhere, potato chips are unlikely to have any such linkage.

Further, if demand is stagnant, production based on FDI may be at the expense of local production. Since FDI using more modern technology tends to be less labour-intensive than the indigenous existing technology, overall employment may decline rather than rise. This may be the case with, say, Kellog corn flakes. With regard to the new breed of automobiles based on a high import content, in comparison with the old Ambassador, Padmini, NE 118, etc, there will be a double effect so that the employment elasticity is likely to be very low.

Finally, concessions to foreign capital to cover the rise in the current account deficit, would result in lower tax buoyancy, ceteris paribus, and higher revenue and fiscal deficits. To keep government's borrowing requirements low, this would force a cut in other essential expenditures or a slow-down in the growth of public investments.

Incurring all these costs may be justified tor the production of essential items but not for inessential goods. The point remains how does one upgrade the quality of goods using indigenous technology. But would one chop off an arm to get rid of the pain in a pulled muscle?

Since the new government has come to office, the pace of clearances for FDI in incessential goods has increased. The shifting of Foreign Investment Promotion Board (FIPB) from the prime minister's office to the industries ministry and higher limit of automatic clearances seem to have done the trick.<sup>5</sup>

FIIs are being allowed greater flexibility in their operations in the secondary stock markets. This has Indian industry worried since this makes a hostile take over easier Along with the GDRs available in the international markets which can be converted into the underlying equity and which is on top of the 24 per cent purchase of equity allowed in the Indian stock markets, the control of foreign investors can easily exceed 50 per cent. Hence if it suits a foreign entity, it can turn many a blue chip Indian companies into foreign-controlled companies.

The ministry of finance has denied such a possibility. The argument offered is that the overall limit of 24 per cent will hold for the total FII holding. If this is the case, turther large investment by FIIs in Indian blue chips is unlikely since these companies have also issued GDRs. In fact, FIIs may start disinvestment in some of the blue chips to meet the 10 per cent and the overal? 24 per cent limits. Consequently, the inflow of FII funds is likely to be uncertain and this may affect the stock markets.

#### II Market-Based Solutions and Capital

The discussion in the previous section suggests that the Union Budget for 1996-97 has offered many concessions to capital to develop the rural areas and to promote industry. The budget has simultaneously decomphasised the role of the Plan (therefore the budget or direct state intervention) in achieving these goals. This is in keeping with the trends of the past five budgets since 1991 and the interim budget of 1996. It reflects the idea that supply side responses can be generated through concessions to capital [see Kumar 1995a].

In pre Keynesian times this used to be the state of affairs with animal spirits guiding investments and capitalist economies went through fluctuations—the level of economic activity went up and down. This involved waste of resources since capital which was installed in one boom period remained potential to be utilised in the next boom [Kalecki 1971]. During the depression, the economy underutilises resources, including labour, this has a social cost, over and above the economic cost.

With slow down in investments and decline in profits, the most risky investment research and development slows down. While it is true that failure of firms during the depression and depreciation of plant and equipment presents newer investment opportunities, the latter process is slower than during the boom. It is unclear that supply side responses work countercyclically and if this is correct then they cannot generate a sustain ed boom. If an economy dependent largely on the market mechanism experiences a sustained boom the causes may lie elsewhere.

Of course, it is unclear that the Indian economy experiencing a high rate of growth in the last two years has entered a period of sustained boom. The current growth is based

on various factors none of which relates to the supply side response but more likely depend on cyclical factors and good monsoons [Alternative Survey Group 1995 27]

It has been argued in Shankar (1996 53 55) that the Indian economy is experiencing large fluctuations in various markets – for instance, in the market for foreign exchange call money market, real estate markets and the stock market. All these signal uncertainty and in such situations investment becomes risky and economic agents prefer to remain liquid.

Uncertainty lends itself to speculative activity. Quick profits can be made on guessing the direction of movements in various variables. In relation to this, the returns on industrial investments seem insignificant hence less desirable. With economic agents preferring to remain liquid, return flow of funds into banks slows down and the velocity of circulation of money drops. Interest rates remain high and industry complains of shortage of funds. This again sets back long term investments.

Slow down in the rate of rise of public investments lowers additional demand generation and concessions aggravate this problem [Kumar 1995a]. Hence long run growth in deman! slows down and lowers the trend growth rate. This is consistent with periods of boom, like at present.

## III Consequences for the Poor

Supply side responses generated through concessions to capital tend to aggravate inequities. Since the state of the market depends on the whims of the actors in the market they are able to extract concessions from the state and obtain a larger share of the national cake. This tends to translate into a more skewed individual income distribution.

For instance as argued earlier, if in rural India market based solutions to rural infrastructure are sought to be implemented this may benefit the rich tarmers or the corporate sector wishing to enter rural areas but it would leave the bulk of the rural population worse off

The current increase in the rate of growth in the economy is based on a high growth rate in the industrial sector. This sector has also been known as the least employment intensive The situation could only have worsened since 1991 due to the slow down in employment generation in the public sector, upgradation in technology and mergers in the private sector. Indications are that production is moving to less labour intensive modes and in many of the high growth areas to more import-intensive products so that employment generation cannot be very buoyant in spite of the economic boom. This has a direct impact on persistence of poverty which may ilso be getting regionally entrenched

The current budget will also accelerate the rate of inflation The changes in indirect tax rates will yield a net of Rs 1,700 crore. The public sector is expected to raise substantially higher resources for investments and this would require increases in administered prices. Food prices are set to rise since the subsidy for food has not been raised commensurate with the promises of increases in public distribution. As a consequence of these features of the budget prices of many basic commodities, like steel and oal, are set to increase. Add to this the pic budget increases in petro goods prices and rise in railway freight rates and this would constitute a step up in the inflationary potential due to the cascading effect. A rise in the rate of inflation would adversely affect workers in the unorganised sectors

In short market-based solutions which limit budgetary resources force a rise in the inflationary potential in the economy and limit additional employment generation and, therefore help perpetuate poverty or aggravate it. This has been recognised even by the proponents of the New Economic Policies who advocate a safety net to counter poverty.

The same resource shortage forces direct real expenditures from the union budget on employment generation and the social sectors to stagnate or rise at a rate which is inadequate to the needs. The current budget illustrates this. It may be argued that a mijor portion of expenditures on the social sectors are through the states but since they face a resource crunch due to inadequate increases in transfers from the centre, they realso unable to take care of their poor (even if they wanted to)

Poverty has regional dimensic as and can be best tackled through local efforts. The kind of employment generation required to deal with poverty differs from state to state. Hence the involvement of the states in poverty alleviation is essential but if their resources are inadequate then this task can only remain incomplete.

## MARKETS AND THE PEOPLE

In Andhra Pradesh and Haryana the poor, and specially women have identified drinking is a cause of their poverty. Further in Andhra Pradesh, the people voted for cheap rice which calls for subsidy. The state governments in these two states have implemented these programmes and lost substantial revenues which were collected through state excise duties on liquor. Since the centre refused to bail them out these states have been faced with a serious budgetary crisis. In Ardhra Pradesh the crisis was deeper since it not only lost revenues but needed to find additional resources for subsidised supply of rice.

This has raised an important issue namely, in a democracy the will of the people as expressed through elections can come into contradiction with the dictates of markets

The market-based supply side response desired by the central government has forced reduced resource mobilisation by it and led to its inability to transfer more resources to the states. This is standing in the way of some states implementing the will of their people. The issue is important in the context of (a) the argument that markets promote democracy – through enlarging choices and (b) the question if the will of the people should be subservient to the markets.

It is not that the centre is obliged to give resources to one state at the expense of another. The former is required to collect resources on behalf of the states and transfer them so that they can fulfil their people's aspirations. The question is how should resources be raised for programmes which people may want and, more specifically, does prohibition which is a social bad, according to the perceptions of the people of Andhra and Haryana, lead to a reduction in resources.

The centre has been raising resources in a manner that the states get a small share of it. In 1995-96, the centre got an additional revenue of Rs 10,000 crore above the budget estimates but the states got nothing additional. The states are supposed to get 80 per cent of the income tax collections and, due to the substantial black economy, the centre is estimated to collect only 10 per cent of what it could collect. If the centre was serious about tackling the black economy the states could get twice the funds that they get at present from the centre. However, under the new regime of supply side response, income tax collections are supposed to be deemphasised to give incentive.

Indications are that the size of the black economy has increased since 1991. Inflow of gold into the economy has not only gone up but its smuggling is no less. The misuse of VABAL indicates continued over- and under-involcing of imports and exports. The lack of buoyancy in excise duties in spite of rapid rise in industrial production and corporate profits indicates misuse of MODVAT for excise evasion.

The financial sector scam, the PSU disinvestment scam, the sugar scam, the telecom scam and the fertiliser scam all indicate the the scale of black income generation has only increased with the New Economic Policies, Large regional scams in Bihar and Orissa have also been talked of. Businesses with reduced scrutiny and restraint from the state are obviously less afraid of generating black incomes. They have found newer means of making illegal incomes and now hiding them is far easier under the shroud of business secrecy. With the opening up of the economy, it is easier to take money abroad and then bring it back to avail of tax concessions. Hence there is an incentive to generate black incomes and recycle them if necessary through this route.

In brief, the centre could have raised a lot more resources for the states if it had so wished and the market-finked policies are aggravating the problems further. Why don't the states themselves raise more resources? After all, for families where drinking has declined, the resource position may have improved. Expenditures on other items of consumption may have increased — food, clothing, etc. With subsidised rice, the family budget must enable a larger purchase of non-food items. Even the productivity of those who have reduced drinking may have risen. In brief, reduced drinking may have released resources for more productive activities.

The excise duties on goods whose demand may have increased are typically lower than on liquor and accrue to the centre with the states getting only 45 per cent share. Hence the states are bound to lose revenues which can only be made up if they get larger transfers. The states can collect more of resources it they are willing to tax their rich. But then the tax differentials amongst the states may rise and lead to loss of revenue through migration, etc.

States implementing prohibition may also have to create additional employment for those who were formerly employed in the liquor business. This requires more investment resources. Hence there is no escaping the fact that a state wishing to play an active social and political role must also be active in restructuring the economic sphere.

### IV Conclusion

Not that market based solutions cannot generate additional investments but the above analysis points to the difficulties in its way. Even though many concessions have been granted to the private sector (including FIIs and FDI), investments and specially the inflow of foreign capital remain uncertain. Even to maintain the current level of investments, more and more concessions may be needed which creates inequity and problems for resource mobilisation which worsen the budgetary position leading to a slow-down in public investment and the capacity to fight poverty.

The market-based solution to increased investment activity in the economy causes economic fluctuations to increase resulting in uncertainty and speculative activity whose victims are the poor. It reduces the degrees of freedom of the state governments to operate programmes suited to their needs. The free play of the markets by circumscribing the choices available to a majority of the people stands in opposition to democracy.

#### **Notes**

1 Even though several alternatives have been proposed in the last five years since the New Economic Policies were launched in 1991, none has had the social support that is essential to claim that an alternative exists. Many critiques have been offered but nothing concrete has emerged out of these since they stop short

of spelling out an alternative path. One such critique is the Alternative Economic Survey of 1995.

While some of the centrist political parties are perfectly happy to pursue the New Economic Policies now that they are in power and this was expected of them since their criticism seemed only to gain power, it is the Left which finds itself trapped. For the first time it is sharing power at the centre and has no alternative policies to propose and for lack of anything better is forced to agree to what is going on.

2 No doubt the budget proposes concessions to cancer and AIDS patients, trade unions, senior citizens, etc. but these are for basically cosmetic reasons. Some benefits also accrue to the salaried classes but these are minor in the overall calculations. In Kumar (1994) it has been argued that the real burden of taxation on the salaried classes is indirect taxation. They would benefit by a reduction in excise taxes and an increase in direct taxation. Unfortunately, even the Left does not appreciate this point and has demanded a reduction in

3 It is estimated that there are over a thousand zero tax companies. Even though the marginal rate of tax has been about 45 per cent, the average rate of tax paid by the corporate sector has been less than half this figure.

direct taxes.

4 An entire package of policies is needed to make industry conscious of R and D and quality and act on these aspects. Such a package is given in Kumar (1994) based on taxation, concessions, increased internal competition and limited protection.

5 At one point it appeared that entry of foreign capital into print media had also been approved but it turned out to be a trial balloon and the government did not press with its decision.

6 The government has also announced the take over code and suggested that the Indian financial institutions may disinvest their substantial shareholding in blue chips.

7 In Kumar (1994) several feasible ways are mentioned for raising resources from the rich. The White Paper issued by the Andhra Pradesh government in June 1996 shows the crisis in the state's finances but stops short of indicating ways of raising revenues. It is implied that prohibition should be lifted and subsidy to rice drastically reduced.

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# Secularism: Bench-Marked by Hindu Right

## Brenda Cossman Ratna Kapur

The recent series of Supreme Court judgments in cases against elected representatives of the Shiv Sena-BJP government in Mahaiashtra has delivered a mixed message. While finding several of the accused guilty of corrupt electoral practices, the court has given legal sanction to the Hindu right's ideology of hindutva as well as to its discursive strategy of hijacking secularism for its own unsecular agenda. This paper examines the court's decisions in detail and shows how it has erred in failing to take into account the political context in which the concepts of hindutva and secularism have been evolved by the right.

IN a recent series of judgments involving the prosecution of elected representatives of the Shiv-Sena-BJP government in Maharashtra for corrupt practices under the Representation of the People Act, the Supreme Court of India has delivered a mixed message to the cause of secularism On the one hand, the court found several of the accused - most notably the Shiv Sena leader Bal Thackeray - guilty of both appealing to religion to gain votes, and of promoting religious enmity and hatred But, the court also held that 'hindutva', the ideological lynchpin of the Hindu right's efforts to establish a Hindu rashtra (Hindu state), simply represented 'a way of life in the subcontinent', and was not in and of itself a violation of the Representation of the People Act 1951. The decisions have provoked both celebration and outrage. The Hindu right has heralded the decision as ushering in a new era of hindutva, while the democratic secular forces committed to fighting the communalisation of political and social life by the Hindu right have routinely denounced the decision

In this essay, we examine two deeply problematic aspects of the Supreme Court's judgment which remain, notwithstanding the court's claim to have clarified its decision (1) the conclusion on the meaning of hindutva, and (2) the conclusion on the secular character of the speeches of the Hindu right First, we argue that the Supreme Court erred in concluding that hindutva constitutes a way of life of the people of the subcontinent, and that its deployment constitutes neither a violation of the prohibition on appeal to religion to gain votes nor a violation of the prohibition on promoting religious enmity and hatred. We argue that the Supreme Court has erred in eliding its discussion of the meaning of Hinduism with the meaning of hindutva, and that its conclusions on hindutva are without legal precedent or authority Moreover, by examining the historical and political context within which the concept of hindutva has acquired meaning, we argue that hindutva cannot be separated from its appeal to religion, nor from its assault on the legitimacy of religious minorities

Second, we argue that the Supreme Court '

has ened in its acceptance of the secular nature of the speeches of the Hindu right By examining the broader discursive struggles over the meaning of secularism in India, we illustrate the extent to which the Supreme Court s conclusion has effectively vindicated the protoundly anti-secular vision of secularism that the Hindu right has long been trying to promote In so doing, we challenge the Supreme Court's views that there is nothing inconsistent between its conclusions in the Manohar Joshi case, and its earlier decisions, most notably in the Bommai case. We further argue that the conclusion in the hindutva case, and the significant victory it represents for the Hindu right, has been ficilitated by the failure to take these discursive strategies of the Hindu right on board and to pay sufficient attention to the specific manipulations of secularism occurring at its hands. As we have argued elsewhere the Hindu right has hijacked the dominant understanding of secularism as the equal respect of all religions to promote its vision of hindutva and its agendic et establishing a Hindu state In its hands, the equal respect of all religions becomes a tool for attacking the rights of minority religious communities. Its emphasis on formal equality, that is, on the formal equal treatment of all religions operates as an unmodified majoritarianism whereby the majority Hindu community becomes the norm against which all others are to be judged and treated 4 After reviewing this discursive strategy, we argue that in failing to pay sufficient attention to these strategies and particularly, in failing to more clearly articulate an alternative vision of equality that must inform the concept of the equal respect of all religions the forces of democratic secularism including the Supreme Court have left the door ajar, and unwittingly allowed the Hindu right to continue their discursive strategy of hijacking secularism for their own very unsecul ir agenda

## I Supreme Court Hindutva Judgments

In the cases of Manohar Joshi v Nitin Bhaurao Patil and eleven others, the election

of Shiv Sena/BJP candidates in the December 1987 state elections in Maharashtra werechallenged as having committed corrupt practices in violation of section 123 of the Representation of People's Act, 1951. Section 123(3) of the act prohibits candidates from any appeal to his or her religion, race, caste, community or language to further his or her prospect for election, or for prejudicially affecting the election of any other candidate \* Section 123(3A) prohibits candidates from promoting "feelings of enmity or hatred between different classes of the citizens of India on grounds of religion, race, caste, community or language" for the purposes of gaining votes, or prejudicially affecting the votes of another candidate? Charges were brought against 12 members of the Hindu right, including Thackeray, leader of the Shiv Sena and Manohar Joshi. chief minister of Manarashtra, for violating these provisions \*

At the Supreme Court, the main opinion on the interpretation of the Representation of the People Act, and whether an appeal to hindutva constituted a violation of the act. was rendered in the case of R Y Prabhoo vs P K Kunte, which involved charges of corrupt practices against Prabhoo, the mayor of Bombay, and his agent Bal Thackeray The Bombay High Court had found Prabhoo and Thackeray guilty of corrupt practices on the ground that they had appealed for votes on the ground of religion and promoted feelings of enmity and hatred between different classes of citizens of India On appeal, Prabhoo challenged the constitutionality of section 123 of the Representation of the People Act on the ground that it violated the fundamental right to freedom of speech in Article 19(1) of the Constitution It was further argued that the high court had erred in finding that an appeal to 'hindutva' constituted a violation of the act It was argued that hindutva means Indian culture, not Hindu culture, and moreover, that the public speeches of the candidate "criticised the anti-secular stance of the Congress Party in practising discrimination against Hindus and giving undue favour to the minorities which is not an appeal for votes on the ground of Hindu religion "10 The court first turned to the question of the meaning of section 123(3), that is, the prohibition of appeals to religion to gain votes. In the court's view, the prohibition did not mean that religion could never be mentioned in election speeches. A speech 'with a secular stance' which raised questions about discrimination against a particular religion would not be caught by section 123(3). Rather, section 123(3) was intended to prohibit a candidate from seeking votes on the basis of his religion, or of trying to alienate votes from another candidate on the basis of that candidate's religion. The court then considered the question of the meaning of the prohibition on the promotion of feelings of enmity or hatred between different religious communities contained in section 123(3A). In its view, the clear objective of the section was to curb 'the tendency to promote or attempt to promote communal, linguistic or any other factional enmity or hatred to prevent the divisive tendencies'." The court accepted the arguments of the appellants that the prejudicial effect on public order is implicit in this section.12

The court subsequently considered and rejected the constitutional challenge to sections 123(3) and 123(3A),13 and then turned to consider the meaning of hindutva and Hinduism, and whether an appeal to hindutva constitutes a violation of these provisions of the Representations of People Act. The court began by reviewing what it described as the relevant Supreme Court jurisprudence on the meaning of 'Hindu', 'Hinduism' and 'hindutva'. After reviewing several cases on the meaning of 'Hindu' and 'Hinduism', the court concluded that these constitutional bench decisions "indicate that no precise meaning can be ascribed to the terms 'Hindu', 'hindutva' and 'Hinduism' and no meaning in the abstract can confine it to the narrow limits of religion alone, excluding the content of Indian culture and heritage" (emphasis added). 14 On the meaning of hindutva, the court concluded.

...that the term 'hindutva' is related more to the way of life of the people in the subcontinent. It is difficult to appreciate how in the fact of these decisions the term 'hindutva' or 'Hinduism' per se, in the abstract, can be assumed to mean and be equated with narrow fundamentalist Hindu religious bigotry, or be construed to fall with the prohibition in [section 123(3) or (3A)]<sup>15</sup> (emphasis added).

In the court's view, hindutva is ordinarily to be understood "as a way of life or state of mind and it is not to be equated with, or understood as religious Hindu fundamentalism". 16 The words Hinduism and hindutva should not be construed narrowly to refer only to the "strict Hindu religious practices unrelated to the culture and ethos of the people of India". Rather, in the abstract, these terms should simply be seen to reflect

the "way of life of the Indian people". Accordingly, the court concluded that simply referring to hindutya or Hinduism in a speech does not automatically make the speech one based on the Hindu religion and thus is not an appeal to religion. Nor, in the court's view, does such a reference necessarily "depict an attitude hostile to all persons practising any religion other than the Hindu religion". Rather, it is the particular "use made of these words and the meaning sought to be conveyed in the speech which has to be seen".17 Such words may be used in a speech "to promote secularism or to emphasise the way of life of the Indian people and the Indian culture or ethos or to criticise the policy of any political party as discriminatory or intolerant". The court thus rejected the argument that the use of hindutva per se necessarily constitutes a violation of sections (23(3) or (3A) of the Representation of Peoples Act, 1951. Instead, the court was of the view that the question of whether a particular reference to hindutva or Hinduism constitutes a violation of these sections must be a question of fact in each case.

On the facts of the case against Prabhoo and his agent, Thackeray, the court found that all three of Thackeray's speeches at issue constituted a clear appeal to the Hindu voters to vote for Prabhoo because he was a Hindu, and thus was in violation of section 123(3). Further, the court was of the view that one of Thackeray's speeches included derogatory references to Muslims that clearly amounted to an attempt to promote feelings of enmity and hatred between Hindus and Muslims, and thus were in violation of section 123(3A). Thus, both Prabhoo and Thackeray were found guilty of corrupt practices. By way of contrast, in the case against Manohar Joshi, for a speech in which he stated that "the first Hindu state will be established in Maharashtra', the court held that Joshi was not guilty of violating section 123(3) or (3A). Such a statement was not, in the court's view, an appeal to votes on the basis of religion, but simply 'the expression, at best, of such a hope".18

The outcomes of other cases were similarly divided, though the preponderance dismissed the convictions of the Bombay High Court. The conviction against R G Kapse (an elected BJP candidate to the Lok Sabha), joined with notices against Pramod Mahajan and Sadhvi Ritambara, were overturned by the Supreme Court. The speeches made by Mahajan and Ritambara were not, in the court's view, made with Kapse's consent. The fact that Ritambara was present at and participated in a public meeting at which Kapse was allegedly present could not be taken as consent to the content of those speeches.19 Moreover, Kapse denied that he was even present at the meeting, and in the court's view there was no reliable evidence to prove his alleged conduct. The charges in relation to Mahajan's speech were similarly dismissed on evidentiary grounds, that is, there was not sufficient evidence to prove that he had used the words hindutva or Hindu religion in his speeches, nor that he had raised the Ram Janmabhoomi issue, or otherwise appealed to religion. The court further held that the fact that these issues were raised in the BJP manifesto was not sufficient to find an individual candidate guilty of corrupt practices. The charges against Shiv Sena candidate Ramkant Mayeker were also dismissed. The mere fact that Bal Thackeray, the leader of the Shiv Sena, was found guilty of corrupt practices was not in itself sufficient evidence to establish that other members of the party were guilty of corrupt practices. Rather, a candidate's consent to the corrupt practices of the leader must be proven. In the court's view, there was insufficient evidence to prove that the candidate had even been present at the speeches in question.20

By way of contrast was the case Suryankant Venkatrao Mahadik vs Saroj Sandesh Naik, in which the Supreme Court held that the particular use of the term hindutva did constitute a violation of s 123(3) Mahadik's speech "was an appeal by a Hindu to a congregation of Hindu devotees in a Hindu temple during a Hindu religious festival with emphasis on the Hindu religion for giving votes to a Hindu candidate espousing the cause of the Hindu religion". In the court's view, the use of the word 'hindutva' in that speech 'at that time, place and occasion has to be understood only as an appeal on the ground of Hindu religion'. Following its holding in Prabhoo's case, the court held that although in its general or abstract meaning of the word 'hindutva' refers only to Indian culture and heritage, in this particular context it could only be interpreted as an appeal to religion.

A writ petition was subsequently brought, requesting that the court reconsider its conclusions in the hindutva case. The petition was rejected by the court. 22 Put in an attempt to clarify its decision, the court made several further observations. First, the court noted that there was nothing in the Manohar Joshi case that was inconsistent with the earlier decision of the Supreme Court in Bommai. In its view, Bommai did not relate to the interpretation of sections 3 and 3(A) of the Representation of People Act, 1951, "and therefore nothing in the decision in Bommai is of assistance for construing the meaning and scope" of those sections of the act. Any reference to the Bommai decision was thus, in the court's words, "inapposite in this context". The court further commented that the challenge in the writ petition to the correctness of the Manohar Joshi decision was "based on a misreading of that decision".

Rather, the decision was simply based on earlier constitution bench decisions of the Supreme Court, which the court was bound to follow. In its view, "a careful and dispassionate reading of the decision would show that the apprehensions and misgivings expressed in the writ petition are imaginary and baseless". There was nothing in the judgment to give rise to the fear that it has in any way condoned the appeal to religion to gain votes in an election. Although the court's emphasis that it did not sanction an appeal to religion in electoral politics was a welcome one, the court has failed to address the fundamental contradictions in the Manohar Joshi decision, and in fact may only intensify these contradictions. In our view, the court erred in the original decisions on two significant points - the interpretation of the meaning of hindutva, and the secutar nature of the speeches of the Hindu right. In the sections that follow, we take a closer look at these particular dimensions of the hindutva decision and reveal the dangerous implications of the errors made by the court.

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### II Vindicating Hindutva

The apex Court has fully and unambiguously endorsed the concept of hindutva which the [BJP] has been propounding since its inception.

Organiser, Editorial, December 24, 1995

The Supreme Court decision was immediately claimed by the Hindu right as a vindication of their vision of hindutva.23 The front page of the December 24th edition of the Organiser proudly declared 'Triumph of Truth', and several articles in the edition waxed eloquently on the decisive victory that the judgment represented for the forces of hindutva and Hindu rashtra.24 One article trumpeted: "The Supreme Court has put its seal of judicial imprimatur on the Sangh ideology of hindutva by stating that it is a way of life or state of mind and that it is not to be equated with or understood as religious fundamentalism." H V Seshadri, leader of the RSS, welcomed the judgment as "a vindication of the Sangh's philosophy of Hindu rashtra". 25 Conversely, the Supreme Court's comments on hindutys came under immediate fire from those committed to democratic secularism. In this section, we take a closer look at the Supreme Court reasoning on the meaning of hindutva. In our view, there is good reason to be concerned about the conclusions reached by the court. First, the conclusions are unsupported on the face of the decision itself - that is, the court did not provide any evidentiary basis (factual nor expert) nor any precedential authority for its conclusion. Second, we argue that the court could not do so precisely because the conclusion is inconsistent with the historic and contemporary political meaning of the term hindutva.

### 'A WAY OF LIFF' WITHOUT PRECEDENT

In reaching its conclusions on the meaning of hindutva, the Supreme Court quoted extensively from two earlier decisions of the constitutional bench of the Supreme Court. The first, Sastri Yagnaparushadji and Others vs Muldas Bhudardas Vaishya and Another, involved a lengthy discussion on who and what are Hindus, which passed considerable comment on the meaning of Hinduism:

Unlike other religions in the world, the Hindu religion does not claim any one prophet; it does not worship any one god; it does not subscribe to any one dogma; it does not believe in any one philosophic concept; it does not follow any one set of religious rites or performances;; in fact, it does not appear to satisfy the narrow traditional features of any religion or creed. It may broadly be described as a way of life and nothing me re... When we consider this broad sweep of the Hindu philosophic concepts, it would be realised that under Hindu philosophy there is no scope for excommunicating any notion or principle as heretical and rejecting it as such... Hinduism takes it for granted that there is more than one valid approach to truth and to salvation and these different approaches are not only compatible with each other, but are complementary<sup>27</sup> (emphasis added).

The second case, Commr Of Wealth Tax, Madras, and Ors vs Late R Sridharan by LRs,<sup>78</sup> also involved a considerable discussion of the meaning of Hinduism:<sup>29</sup>

It is a matter of common knowledge that Hinduism embraces within itself so many diverse forms of beliefs, faiths, practices and worship that it is difficult to define the term Hindu with precision. 30

But the passages cited from the Sridharan case further elaborated on the nature of Hinduism, which it defined as "incorporat(ing) all forms of belief and worship without necessitating the selection or elimination of any. The Hindu is inclined to revere the divine in every manifestation, whatever it may be, is doctrinally tolerant, leaving others – including both Hindus and non-Hindus – whatever creed and worship practices suit them best."<sup>31</sup>

Based on these two decisions, the court in Manohar Joshi concluded that no precise meaning could be given to the words Hindu, Hinduism or hindutva:

...no meaning in the abstract can confine it to the narrow limits of religion alone, excluding the content of Indian culture and heritage. It is also indicated that the term 'hindutva' is related more to the way of life of the people in the sub-continent. It is difficult to appreciate how in the face of these decisions the term 'hindutva' or 'Hinduism' per se, in the abstract, can be assumed to mean and be equated with narrow fundamentalist Hindu religious bigotry, or ...fall within the prohibition of ...section 123 of the Representation of the People Act. 12

There are a number of troubling dimensions to this conclusion. First, in the court's view, even the term 'Hinduism' cannot be given any precise meaning, and is not limited to 'the narrow confines of religion'. Rather, even the word 'Hinduism' is seen to reflect 'the way of life of the Indian people'. Although the court's conclusion that 'Hinduism' ought not be reduced to "or equated with narrow fundamentalist Hindu religious bigotry" is uncontentious, its conclusion that Hinduism ought not be confined to religion at all is highly contentious, and in our view, erroneous. The very definitions cited by the court in Sridharan all point to the common understanding of Hinduism as a religion, albeit one that embraces a multiplicity of gods, texts and religious rites.

Yet, even more troubling are the court's conclusions on the meaning of hindutva. What the court does not mention, nor does it seem to be remotely troubled by, is the fact that neither of these two decisions of the constitutional bench so much as mentioned the word 'hindutva'. The court nevertheless goes on to elaborate on the meaning of hindutva as 'the way of life or state of mind of the people of the subcontinent; a meaning that it derives from the two decisions dealing with the meaning of Hinduism. In further support of its conclusions that hindutva represents a 'way of life', and not simply 'religious Hindu fundamentalism', the court then quoted a passage from the work of Maulana Wahiduddin Khan (1994):

The strategy worked out to solve the minorities problem was, although differently worded, that of hindutva or Indianisation. This strategy, briefly stated, aims at developing a uniform culture by obliterating the differences between all of the cultures coexisting in the country. This was felt to be the way to communal harmony and national unity. It was thought that this would put an end once and for all to the minorities problem.<sup>33</sup>

This passage is cited by the court to support the conclusion that "the word 'hindutva' is used and understood as a synonym of

'Indianisation', i e, the development of uniform culture by obliterating the differences between all the cultures co-existing in the country."4 What the court does not mention, nor does it seem to be in any way troubled by, is the fact that the passage quoted is a description of a particular strategy worked out by a particular political party the Bharatiya Jana Sangh, the ideological precursor of the BJP. Although their discourse did equate hindutva with Indianisation, this equation within the political rhetoric of the Hindu right should hardly be comforting. It should, to the contrary, be considerable cause for concern. The court, however, does not interrogate the strategy of Indianisation. It did not consider what was involved in the creation of a uniform culture (i e, a Hindu culture), nor the obliteration of differences (i e, of Muslim religion/identity). Rather, it simply deploys the passage as an authority for the proposition that hindutva is synonymous with Indianisation. And by taking the passage out of context, the court uses it as further support for its view that hindutva is simply a way of life of the Indian people.

The court subsequently quoted at length from Kultar Singh vs Mukhtiar Singh, another decision of the constitutional bench of the Supreme Court, which held that a poster which contained the word 'Panth' did not constitute an appeal to votes on the basis of religion, since the word 'panth' did not mean the Sikh religion.<sup>15</sup> The court once again relterated its basic conclusion:

Thus, it cannot be doubted, particularly in view of the Constitution Bench decisions of this court that the words 'Hinduism' or 'hindutva' are not necessarily to be understood and construed narrowly, confined only to the strict Hindu religious practices unrelated to the culture and ethos of the people of India, depicting the way of life of the Indian people. Unless the context of a speech indicates a contrary meaning or use, in the abstract these terms are indicative more of a way of life of the Indian people and are not confined merely to describe persons practicing the Hindu religion as a faith.<sup>36</sup>

The court further emphasised that there was nothing inherent in the terms Hinduism or hindutva that depicts any hostility, enmity or intolerance towards any other religious community. Although the terms may have been misused by some to promote communalism, such misuse does not change 'the true meaning of these terms'." Returning to the issue at hand, the court then concluded that mere references to the words Hinduism or hindutva in a speech does not constitute a violation of either s 123(3) of s 123(3A) of the Representation of the People Act. Rather, it is "the kind of use made of these words and the meaning sought to be conveyed in each particular speech which must be considered". "The issue, then, of the violation of the act becomes a question of fact in each

What is most extraordinary about the court's reasoning, from a strictly legal point of view, is that it can draw such an unequivocal conclusion as to the meaning of hindutva without having cited virtually any authorities - judicial or otherwise - in support. None of the Constitutional Bench decisions from which it purported to draw support addressed the meaning of the term hindutva, but simply the meaning of Hindu or Hinduism. The Supreme Court takes no notice of the possibility that these terms may not in fact converge, but proceeds from the assumption that their meaning can be conflated, and thus infers the meaning of one (hindutva) from the other (Hinduism). Since Hinduism is taken to mean the way of life of the people of the subcontinent, then so too does hindutva.

The Supreme Court's conclusion on the meaning of hindutva further exemplifies the way in which the unstated norms of the majority come to be inscribed in legal principles. Hinduism, the religion of the majority of Indians, comes to reflect the way of life of all Indians. Hindutva, similarly abstracted from the religion of the majority, also becomes the way of life of all the people of the subcontinent. The court unproblematically assumes that the norms of the majority can simply be extended to apply to all Indians; regardless of their religious or cultural identity. Similarly, 'Indianisation' is taken by the court to represent the political and cultural aspirations of all Indians, in and through the construction of a uniform culture. The court does not stop to consider that this uniform culture is one based on assimilating religious and cultural minorities and on reconstituting all Indian citizens in the image of the unstated dominant norm, that is, a Hindu norm. The court simply assumes, rather than in any way critically interrogates, that majoritarian norms are the appropriate measure against which the practices and rhetoric of the Hindu right can be judged. Although there is nothing particularly extraordinary about the court's implicit reliance on unstated dominant norms - judicial reasoning more often than not does incorporate these assumptions - the implications of these norms for religious and cultural minorities who deviate from these norms can be very damaging. And, as we will attempt to reveal in the sections that follow, the implications of these unstated norms of the Hindu majority in the Supreme Court's conclusions on hindutva are particularly devastating for these minorities, who are the very targets of the Hindu right.

### HINDUTVA AND HINDU RIGHT

In concluding that the term hindutva was not in and of itself an appeal to religion, nor

an expression of enmity or hatred towards other religious groups, but simply the way of life of Indian people, the Supreme Court has obscured the historical background as well as the contemporary political context within which the term has acquired meaning. As several commentators have pointed out, the court has failed to recognise that the term hindutva has historically had a very particular meaning, associated with the political philosophy of Savarkar and Golwalkar and the political agenda of the Hindu right.39 The contemporary meaning of hindutva has its roots in the writings of Savarkar, particularly in his pamphlet hindutva; Who is a Hindu? written in 1923.4" In first articulating the concepts of hindutva and Hinduness as political concepts, Savarkar emphasised that 'hindutva is different from Hinduism':

Hindutva is not identical with what is vaguely indicated by the term Hinduism. By an 'ism' is generally meant a theory or a code more or less based on spiritual or religious dogma or system Butwhen we attempt to investigate into the essential significance of hindutva we do not primarily – and certainly not mainly – concern ourselves with any particular theocratic or religious dogma or creed. Had not linguistic usage stood in our way then Hinduness would have certainly been a better word than Hinduism as a near parallel to hindutva. Hindutva embraces all the departments of thought and activity of the whole being of our Hindu role. 41

In rather striking contrast to the Supreme Court decision, Savarkar posited the concept of hindutva as something distinct from Hinduism and as a means for achieving superiority of the Hindu race, rather than the religion. According to Savarkar, 'Hindus are not merely the citizens of the Indian state because they are united not only by the bonds of love they bear to a common motherland but also by the bonds of a common blood... All Hindus claim to have in their veins the blood of the mighty race incorporated with and descended from the Vedic forefathers'.42 In this definition, a Hindu is thus cast as a race. 43 But, Savarkar did not stop at this concept of a common fatherland and a common racial bond. Rather, for him, a Hindu was also one who inherits Indian civilisation "as represented in a common history, common heroes, a common literature, a common art, a common law and a common jurisprudence, common fairs and festivals, rites and rituals, ceremonies and sacraments".44 Hindus were thus defined in terms of their common cultural heritage.

Again, Savarkar did not stop here. A Hindu was further defined as one who followed "the religion of the people peculiar and native to this land", namely, Hinduism. In Savarkar's definition a Hindu is a "person who regards the land of Bharatvarsha from Indus to the Seas as his Fatherland as well as his Holyland – that is the cradle of his

milition" A Hindu is thus one whose 'pitribhumi' and 'punyabhumi' correspond. It is through this elision of fatherland and holyland that Savarkar constructs the political category of Hindu in opposition to non-Hindus, particularly, to Muslims and Christians. Despite the fact that Muslims and Christians 'have inherited along with Hindus a common Fatherland and a greater part of the wealth of common culture language, law, custom, folklore and history, [they] are not and cannot be recognised as Hindus... Their Holyland is far off in Arabia or Persia'.46 The construction of a 'Hindu race' was thus achieved by continuously positing a conflict between the 'Hindu' and others', most notably, the 'Muslim invader'.47

Although Savarkar was emphatic that hindutva was distinct from Hinduism, it was also clear in his writings that Hinduism was an important part of being Hindu. As Purshottam Agarwal has argued, Savarkar effectively transforms the role of religion in constituting the category of Hindu: "In religious discourse the community is defined in terms of a shared creed or dogma. In the political discourse of communalism, the community is defined primarily as a race. Religion, instead of being a defining criterion, is transformed into a fetish owned by an already defined community".48 Hindus, according to Savarkar, were a race who by definition followed a particular religion. And by definition, Hindus were constituted in opposition to Muslims and Christians whose very identities were constituted as always posing a threat of disloyalty. Although Muslims and Christians were also constituted in racial terms, it was clear that the threat that they posed lay in the fact that their holyland was other than in India. Again, despite the emphasis on racial differences, it was the difference of religion that remained as a constituting movement of the oppositional identities.

The definition of a Hindu and of hindutva was further articulated in the writings of Golwalkar. Golwalkar's vision of a Hindu nation included five components:

The idea contained in the word Nation is a compound of five distinct factors fused into one indissoluble whole, the famous five unities: Geographical (Country), Racial (Race), Religious (Religion), Cultural (Culture) and Linguistic (Language).

Golwalkar elaborated in considerable detail the meaning he ascribed to each of these categories. Country is described as "hereditary territory... relating to which [a people] has certain indissoluble bonds of community". A race is defined as "a hereditary society having common customs, common language, common memories of glory or disaster; in short, it is a population with a common origin under one culture." Religion

and culture are defined together, because in Golwalkar's view, the two are often indistinguishable:

Where religion forms the very life-breath of a people, where it governs every action of the individual as well as of the society as a whole, where in short, it forms the only incentive to all action, wholly and spiritually, it is difficult to distinguish these two factors <sup>52</sup>

In elaborating on his definition of religion, Golwalkar argued that those who argue that religion has no place in politics fail to understand the real meaning of religion:

Religion, in its essence is that which by regulating society in all its functions, makes room for all individual idiosyncrasies, and provides suitable ways and means for all sorts of mental frames to adopt, and evolve and which at the same time raises the whole society as such, from the material through the moral to the spiritual plane.<sup>53</sup>

In his view, this religion "cannot be ignored in individual or in public life". 4 Finally, language is defined as an essential characteristic belonging to every nation: "Every race, living in its own country, evolves a language of its own, reflecting its culture, its religion, its history and tradition". 55

Golwalkar argued that the Hindus qualify under each of these categories, and thus, constitute a nation. "Hindustan, the land of the Hindus ...a definite geographical unity" constitutes a country. "[T]he Hindu Race is united together by common traditions, ...memories, ...culture, ...language, ...[and] customs", and thus constitutes a race. <sup>36</sup> On religion and culture:

This great Hindu Race professes its illustrious Hindu Religion, the only religion in the world worthy of being so denominated, which in its variety is still an organic whole... Guided by this Religion in all walks of life, individual, social, political, the Race evolved a culture which despite the degenerating contact with the debased 'civilisations' of the Mussalmans and the Europeans, for the last ten centuries, is still the noblest in the world.<sup>37</sup>

In Golwalkar's view "No race is more fortunate in being given a Religion, which could produce such a culture". \*\* On the question of language, he recognised a problem, insofar as it appears that each region has its own language. But, he argued "there is but one language, Sanskrit, of which these many languages are mere offshoots". \*\* Thus, Golwalkar concluded, "this country, Hindustan, the Hindu Race with its Hindu Religion, Hindu Culture, and Hindu Language, complete the Nation concept". \*\* On the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of the country of t

In this definition, although religion is but one of the five qualifying categories of the Hindu nation, it can be seen to underlie the other four categories. Race is defined not so much in terms of a common blood line (as in Savarkar's definition), as it is in terms of a common culture. It is less a biological category than a cultural category. And culture

is in turn defined almost wholly in terms of a common religion, since in Golwalkar's view, religion and culture for the Hindus is virtually indistinguishable. Thus, both race and culture are constituted in and through the category of religion. Despite the efforts to insist that the category of Hindu is broader than that of Hinduism, we can begin to see that the religion of Hinduism remains the constituting moment of this broader political category. The other two categories - of country and language - can in turn be seen to be derivative of this religious category. Country is simply the geographical territory where a people united by religion/culture/ race live, and language, similarly, that which a people united by religion/culture/race. speak. And the priority of religion within this construct of religion/culture/race reveals that, despite Golwalkar's efforts to insist on the distinct nature of the five categories, it is in fact the common religion of Hinduism from which the entire definition of the Hindu nation is derived.

The primacy of religion is further evident in Golwalkar's discussion of the 'problem' of those who live in Hindustan, but who are not part of the Hindu race, religion and culture, namely, the Muslims and Christians. In his view, those who were not a part of the Hindu Race, still had a chance to be a part of the Hindu nation if certain conditions were met:

All those ... can have no place in the national life, unless they abandon their differences, adopt the religion, culture and language of the Nation and completely merge themselves in the National Race. So long, however, as they maintain their racial, religious and cultural differences, they cannot but be only foreigners..., the strangers have to acknowledge the National Religion as the State Religion and in every other respect inseparably merge in the National Community. 61

Although the Muslims and Christians are cast as 'foreign races', the constituting moment of this racial category remains one of religion. As in Savarkar's writings, the problem with these minorities is not that they do not share a common land, a common language, or even part of a common culture. The real problem lies with the absence of the requisite 'mental allegiance', a mental allegiance that Muslims and Christians have not demonstrated. It is the fact that Muslims and the Christians do not look upon India as their holy land, and thus continue to display a religious allegiance to a foreign land that is of concern to Golwalkar. The call on these communities to "give up their present foreign mental complexion and merge in the common stream of our national life",62 is thus a call to give up their religion, which lies other than in the Hindu nation. Despite the fact that Golwalkar speaks of racial and cultural differences, these differences only

### MAHARASHTRA STATE LOTTERY

# SHREE BUMPER DRAW

### **ONE COMMON PRIZE OF RS. 15 LAKH (GUARANTEED)**

Four series - Total 2 lakh 66 thousand 714 prizes
TOTAL AMOUNT OF PRIZES Rs. 1 CRORE 21 LAKH 25 THOUSANDS.

### **FEATURES:**

- 20 prizes of Rs. 1 lakh each
- 8 prizes of Rs. 50,000 each
- **o** 16 prizes of Rs. 25,000 each
- 24 prizes of Rs. 5,000 each
- 240 prizes of Rs. 1,000 each
- 2,400 prizes of Rs. 100 each
- 24,000 prizes of Rs. 50 each
- Total 2 lakh 40 thousand prizes of Rs. 25 each on last digit.

### **CONSOLATION PRIZES**

Total 5 prizes of Rs. 5,000/- each for the ticket numbers immediately preceding and succeeding the common prize winning number and also for the said number in non-winning series.

TOTAL AMOUNT OF PRIZES Rs. 90 LAKH 65 THOUSANDS.

Draw: On September 30, 1996 at 4.30 p.m. at ALIBAUG, RAIGAD

Ticket price Rs. 10/- only.

make sense in relation to the universitying category of religion. The call for assimilation is thus first and foremost a call for religious assimilation, for minorities to return to the folds of Hinduism. It is only secondly a call to assimilate into the culture and race, insofar as this culture and race is one that is derivative of the religious category.

Moreover, it is in these discussions of the minorities that we can again see the extent to which the political category of Hindu has been constituted in opposition to religious minorities, and premised on the very elimination of these minorities, through assimilation or considerably more violent means. Religious minorities are constituted in this discourse as presenting a threat to the integrity of the nation, and could not be recognised or accommodated as a legitimate part of the Hindu nation. Golwalkar was very clear that there was no place for religious minorities who failed to assimilate they must "lose their separate existence to merge in the Hindu race, or may stay in the country, wholly subordinated to the Hindu nation, claiming nothing, deserving no privileges, far less any preferential treatment - not even citizen's rights'n1 (emphasis added). The Hindu nation was thus constituted in the writings of Golwalkar through an attack on the very legitimacy of religious minorities, and on a denial of any protection of minority rights within the Hindu nation.

These conceptualisations of the Hindu nation continue to inform the political agenda of the Hindu right today. Hindutva means establishing a Hindu rashtra – a Hindu state, based on a Hindu way of life. As Savarkar did before them, the contemporary ideologues of the Hindu right continue to emphasise a distinction between Hindu and Hinduism. And like Golwalkar before them, they continue to insist that Hindu is an attitude of allegiance. For example, Seshadri writes:

Hindu is not the name of a religious faith like the 'Muslim' or the 'Christian' It denotes a national way of life here. All those who feel firmly committed to the unity and sanctity of our country and our people and look upon our great forebearers as their national heroes and the sublime values of our cultural life as their points of veneration and emulation are al! Hindus.64

Yet, despite this continued emphasis that Hindu means more than the 'ism' of Hinduism, it remains all too evident that the constituting moment of Hinduness is still religion. Hinduism continues to be the religion followed by the Hindus. And it continues to be asserted as the only religion worthy of the name. It is time and again asserted as the only religion premised on the notion of toleration, which is in turn used to justify the claim that only Hindus are truly secular. The supremacy of Hinduism remains the basis of the political claims

against the minorities, who follow religions that allow neither toleration nor secularism. While the political category of Hindu continues to be given precedence, Hinduism nevertheless remains as a crucial dimension of this category.

Indeed, if anything, the salience of religion in the discourse of the Hindu right has only increased since the advent of the VHP. The emphasis on Hindu as a racial rather than a religious category, and the distinction between Hindu and Hinduism, has begun to blur. The VHP is an organisation explicitly committed to promoting Hinduism. Moreover, it claims to represent the totality of Hinduism; in effect, it attempts to reconstitute Hinduism as an organised religion under its central auspices. As Basu et al have argued, this appeal to religion in and through the VHP has been part of the phase of popularising hindutva; that is, of moving beyond the elite cells of the RSS shakhas and popularising the message of hindutva among the Hindu masses. "It is within this context of popularising hindutva that the Ram Janmabhoomi campaign acquired such importance and dynamism within the Hinduright. It is, moreover, within the context of this campaign that the religious nature of the political rhetoric of the Hindu right has become most evident. The ascendance of the Ram legend, as well as the political mobilisation of large numbers of sants and sadhus into the popular front of the Hinduright, has given it a distinctively religious flavour Although traces of the racial construction of Hindus remains in evidence, particularly in the ongoing attacks on the Muslim community, the VHP is unapolegetic in its emphasis on religion.

In its contemporary deployment, the subtle distinction between Hindu, hindutva and Hinduism of earlier times is often lost. The political discourse is imbued with religious discourse sometimes espousing the superiority of Hinduism, or other times, simply punctuating political appeals with the language, symbols and ceremonies of Hinduism. But, the relationship between Hindu as a political category and Hinduism as a religious category remains complex. For example, the explicitly religious claims of the VIIP to represent an already existing collectivity of Hindus only makes sense in relation to the underlying conceptualisation of Hindu as a racial category.67 Moreover, while the appeal to religion has grown, the concept of Hindu rashtra and hindutva does continue to mean more than an appeal to the religion of Hinduism. For the Hindu right, an equally important dimension of hindutva is the attack on the legitimacy of minority rights. Hindutva continues to mean the assimilation of all minorities into the culture, the way of life, ultimately the religion, of the majority. The concept of hindutva thus

retains its oppositional meaning, that is, to be constituted largely in relation to that which they oppose - Muslims and Christians. The attack on the legitimacy of minority religious communities continues to go to the very core of the concept of Hindu rashtra and hindutva. From Savarkar to Golwalkar to the contemporary ideologues, it is this attack on religious minorities, on the effort to assimilate these minorities back into the folds of Hinduism that has given hindutva its political character. The current phase of popularising the agenda of the Hindu right through the VHP retains this essentially political attack on religious minorities. The appeal to religion has not fundamentally altered this character, but simply popularised it through the invocation of religious discourse.

In the contemporary political terrain, hindutva thus continues to be a political category that is distinct from the religion of Hinduism, but which relies on religion in constituting the political category of Hindu. The Supreme Court has completely failed to understand the meaning of the term, and its complex relationship to the religion of Hinduism.<sup>™</sup> For the court to infer the meaning of hindutva simply from reviewing its jurisprudence on the meaning of Hinduism and Hindu is simply inaccurate. At the same time, for the court to conclude that an appeal to hindutva is not per se an appeal to religion is to also misrepresent the complex relationship between these terms in the contemporary strategies of the Hindu right. Although the concept of hindutva has developed as distinct from Hinduism, it is a concept that nevertheless presupposes the religion of its constituency. And in recent years, the political usage of the term has become more and more imbued with explicitly religious discourse. When used in the context of electoral politics, hindutva is an appeal to religion, and as such, ought to constitute a violation of section 123(3) of the Representation of the People Act.

Secondly, hindutva continues to be a political category that at its core is an attack on the legitimacy of minority rights. For the court to conclude that there is nothing inherent in the concept of hindutva that involves the promotion of religious enmity, hatred or disharmony is again, simply inaccurate. The Supreme Court has failed to understand the assault on religious minorities that is a constituent element of the concept of hindutva. From its roots in the writings of Savarkar to its contemporary deployment by the likes of Bal Thackeray, Manohar Joshi, Sadhvi Rithambara and L K Advani, hindutva has been based on the idea of Indian society fractured by the conflict between religious communities, particularly between the Hindus and Muslims, wherein the majority of Hindus have been and continue to be oppressed at the hands of the Muslim minority, hindutva is a call to unite against these religious minorities; at best it is a call to assimilate these minorities into the ostensibly more tolerant fabric of Hinduism; and at its more extreme, it is a call to simply destroy them. In both its more modest assimilationist mode and in its more extreme and violent mode, hindutva is an attack on the rights, indeed on the very legitimacy of religious minorities. As a call to assimilate or otherwise undermine the very identity and integrity of minority communities, it is based on a total disregard and lack of respect for other religious groups. And as such, its political deployment can only be seen as promoting enmity, disharmony, and often hatred between religious groups. The Supreme Court has simply failed to understand the political agenda that informs the meaning of hindutva in the contemporary political landscape, where an appeal to hindutva is both an appeal to religion, and an appeal promoting enmity and hatred between religious groups. When used in the context of electoral politics, hindutva ought to constitute a violation of both section 123(3) and section 123(3A) of the Representation of People Act, 1951.

For the Hindu right, hindutva is indeed a way of life - a way of life of the Hindus who by definition, practice Hinduism. It is not about the way of life of the Muslims or the Christians in India. For the Hindu right, hindutva is about the assimilation and ultimate negation of these religious minorities. This is the meaning of hindutva both in its historic and contemporary context. It is in this light that the Supreme Court conclusions that hinduty a simply represents a way of life of the people of the subcontinent must be evaluated, and ultimately rejected. Hindutva is not the way of life of all the people of the subcontinent. At best, it aspires to represent the Hindu people, and to assimilate non-Hindus into its fold by whatever means possible. The Supreme Court has not only effectively condoned this political vision, it has elevated it to a description of an existing state of affairs." It can hardly come as a surprise that the Hindu right has claimed the decision as an unequivocal victory.70

The efforts of the Supreme Court to clarify its views has allayed the fears of many of those committed to secular democracy. Hus we remain unpersuaded. In its rejection of the review petition, the court has failed to appreciate precisely where the problems lie. It did not address the highly problematic and unsustainable conclusions about the meaning of hindutva as a way of life in the subcontinent. The conclusion remains without jurisprudential precedent, and without any appreciation of the historical, political and social context of the term

hindutva. The court has failed to see how its conclusions on the meaning of the term hindutva will allow those forces committed to establishing a Hindu rashtra to continue to pursue their agenda, fearless of the implications of appealing to the concept of hindutva. In our view, the conclusions of the court have left the legal framework of democratic politics considerably weakened against the political use of religion by the Hindu right. Despite the prohibition on such an appeal in the Representation of Peoples Act, and the Supreme Court's emphasis that it has not sanctioned such appeals, the Manohar Joshi case has, perhaps unwittingly, given the Hindu right a green light to continue to both its hindutva campaigns and its efforts to establish a Hindu rashtra. Although strictly speaking, an appeal to hindutva has not been completely immunised from prosecution under the act in so far as the court has emphasised that it is the specific context in which it is used that must be examined, the court's conclusions on the meaning of hindutva have nevertheless legitimised the term. The Hindu right is free to continue its appeal to hindutva and to the establishment of a Hindu state if it is careful to not too directly appeal to the religion of the candidate.72 And the Hindu right has wasted no time in doing just so. Its main electoral platform in the 1996 national elections is once again hindutva.71

The prohibition on the promotion of religious enmity and hatred is also left weakened in the aftermath of the decision. Although the court did condemn Thackeray for promoting hatred towards the Muslim community, the court did not recognise the extent to which the concept of hindutva itself implies an attack on minority rights While the court's findings against Thackeray signals that his rhetoric remains beyond the realm of legitimate political speech, it is difficult to imagine speeches more loaded with hatred towards a minority religious group than those of Thackeray.74 If the prohibition on the promotion of enmity and religious hatred to garner votes is to mean anything at all, it would have to capture such speech.74 At the same time, the more technical aspects of the Supreme Court decisions have created ample opportunity for the Hindu right to continue its often vehement attacks on minorities. The narrow test established by the court for proving that a candidate consented to the speeches of another will allow the Hindu right to carefully orchestrate its campaigns, ensuring that speakers other than electoral candidates are assigned the task of spewing the most hateful rhetoric.76 Moreover, as we discuss in the next section, the court's conclusions on the secular nature of some of the speeches of the Hindu right will continue to allow considerable latitude to electoral candidates to attack the legitimacy of minority rights, provided that the attack is adequately disguised within the discourse of secularism and equality.

### III Vindicating 'Pseudo-Secularism'

...when Hinduism is no religion and is a way of life to say that a Hindu state is anti-secular is wholly incorrect... Hinduism is secularism par excellence.

Organiser, January 21, 1996, p 2.

The failure of the court to appreciate the meaning of hindutva and thus the implications of its deployment in the political landscape has done an enormous disservice to the cause of secularism. But the extent of the damage does not end here. Rather, the damage has in our view been compounded by the court's comments on the secular nature of some of the speeches of the BJP candidates. In this section, we begin by briefly reviewing these comments and then attempt to illustrate their dangerous implications by situating these comments within the broader context of the highly contested meaning of secularism, and the efforts of the Hindu right to appropriate secularism for its own rather non-secular purposes. Finally, we challenge the views of the Supreme Court that there is nothing inconsistent between its conclusions, and earlier decisions of the constitution bench of the Supreme Court on secularism, particularly, Bommai v Union of India.

### SIMPLY SECULAR?

In considering whether an appeal to hindutva constituted a violation of the Representation of the People Act, the court took into account the fact that many of the Hindu right speeches at issue appealed to the principle of secularism, and to violations of the right to equality. In the court's view:

It cannot be doubted that a speech with a secular stance alleging discrimination against any particular religion and promising removal of the imbalance cannot be treated as an appeal on the ground of religion as its thrust is for promoting secularism. Instances given in the speech of discrimination against any religion causing the imbalance is the professed goal of secularism, the allegation being against any individual or any political party, cannot be called an appeal on the ground of religion forbidden by sub-section (3). In other words, mention of religion as such in an election speech is not forbidden by sub-section (3) so long as it does not amount to an appeal to vote for a candidate on the ground of his religion or to refrain from voting for any other candidate on the ground of his

According to the court, any election speech "made in conformity with the fundamental right to freedom of religion guaranteed under Articles 25 to 30 of the Constitution cannot be treated as anti-secular to be prohibited by sub-section (3) of Section 123 unless it falls within the narrow net of the prohibitions "78 A speech that refers to religion during an election campaign with a secular stance in conformity with the fundamental right to freedom of religion' is outside the purview of section 123(3) unless it includes an appeal to vote for or against a candidate on the basis of his religion Similarly in Ramakant Mayekar the court stated "There can be no doubt that mention of any religion in the context of secularism of [sic] for criticising the anti-secular stance of any political party or candidate cannot amount to a corrupt practice "79 The subtext of these comments are quite clear the fact that the candidates were criticising the 'pseudo-secularism' of the Congress government and pointing out the discrimination against Hindus within this version of secularism, meant that the speech was of a secular nature

In our view these small passages represent some of the most insidious dimensions of the inroads made by the Hindu right. In this passage, the Supreme Court has effectively legitimised the secular nature of the Hindu right's version of secularism. The paradox of the Hindu right's version of secularism has entered officially into legal discourse Their long struggle to popularise ind legitimise a version of secularism that effectively undermines all prevailing notions of secularism has won yet another important ideological victory in having just been awarded a judicial seal of approval. In order to illustrate the dangerous implications of these passages we turn first to briefly leview the dominant discourse of secularism within constitutional law and the way in which the Hindu right has appropriated this discourse for its own rather non secular purposes

### CONTESTING SECULARISMS

Although generally considered as a cornerstone of Indian democracy secularism has long been a highly contested concept in India \*0 From the days of the independence struggle two very different understandings of secularism have competed for ideological dominance Nehru's vision - dhaima nirapeksata - was based on a strong belief in the need to separate religion and politics \*1 By way of contrast Gandhi s vision - sarva dharma sambhava' - rejected the idea of the separation of religion and politics and was based instead on the principle of equal respect of all religions. The contest between these two visions of secularism can be seen within the broader context of western concep tualisations of secularism, and debates regarding its appropriateness within the

Indian context The liberal democratic vision of secularism is generally seen as characterised by three principles (1) liberty and freedom of religion, (2) citizenship and the right to equality and non-discrimination and (3) neutrality and the separation of state and religion. The first two principles have posed little controversy in the Indian context Rather, the right to freedom of religion and the right to equality and non-discrimination are generally recognised as important constitutional values in their own right as well as a foundation of Indian secularism \*\* The problem arises however in relation to the third principle that is the separation of religion and state. It is in regard to this third principle that some commentators have argued that Ind. 1 is not a secular state, 14 that others have argued that India has some but not all of the features of a secular state \*5 ind that yet others argue that if India is to be a secular state it must develop its own distinctive understanding of the requirements of secularism. It is in relation to this third principle that the Nehruvian and Gandhian models part company. Nehru was committed to a separation of religion and politics whereas Gandhi was of the view that such a separation was neither possible nor desirable within the Indian context. Rather, a distinctively Indian conceptualisation of secularism was required a secularism which would be more in keeping with the culture and tradition of the Indian people. Saarva dharma samibhiya was in Ciandhi s view such a vision. It is this understanding of secularism as the equal respect of all religions that has come to dominate legal and political thought \*c

Within the cortext of constitutional law and discourse discussions of secularism typically focus on the right to freedom of religion and the right to equality the first two of the general principles of liberal democratic vision of secularism. The literature typically highlights the various provisions of the constitution that are considered relevant to the principle of the equal respect of all religions. Articles 14 and 15 guarant ing the right to equality and non discrimination and Article 25 26 guaranteeing the right to freedom of religion and the right of iclinious denominations to organise their own affairs. The right to equality and the right to freedom of religion are within this vision scen as fundamentally interconnected - that is that all citizens must have the equal right to freedom of religion and that the state must not discriminate on the basis of teligion. Following from the dominant understanding of secularism as saarva dharma samabhava, the constitutional discourse does not insist on a wall of separation between religion and politics 17 Rather discussions tend to emphasise the principle of toleration - that is, of the equal toleration of all religions as In this regard, Article 51A prohibiting the establishment of a state religion is generally highlighted, as are the constitutional prohibitions on religious instruction in state schools, and on taxation in support of any particular religion. The constitutional guarantees on equality and freedom of religion which are seen to frame this principle of equal toleration are also again highlighted. The constitutional characterisation of secularism can then be seen to be characterised by three principles (1) freedom of religion (2) equality and non discrimination and (3) toleration Toleration thus comes to displace neutrality as the third principle of secularism 19 It is this subtle but important shift from neutrality to toleration that captures the essence of the saarva dharma samabhava vision of secularism and its conceptualisation of the appropriate relationship between religion and state. In stark contrast to the liberal democratic model, which insists that the relationship must be characterised by nonintervention the equal respect of all religions ' model allows for state intervention in religion, provided that such intervention is in accordance with the requirements of equality and freedom of religion 90

Within this constitutional framework, there is a general sense that state intervention in religion is not prohibited. There is also a general senst that equality is intricately connected to secularism, the equal respect of all religions requires that all individuals and religious communities have the equal right to freedom of religion (to practice, profess and propagate their religion), and that the state does not discriminate among citizens on the basis of their religion. But, the more specific question of the kind of state action mandated by this vision of secularism remains unanswered. What kind of state action is required to ensure that all individuals and communities have an equal right to freedom of religion? What kind of state action is required to ensure that no citizens are discriminated against on the basis of their religion? Although this vision of secularism allows some form of state intervention in so far as it does not require the wall of separation between state and religion the kind of intervention mandated by this vision of secularism remains undefined Does the equal respect of all religions require that the government treat all religions the same? Or does the equal respect of all religions require that the government equally accommodate the different rengions. There is nothing on the tace of the concept itself that resolves this

As we have argued elsewhere, the debate over the precise meaning of secularism is very much a debate over the meaning of equality and as such much of the confusion

over the meaning of secularism derives from the confusion over the meaning of equality 91 Any attempt to resolve the meaning of secularism requires a shift in attention to the meaning of equality - a concept that is no less contested within the contemporary Indian polity As we have argued elsewhere, the dominant understanding of equality in India, particularly within the context of constitutional law has been one of formal equality - that is, on formally equal treatment 12 But a second approach to equality is also discernible in Indian political and legal thought, that is, one of substantive or compensatory equality. In this understanding, equality is concerned not with equal treatment but with addressing disadvantage Substantive equality, as we have elaborated in our work is directed at eliminating the historic and systemic discrimination against disadvantaged groups that operates to undermine their full and equal participation in social, economic, political and cultural life 41 In the Indian context, this approach to equality is often referred to as compensatory discrimination, which is intended to capture the idea that certain individuals or groups may need to be treated differently in order to compensate for the discrimination they have suffered These very different understandings of equality have very different implications for secularism. A tormal understanding of equality would insist that the government treat all religions the same. A substantive understanding of equality on the other hand, would require that the government accommodate religious differences particularly those of minority religious groups which have suffered from historic and systemic disadvantage

There has, however, been surprisingly little attention to this question of the meaning of equality within the dominant vision of secularism. This continuing silence on the underlying conception of equality is no longer a harmless oversight. As we illustrate in the next section, it has become a dangerous silence that the Hindu right has been only too willing to exploit in its quest to claim the terrain of secularism as its own. The discursive strategies of the Hindu right have been based on bringing a very particular understanding of equality to the popular understanding of secularism, with powerful results.

### IN THE NAME OF SECULARISM

The Hindu right has staked its claim to secularism, casting itself as the only true upholders of Indian secularism. And increasingly, as their claim comes to have more and more popular appeal, it is a claim that those dedicated to the cause of secular democracy can no longer afford to ignore

As we have argued elsewhere, a more detailed examination of their strategy reveals how skillfully the Hindu right has deployed constitutional discourses of secularism and equality "The Hindu right has appropriated the concept of secularism and through various ingenious discursive moves, made it very much their own Secularism has now become the official banner under which the Hindu right campaigns for a Hindu rashtra, and the rights of religious minorities are savagely attacked and delegitimised. And its claim to secularism is intricately connected to its understanding of equality.

The Hinduright explicitly argues in favour of saarva dharma sambhava and 'positive secularism' The BJP has repeatedly stated its support for this version of secularism. For instance the BJP constitution provides "The Party shall be committed to Positive Secularism that is, Sarva Dharma Samabhav' A The BJP Manifesto similarly states "The BJP believes in positive secularism which, according to our constitution makers, meant Sarva Dharma Samabhava and which does not connote an irreligious state '\* This discourse is based on a particular vision of equal respect of all religions that is, on formally equal treatment Within this view the equality of all religions requires that all religious communities be treated the same in law. For example, L.K. Adv ini states The BJP is committed unequivocally to secularism as conceived by our constitution makers. All citizens are equal and there shall be no discrimination between one citizen and another ich grounds of his faith' 7 Any special or different treatment on the basis of religion is seen as a violation of secularism. The same emphasis on formally equal treatment can be seen in RSS political rhetoric. "The RSS never demands any special rights to the Hindus. At the same time, it is against giving any concession to other religious minority groups and it opposes religious discrimination "98

The particular meaning that the Hindu right gives to the equal respect of all religions is one based on formally equal treatment Accordingly, any laws or policies that provide special treatment for minorities are opposed as 'pseudo secularism', or the 'appeasement of minorities' In the discursive strategy of the Hindu right this approach to secularism is made to sound quite reasonable. It is simply based on the saarva dharma sainabhava approach to secularism, which is after all the quintessential understanding ot secularism in India, and the formal approach to equality, which has been the dominant understanding of equality within Indian constitutional law Beneath the surface, however, this discourse of secularism and equality is an unapolegetic appeal to brute majoritarianism and an assault on the very legitimacy of minority rights. The formal equality of the Hindu right means that the dominant Hindu community becomes the norm against which all other communities are to be judged and the norm according to which these 'other' communities are to be treated in the hands of the Hindu right, not only is special protection for the rights of minorities rejected as a violation of secularism, but moreover, their leaders defend this vision of secularism in unapologetically majoritarianism terms. For example, Seshadn writes

Democracy in normal parlance means the rule of the majority. In every single democratic country, it is the majority culture whose ideals and values of life are accepted as the national ethos by one and all. The same applies to the laws of the land. No religious group can claim any exclusive rights or privileges to itself. 100

One of the very cornerstones of democracy - the protection of minorities from the rule of the majority-is simply discarded. Through this approach, the Hindu right is attempting to establish majority norms as the ostensibly neutral norms against which all others are judged Their norm is a Hindu norm. In their vision, the role of the state in religion is thus not one of neutrality at all but of fostering the Hindu nation. We can see the paradox of this vision of secularism carried to its contradictory extreme. The practices of the Hindu majority come to be viewed as neutral, and the state in turn is seen to be acting neutrally only when it reinforces these practices. Thus, Hindus do not need special rights because of the extent to which all legal rights come to be based on Hindu cultural norms and practices. The discourse of secularism comes to reinforce the norms of the dominant Hindu community

The reconstruction of secularism within the political rhetoric of the Hindu right has also relied on the principle of toleration, a principle which in the hands of the Hindu right is cast in wholly religious terms Ciolwalkar, speaking on the question of secularism, stated

It sometimes seems to mean a denial of all religion – and carries a connotation of being materialistic. But if by secularism is meant that the state should not be tagged to any particular creed and that all faiths should be equally respected then this again would be another name of Hindu tradition. In fact, Hindu tradition goes far beyond the western concept of 'tolerance which implies that the faith which tolerates is superior to the other With us all faiths all equally sacred.

Hinduism is secularism in its noblest sense <sup>101</sup> Echoing the views of the ideological leaders of the Hindu right before him, Deoras of the RSS, similarly argues that only Hindus are capable of real secularism

If secularism means treating all religions on an equal footing, proselytisation and secularism can't go together Those who feel that their religion is superior to all others. Their organisations therefore cannot claim to be secular. Hinduism, on the other hand, does not believe in conversions and Hindus have never been proselytisers. As such, organisations of Hindus alone can be truly secular. 102

Secularism is defined as the toleration of all religions. Hinduism is defined as the only religion with a true tolerance for all other religions Therefore according to these terms only a country based on Hinduism can be truly secular The norm of the dominant Hindu community, which remains unstated in the Hindu right's political rhetoric around equality and non-discrimination is here stated quite explicitly. Hinduism is secularism par excellence' 10 And paradoxically, it is precisely this argument that is used to deflect any allegation of fundamentalism or theocracy Because Hinduism is tolcrant because it represents secularism par excellence' by definition it cannot be fundamentalist or theocratic

Revealingly, there is little emphasis on the second principle of Indian secularism namely, freedom of religion within the Hindu right For example, neither the BJP constitution nor manifestos explicitly refer to freedom of religion as a basic commitment There is a reference within its constitution to liberty of faith' as a basic objective but it is important not to assume that the term is synonymous with the constitutional guarantees of freedom of religion Rather. when the idea of liberty of faith' is raised it tends to be subsumed within the more general rubric of coleration and is used to distinguish Hindu rashtra from a theocratic state For instance in Integral Humanism Deendayal Upadhyaya emphasised that dharma rajyatom does not mean a theocratic state Where a particular sect and its prophet or guru rule supreme that is a theocratic state. All the rights are enjoyed by the followers of this particular sect. Others either cannot live in that country or at best enjoin a slave like secondary citizen s status' ins Upadhyaya insisted that such was not to be the case in dharma rajya

In a theociatic state one religion has all the rights and advantages and there are direct or indirect restrictions on all other religions. Dharma rayia accepts the importance of religion in the peace happiness and progress of an individual. Therefore the state has the responsibility to maintain an atmosphere in which every individual can follow the religion of his choice and live in peace. The freedom to follow one sown religion necessarily requires tolerance for other religions (emphasis added).

But, the freedom of religion within this vision is a highly restricted one First, the idea of 'liberty of faith' or 'freedom to worship' is cast in highly individualistic

terms it is the individual's right to pursue his or her own spiritual path, it is not the collective rights of a religious community to any form of self-determination Rather these collective rights, such as the right to set up educational institutions as guaranteed by article 30 of the constitution, are cast as a violation of equality 137 Secondly it is a freedom of religion that is brought under the rubric of Hinduism - that is 'linduism alone is seen to provide the toleration that is required for individuals to be able to pursue their own spiritual path. The idea of Hinduism as tolerant is again used to prop up the claim to secularism while framing this claim within an entirely religious discourse. Thirdly, it is a freedom of religion that does not include the right to propagate one's religion Rather, the propagation of religion is cast as a violation of toleration as the inability of some religions to tolerate others in More specifically Islam and Christianity the proselytising religions are seen to be premised upon the non toleration of other religions and thus on the very demal of the right to freedon of religion of those who do not subscribe to their religions. The right to propagate one's religion is thereby transformed from an integral part of freedom of religion into a violation of freedom of religion

The sphere of treedom of religion is thus radically curtaited within the discourse of the Hindu right. It is contained on one side, by a formal understanding of equality which condemns any special treatment to religious minorities as a violation of secularism. Cin the other side freedom of religion is contained by a religious understanding of toleration within which Hinduism becomes the only guarantor of an individual's ability to follow their own religion and therefore the only guarantor of secularism. Thus framed the Hinduright can retain just enough of the discourse of freedom of religion (or liberty of worship) to maintain its claim to secularism and to distinguish itself from religious fundamentalism

Through these various manipulations and redefinitions the Hindu right is thereby able to cast its arguments within the requirement. of the constitution il discourse of secularism It appeals to the constitutional guarantees of equality in Articles 14 and 15, which in its hands, means the equal treatment of all individuals and communities. It appeals to the principle of toleration, which in its hands means the supremacy of Hinduism. And it appeals to the constitutional guarantees of freedom of religion in Article 25 which in its hands means only the individual right to worship and is used to reinforce the importance of Hinduism's toleration Each dimension is carefully deployed to reinforce the other and to immunise itself from the allegation of religious fundamentalism

Despite its appearance, the Hindu right's discourse of secularism' fails to conform to any of the prevailing definitions of secularism It does not, of course, follow the formal approach to secularism in so far at there is no separation of religion and politics Nor does it in fact follow the saarva dharms sambhava approach in so far as there is no real respect or accommodation for any other religion. The Hindu right does not equally respect all religions since not all religions are as tolerant as Hinduism then not all religions are worthy of equal respect. Rather, the objective of hindutva is the assimilation of minorities into the broader and ostensibly more tolerant fabric of Hinduism But increasingly this version of secularism is capturing the hearts and minds of Hinda subjects Increasingly this version of secularism is passing as a reasonable alternative to the other failed versions

In the Manohar Joshi decision even the Supreme Court has now recognised the Hindu right's appropriation of the concept of secularism as a reasonable alternative In the court's view speeches that allege discrimination against a religious community are simply part and parcel of the constitutiona. guarantees of equality and freedom of religion. There is a certain logic to the reasoning following from the constitutiona discourse of secularism, the Hindu right is appealing to the concept of secularism, and criticising the failure of the Congresi government to implement real secularism It is easting its arguments in the language of equality - formul equality and discrimination against Hindus Appeals an expressly made to the guarantees of equality in Articles 14 and 15 of the constitution Since the BJP's arguments are thus cast ii the discourse of Indian constitutionalism these arguments are not seen to be an appea to religion. It is precisely this appeal to the language of secularism and equality that ha made the strategies of the Hindu right si clever and so disturbingly successful. And on its face there is nothing in the constitutional discourse of secularism tha seems to prevent it from doing so. The Hindi right is able to take up the equal respect o all religions and its underlying principle of equality and non-discrimination freedor of religion and toleration to argue in favou of a Hindu state. The fact that this constitutional discourse has never insiste on the separation of religion and state leave the Hindu right free to argue for a Hind rashtra. The fact that the meaning of equalit that ought to inform this vision of secularist has not been clearly articulated leaves th Hindu right free to argue for its vision c equality. And the fact that the constitutions discourse has accepted the importance c toleration of other religions as the essenc of Indian secularism means that the Hind

right is free to argue that Hinduism alone provides the basis for a tolerant, secular state

On one hand, the Supreme Court can simply be seen to have been guided by the basic dictates of constitutional secularism, and upon seeing the way in which the BJP appealed to this constitutional discourse, rightly concluded that there was no violation of secularism On the other hand if constitutional secularism is to be guarded and protected by the judiciary we might reasonably expect the courts to take a harder look at the claims before it. We might reasonably expect the courts to look beneath the surface of these claims and interrogate whether the claims of the Hindu right are in fact consistent with the principles of constitutional secularism. And we might, quite reasonably, expect the court to do so before it condones the claims of the Hindu right to secularism But in the Manohar Joshi case, such reasonable expectations were not met Rather, the court was content to conclude that the speeches were secular simply by virtue of their appeal to the discourse of equality. The court has in effect, fallen into the complex discursive trap set by the Hindu right, wherein a fundamentally non-secular project is being packaged sold and consumed as a secular one. And in so doing, the court has, perhaps inadvertently, legitimised this version of secularism with a judicial seal of approval

It is precisely in this legitimation of the Hindu right's vision of secularism that the Supreme Court decision has such dangerous implications. The strategy of dressing up its attack on minority rights, and its effort to establish a denominational state in the language of secularism, has become enough to legitimise the Hindu right's political agenda as a secular one Despite the court's efforts to clarify that its decision does not in any way allow an appeal to religion to gain votes, the fact remains that the Hindu right will be able to continue to pursue its discursive strategy of attacking minorities through its manipulations of the discourse of secularism. It means that the Hindu right can continue its efforts to promote enmity and hatred against Muslims in the guise of secularism Although the court was clear that blatantly hateful comments like those of Thackeray would not be tolerated and would constitute a violation of the Representation of the People Act 1951 attacks on the very legitimacy of minority rights that are dressed up in the discourse of secularism will attach no such liability 101

Finally, in its rejection of the review petition the Supreme Court concluded that there was nothing inconsistent between the Bommai decision and hindutva decision <sup>110</sup>. There is a kernel of truth in the court's conclusions. There is no clearly articulated

principle of secularism that is undermined. no protection overruled, no earlier decision reversed But that is not the end of the story First the conclusion of the court that nothing in the Bommai case was of assistance in interpreting Sections 3 and 3(A) of the Representation of People Act 1951, is unsustainable - several of the opinions in the Bommai decision made specific mention of these sections of the Representation of People Act and car be seen to have set out the framework of secularism within which these sections ought to be interpreted iii Moreover a careful reading of the hindutva decision reveals many inconsistencies with the spirit of secularism affirmed by the Supreme Court in the earlier decision. The conclusions on the meaning of hindutva and on the secular nature of the speeches of the Hindu right, are fundamentally at odds with the conclusions of the full constitutional bench of the Supreme Court on both the meaning and importance of secularism and the unsecular nature of the strategies of the Hindu right

In Bommai v the Union of India the declaration of Presidential rule in four states following the destruction of the Babri Masjid on December 6 1992 by the mobs of the Hindu right was challenged The full constitutional bench of the Supreme Court upheld the validity of the declaration of Presidential rule, and in so doing passed considerable opinion on the importance and meaning of secularism in India. The opinions of three justices speaking on behalf of six members of the Supreme Court, unanimously affirmed the importance of secularism to the Indian Constitution as well as the distinctively Indian concept of secularism as the equal respect of all religions 112 Reflecting the general character or Indian secularism, each of the three opinions emphasised the equal respect of all religions. For example, Sawant J echoed the common view that in India secularism does not involve a complete separation of religion and the state but rather involves treating all religions equally 113 In his words. The ideal of a secular state in the sense of a state which treats all religions alike and displays benevolence towards them is in a way more suited to the Indian environment and climate than that of a truly secular state by which [15] meant a state which creates complete separation between religion and the state 114 According to Sawant J this concept of secularism as religious tolerance and equal treatment of all religious groups included an assurance of the protection of life, property and places of worship of all religious groups. And in his view, any act of a state government "calculated to subvert or sabotage secularism as enshrined in our constitution can lawfully be deemed to give rise to a situation in which the government of the state cannot be carried on in accordance with the provisions of the constitution. 115 In a similar vein, the opinions of Jeevan Reddy and Ramaswamy J similarly condemned the strategies of the Hindu right as non-secular 116

In stark contrast to the views expressed by the court in the hindutva case, the court in Bommai recognised that the BJP's strategy was one of attacking the right to freedom of religion of the minorities, and thus of undermining one of the very essentials of secularism Perhaps because of the extremity of the situation at hand - the destruction of the mosque the outbreak of communal riots and the declaration of presidential rule - the court in Bommai was not blinded by the discourse of secularism used by the Hindu right to advance its agenda. But in the hindutva case, it was the discourse that was effectively on trial It was the discursive strategies - of promoting hindutva of attacking minorities through the language of secularism and equality, as well as through more extremist hate speech, that was at issue Had the Supreme Court been willing to critically examine this discourse - to examine the meaning of hindutya and its implications for minorities as well as the way in which the political aspirations of hindutva are now cloaked in the rhetoric of secularism, it would have been able to see the extent to which the Hindu right was undermining the very essentials of secularism. The critical flaw in both the hindutva decision and in the subsequent dismissal of the review petition, was the failure to critically examine this discourse

At the same time, it is important to recognise that the conclusions of the Supreme Court in the Manohar Joshi case were at least partially facilitated by the fact the constitutional bench in the Bommai decision did not articulate the precise meaning of equal respect of all religions. The pronouncements of the Supreme Court in Bommai were important affirmations of the principle of secularism and equally important denunciations of the communalism of the Hindu right However, the decision remains marred by the elusive nature of the underlying conception of equality and the kind of state action mandated by this conception. It is partially because the meaning of equality remains unarticulated that the Hindu right can continue to advance its positions as a legitimate version of secularism, and that the Supreme Court can condone its position as such We do not mean to suggest that the courts alone are responsible for this increasing legitimacy of the claims of the Hindu right to secularism, nor that the courts alone will be able to reverse the trend However, we do believe that the courts can help uphold the principle of secularism by more carefully and precisely articulating the content of the equal respect of all religions,

and in so doing, may at least be able to close the doors on any further constitutional recognition of the Hindu right's claim to secularism.

### IV Conclusion

In this article we have considered the implications of the recent Supreme Court decisions under the Representation of People Act, 1951, particularly its conclusions regarding hindutva, and its assumptions about the secular nature of the Hindu right. We have argued that the conclusions of the court on the meaning of hindutva are not only unsupported on the face of the decision and with no precedential authority, but moreover are completely out of step with the historical and contemporary usage of the term. Further, the court's conclusion that there is nothing in the concept of hindutva that promotes religious enmity or hatred belies the fact that the attack on the religious minorities is a constituent element of hindutva. We have also argued that the court's decision has effectively legitimated the Hindu right's meaning of secularism and opened the door, paradoxically, to the establishment of the right's very nonsecular agenda.

The dilemmas raised in this paper lead us inexorably to the difficult question of how to move forward. Secularism is indeed an important site of struggle, which progressive groups must seek to influence if they are to challenge the increasingly successful incursions being made by the Hindu right on this front. And their response must go beyond a reassertion of the liberal meaning of secularism, that is, as based on the separation of religion and state. History has not been kind to this version of secularism in India, and there is no reason to believe that the current moment will be any kinder. We propose, then, to bracket the broader question of whether a more complete separation of religion and politics might not better serve Indian democracy, and work instead within the existing paradigm of secularism as equal respect for all religions. Perhaps one way of moving forward would be to revision secularism by challenging the meanings currently being given to its three constituent elements - equality, freedom of religion and toleration. We need to challenge the continuous equation of equality with the notion of sameness and to expand its meaning to one that will be based on disadvantage and equality in result, rather than equal treatment. Similarly, the notion of freedom of religion requires that we reexamine the norms on which such a freedom is based, that is, the primarily Hindu norms and values against which the freedom of other religions is judged. Finally, the notion of toleration needs to be unpacked to expose the way in which it is being used to attack religious minorities rather than ensure co-existence.

At the heart of the Hindu right's approach to secularism lies the policy of assimilation. This policy is aimed at ignoring any features of a social group, namely, the Muslim community, which make them different from the unstated dominant Hindu norm There is a need to attack the invidious aspects of this policy which appears so rational and reasonable on its face. It is a policy that requires the Muslim community - a historically disadvantaged and culturally distinctive group - to prove itself according to Hindu rules and standards. It further enables those espousing the cause of hindutva, who are in a position of considerable social and political power, to project their normative values as ones that are neutral and unbiased.

The recent election results in India are indicative of the general persuasive power of the Hindu right's rhetoric around secularism and the appeal of the hindutva agenda. It is essential for progressive groups to work with the concept of secularism that has gained historical and political importance, which is based on the equal respect of all religions, to be able to challenge the pretentious alliance of the Hindu right with this concept. Progressive groups and individuals must counter the Hindu right by engaging equally forcefully and persuasively in this discursive terrain in order to counter the hegemonising potential of the Hindu right's vision of the world - a world that has perilous consequences for anyone who is 'different'.

### Notes

- I By 'Hindu right', we are referring to the association of organisations and political parties the Bharatiya Janata Party (BJP), the Rashtriya Swayam Sevak Sangh (RSS), and the Vishwa Hindu Parishad (VHP), as well as the Shiv Sena, who are united in their pursuit of hindutva and the establishment of a Hindu rashtra in India. This movement has been variously labeled and debated as hindu fundamentalist, Hindu fascist, and/or Hindu nationalist, among others. We use the term 'Hindu right' to demarcate both the communal and highly conservative nature of their agenda.
- 2 Bommai v the Union of India (1994)3 SCC 1, Manohar Joshi v Nitin Bhaurao Patil (1995) 7 SCALE 30 A writ petition seeking a review of this decision was dismissed by the Supreme Court, see Mohammmed Aslam Bhure v Union of India, 1996 (1) SCALE 65. See discussion infra note 22
- 3 See Ratna Kapur and Brenda Cossman, 'Communalising Gender/Engendering Community: Women, Legal Discourse and the Saffron Agenda', Economic and Political Weekly, April 24, 1993, WS 35-44; revised version reproduced in Tanika Sarkar and Urvishi Butalia (eds), Women and the Hindu Right, Kali for Women, New Delhi, 1995; and Kapur and Cossman, Subversive Sites:

- Feminist Engagement with Law in India, Sago, New Delhi, 1996.
- 4 For a more elaborate discussion on law as a site of contestation, see Kapur and Cossman, Subversive Sites.
- 5 Supra note 2. The other cases were as follows: Yeshwant Probhoo / Prabhakar Kasinath Kunte and Ors, (1995) 7 SCALE 1: Bal-Thackeray v Prabhakar Kasinath Kunte and Ors, (1995) 7 SCALE 1; Ramachandra G Kapse v Haribansh Ramakbal Singh, (1995) 7 SCALE 60, Pramod Mahajan v Haribansh Singh Ramakhal Singh and Anr. (1995) 7 SCALE 60; Sadhvı Rithambara v Haribansh Singh Ramakbal Singh and Anr. (1995) 7 SCALE 60; Ramakant Mayekar v Celine D'Silva, (1995) 7 SCALE 72, Sh Chhugann Bhujbal v Celine D'Silva and Anr. (1995) 7 SCALE 72: Balasaheb Thackeray v. Celine D'Silva and Anr. (1995) 7 SCALE 72; Moreshwar Save v. Dwarkadas Yashwantroo Pathrikar, (1995) 7 SCALE 85, Chandrakanta Goyal v Sohan Singh Jodh Singh Kohli, (1995) 7 SCALE 88; Suryakant Venkatrao Mahadik v Saroj Sandesh Naik, (1995) 7 SCALE 92.
- 6 Section 123(3) provides: "The appeal by a candidate or his agent or by any other person with the consent of a candidate or his election agent to vote or refrain from voting for any person on the ground of his religion, race, caste, community or language or the use of, or appeal to religious symbols or the use of, or appeal to, national symbols, such as the national flag or the national emblem, for the furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate."
- 7 Section 123 (3)(A) provides: "The promotion of, or attempt to promote, feelings of enmity or hatred between different classes of the citizens of India on grounds of religion, race, caste, community or language, by a candidate or his agent or any other person with the consent of a candidate... for the furtherance of the prospects of the election of that candidate or for prejudicially affecting the election of any candidate.."
- 8 Charges were brought against 12 individuals, but several of the charges were joined into a single case, resulting in seven separate decisions, supra note 5.
- 9 1995 (7)SCALE 1.
- 10 Ibid, p 7.
- 11 Ibid, p 13, para 20.
- 12 In considering the meaning of this section, the Court quoted at length from the earlier Supreme Court decision in Zivauddin Burhanuddin Bukhari v Brijmohan Remdass Mehra 1975 (Suppl)SCR 281: "It seems to us that section 123, sub s (2),(3) and (3A)were enacted so as to eliminate, from the electoral process, appeals to those divisive factors which arouse irrational passions that run counter to the basic tenets of our Constitution, and, indeed, of any civilised political and social order. Due respect for the religious beliefs and practices, race, creed, culture and language of other citizens is one of the basic postulates of our democratic system...". Ibid p 14, para 22. In Bukhari, the court further held: "We have to determine the effect of statements proved to have been made by a candidate, or, on his behalf and with his consent, during his election, upon the minds and

- feelings of the ordinary average voters of this country in every case of alleged corrupt practice...In all such cases, the line has no doubt to be drawn with care 20 as not to equate possible impersonal attacks on religious bigotry and intolerance with personal ones actuated by bigotry and intolerance.."
- 13 In considering whether section 123 constituted a reasonable restriction to the right to free expression which was permissible under Article 19(2) of the constitution, the Court concluded that the provision should be upheld in the interests of 'decency or morality' The Court was of the view that this clause was not confined to sexual morality, but included action that was against the current standards of behaviour or propriety. Supra note 1, p 16, para 28. It held that "In a secular polity, the requirement of correct behaviour or propriety is that an appeal for votes should not be made on the ground of the candidate's religion which by itself is no index of the suitability of a candidate for membership of the house." The soliciting of votes during an election on the grounds of a candidates religion in a secular state was considered by the Court to be against the "norms or decency and propriety of the society," (ibid. para 29) and a provision restricting such activity constituted a reasonable fetter on the right to free expression
- 14 Ibid, p 22, para 37.
- 15 Ibid.
- 16 Supra note 1, p 22, para 39.
- 17 Ibid.
- 18 Ibid, p 59
- 19 The notices against Rithambara were also dismissed, on the basis that she had not been given notice as required under the Representation of the People Act, 1951, and was thus denied the opportunity to defend herself against the allegation of corrupt practices.
- 20 Again, on the question of the video tape which allegedly contained express appeals to hindutva and the Hindu religion, the Court held that neither the content of the videos nor the candidate Ramkant Mayekar's consent to them, had been proven The conviction against Chandrakanta Goyal, a BJP candidate, was dismissed on similar grounds there was in the Court's view no direct evidence of the appellant's consent to the speeches of Thackeray or Mahajan.
- 21 Suryankant Venkatrao Mahadik vs Saroj Sandesh Naik, p 99
- 22 Mohammed Aslam Bhure v Union of India, supra note 2. The Court stated that "Article 32 of the Constitution is not available to assail the correctness of a decision on merits or to claim its reconsideration". In the Courts view, this alone was sufficient to dismiss the writ petition.
- 23 See the following articles in the Organiser:

  'Triumph of Truth' (cover story);
  'Satyameva Jayate' (editorial) p.2, 'Cultural
  Nationalism wins over Pseudo-secularism',
  p.3, (December 24, 1995), 'Hindutva is the
  Soul of India H V Seshadn' (December
  31, 1995), p.7; and Justice Guman Mal
  Lodha "Reference to Establishment of Hindu
  State is not a Religious Appeal" (December

- 31, 1995), p 7, 'Hindutva, 's Uniting Force' (January 7, 1996), p 16; M Rama Joshi, 'SC Judgment on Hindutva Flawless' (January 21, 1996), p 2; 'Arise, Awake, Act: H V Seshadri's Address March 8, 1996" (March 17, 1996), p 9; and Jagmohan 'Hinduism, Hindutva and the Supreme Court' (March 31, 1996), p 8.
- 24 See Organiser (December 24, 1995), ibid.
- 25 Ibid, p.3. See also Organiser (December 31, 1995) supra note 23, p.7. 'Hindutva is the Soul of India H V Seshadri', wherein Seshadri further responded to the Supreme Court judgment stating that the decision reflects: "...the very broad and all-embracing concept of Hindutva that the RSS and the RSS-inspired organisations have been propagating".
- 26 1966 (3) SCR 242
- 27 Ibid, pp 17-20, para 35.
- 28 (1976) Supp SCR 478
- 29 The decision included various dictionary and encyclopedia definitions of Hinduism. For example, Webster's International Dictionary defined Hinduism as "...a complex body of social, cultural and relipious beliefs and practices evolved in and largely confined to the Indian subcontinent, an outlook tending to view all forms and theories as aspects of one eternal being and truth" Ibid, p 20, para 36. The passage from the case also referred to definitions in the Encyclopedia Britannica and the work of B G Tilak
- 30 Ibid, p 20, para 36
- 31 Ibid, p 20, para 36.
- 32 Ibid, p 22, para 37.
- 33 Ibid p 22, para 39 entitled 'Indian Muslims
  Need for a Positive Outlook' (1994).
- 34 Ibid.
- 35 1964 (7) SCR 790
- 36 Ibid, p 24, para 42.
- 37 Ibid, p 24, para 43
- 38 Ibid, p 24, para 44.
- 39 See for example Anil Nauriya, 'The Hindutva Judgments: A Warning Signal', Economic and Political Weekly, January 6, 1996, p 11, who argues that the Court has failed "to recognise that hindutva as an expression has a special meaning and is associated with the social and political philosophy of Savarkar and Golwalkar, that is, the Hindu Mahasabha and the RSS." For a general discussion on the concept of Hindutva in the writings of the Hindu right, see Rizwan Qaiser, 'The Conceptualisation of Communalism and 'Hindu rashtra'" in Rudolf C Heredia and Edward Mathias (eds), Secularism and Liberation: Perspectives and Strategies for India Today, (Indian Social Institute, New Delhi, 1995), p 100. Rizwan Oaiser has traced the history of the terms 'Hindu rashtra' and 'hindutva'. He argues that initially the term Hindu rashtra had no communal overtones, but was a strategy of resistance to British colonial rule and cultural domination. However, in the 1930s and 1940s, certain Hindu organisations wanted to establish a Hindu rashtra that meant to total subjugation of all non-Hindus to a 'master' race. Oaiser points out that the main exponents for this version of a Hindu rashtra were V D Savarkar, Shyama Prasad Mookerjee and

- M S Gofwalkar. He describes their conceptualisation of a Hindu rashtra as follows: "Firstly, all Hindus were one entity culturally and politically; secondly the interests of all the Hindus was the same, which could be jeopardised if they were not united; thirdly, the Muslims were the biggest threat to the Hindu interest, therefore necessitating the sharpest hostility towards them in political as well as cultural terms."
- 40 Savarkar, Hindutva: Who is a Hindu (1929). cites 4th edition (Gokhole, Pune, 1949); p.3.
- 41 Ibid, pp 3-4.
- 42 Ibid, p 68.
- 43 As Purshottam Agarwal has argued in 'Savarkar, Surat and Draupadi' in Tanika Sarkar and Urvishi Butalia (eds), supra note 3, p 41, although Savarkar was by no means the first to attempt a racial reconstruction of the traditional religious community, he was undoubtedly the most articulate. "It was his discourse that attempts to theoretically construct a Hindu political community which shared the same racial bonds and historical memories came into shape."
- 44 Savarkar, supra note 40, p 81.
- 45 Ibid, pp 3-4.
- 46 Ibid, p 92.
- 47 In Savarkar words, "...in this prolonged furious conflict our people became intensely conscious of ourselves as Hindus and were welded into a nation to an extent unknown in our history.." Ibid, Savarkar, p 45. Mookerjee's concept of a Hindu Rashtra was slightly distinct from Savarkar's according to Qaiser Mookerjee was concerned about the humiliation of Hindus and Bengal and the failure of the Congress Party to defend Hindu rights He subsequently joined Savarkar as a member of the All India Hindu Mahasabha and began to adopt the communal rhetoric of Savarkar While Savarkar's preoccupation was with the threat of Muslim rule, Mookerjee used the concept of Hindu Rashtra primarily to describe how the Hindus alone would liberate the country from British rule
- 48 Agarwal, supra note 43, p 40
- 49 M S Golwalkar, We or Our Nationhood History, P N Indurkar, Bharat Publications, Mohal, Nagpur, 1939), p 18.
- 50 Ibid, p 20.
- 51 Ibid, p 21.
- 52 Ibid, p 21.
- 53 Ibid, p 23.
- 54 Ibid.
- 55 Ibid, p 26
- 56 Ibid, p 40.
- 57 Ibid, p 41.
- 58 Ibid p 42.
- 59 Ibid, p 43.
- 60 Ibid. p 43. 61 Ibid. pp 45-46.
- 62 Golwalkar, Bunch of Thoughts, Bangalore, 1966, p 130.
- 63 Ibid, pp 47-48.
- 64 H V Seshadri The Way, p 55.
- 65 See discussion of the Hindu right's position that Hinduism is the only truly secular religion since it alone is based on toleration.
- 66 See Basu, et al, Khaki Shorts, Saffron Flugs, Orient Longman, New Delhi, 1993.

- 67 Sec ibid.
- 68 The historical use of the term 'Indianisation' is similarly obscured in the Supreme Court judgment. The Court fails to recognise that the term was used by Jana Sangh leaders in the 1960s who directed it at the Muslims and that it contained the insinuation that they were not Indian enough. "For the court to suggest that 'hindutva' is merely to be understood as a synonym of 'Indianisation', therefore, contains an element of truth quite different from what the court may have had in mind; it is such a synonym but principally in the RSS discourse." see note 39, p 11.
- 69 The Court did attempt to distinguish the meaning of the word in the abstract from the way in which communalists and/or fundamentalists may have attempted to misuse the word. For instance, the Court stated, p 24: "The mischief resulting from the misuse of the terms by anyone in his speech has to be checked and not its permissible use. It is indeed very unfortunate, if in spite of the liberal and tolerant features of 'Hinduism' recognised in judicial decisions, these terms are misused by anyone during the elections to gain any unfair political advantage. Fundamentalism of any colour or kind must be curbed with a heavy hand to preserve and promote the secular creed of the nation." In so doing, the court was attempting to distance itself from the communalist agenda of the Hindu right, and should not be seen to be explicitly endorsing this agenda. Our point, however, is that the term cannot be abstracted from the political and historical context which has given meaning to 'hindutva'. It is simply not possible to speak of hindutva as a abstract representation of 'a way of life of the subcontinent', and in so doing, the court has, perhaps inadvertently, condoned the discursive agenda of the Hindu right.
- 70 We do not mean to suggest that the court has done so intentionally In other words, we are not suggesting that the court has been communalised, and is now simply espousing the views of the Hindu right. Rather, the flaws in the Supreme Court's reasoning can be seen to lie in the court's failure to appreciate the political and historical context of the term 'hindutva', as well as the unstated norms of the majority that are so often reflected in legal decisions.
- 71 See for example SC. No Misuse of Religion', Communalism Combat, No 21, April 1996, p 4.
- 72 There is also the fact that the court has established a very strict test for establishing that a candidate has consented to the views of other speakers associated with the his/ her political party and/or other organisation of the Hindu right. The mere presence of a candidate, on stage with another speaker who appeals to religion or promotes enmity and hatred is not sufficient proof of that candidate's consent The implication of this conclusion is that the Hindu right can carefully orchestrate its rallies and ensure that the appeals to religion and the promotion of religious enmity comes from speakers other than the candidates. The BJP and Shiv Sena will thus be able to continue to reap the benefits of the dirty work done by the

- RSS and the VHP, and indeed, even by the non-electoral members/leaders of their own parties. This question of consent is to be heard by the constitutional bench of the Supreme Court: see 'Constitution Bench Will Decide Religion Issue:SC'. The Times of India, April 17, 1996.
- 73 See BJP, For a Strong and Prosperous India Election Manifesto, 1996.
- 74 Interestingly, even one of the articles in the Organiser agreed that in finding Thackeray guilty of a corrupt practice, "the Court rightly deplored bigotry'. Organiser, December 24, 1995, p 3. However, the article continued..."Bigotry is bad whether it is religious or linguistic, or for that matter casteist. Pseudo-secularists indulging in minorityism and casteists masquerading as messiahs of 'social justice' stand exposed before the bar of public opinion. They are guilty of spreading communalism and creating social disharmony." While condemning Thackeray's speech as bigotry, the Organiser article nevertheless used the opportunity to turn the criticism back onto the so-called 'pseudo-secularists', who are alleged to be the real bigots. It is also interesting to note that in the 1996 national election campaign, the BJP has distanced itself from some of its more vociferous proponents of hate speech towards Muslims, most notably Uma Bharati and Sadhvi Rithambara ('Uma, Sadhvi are not on BJP Bandwagon', The Times of India, April 14, 1996), a shift that is also in keeping with the decision to have the more moderate Vajpayee lead the party, displacing the more militant Advani. It is, however, too early to tell whether this shift, obviously calculated to maximise their popularity at the polls, represents anything more permanent. Despite the condemnation of the shift in the party strategy from within its own ranks, most notably by Uma Bharati, there is ample evidence to suggest that the BJP retains its commitment to undermining minority rights. For instance, one of the election advertisements of the BJP, significantly with Advani's picture, not Vajpayee's, continues the attack on Muslim minorities under the traditional slogan, 'Justice for all, Appeasement for None'. Likely, the shift' is simply an effort to be somewhat more careful during the election campaign of not violating the prohibition on the promotion of religious enmity, and part of its bid for political power, by trying to attract voters who are disillusioned with the Congress government, but uncomfortable with the more militant face of the party.
- 75 There is increasingly a question of whether the laws directed at prohibiting hate speech can mean anything at all, with the increasing legitimacy being accorded to the speech of the Hindu right. As the speech of the Hindu right becomes more mainstream, and more part of the collective common sense of an increasing number of Hindu subjects, the efficacy of the hate speech provisions, intended only to police the margins of intolerable speech, is undermined. For a more detailed discussion of this problem, see Ratna Kapur, 'Who Draws the Line? Feminist Reflections on Speech and

- Censorship', Economic and Political Weekly, April 20-27, 1996, WS15-30.
- 76 See supra note 5.
- 77 Supra note 1, pp 11-12, para 16.
- 78 Ibid, para 18.
- 79 Supra note 5, p 83, para 27.
- 80 K T Shah, a member of the Constituent Assembly, attempted on two separate occasions to have the term included in the constitution, but was not successful. The term was only inserted into the constitution with the 42nd Amendment in 1976.
- 81 This conceptualisation of secularism was seen most clearly in the Karachi Resolution of the Congress on Fundamental Rights (1931), which provided: "the state shall observe neutrality in regard to all religions". As many commentators have observed, however, Nehru eventually compromised on his vision of secularism, and adopted the equal respect of all religions. For a discussion see Asgar Ali Engineer, "Secularism in India Theory and Practice' in Heredia and Mathias (eds), supra note 39, p 40.
- 82 See generally, Donald Eugene Smith, India as a Secular State, Princeton University Press, Princeton, 1964.
- 83 There has however been considerable, criticism of the extent to which the Indian constitutional and political framework has upheld these values For example, Smith, (ibid) was critical of the extent to which these principles were compromised with the constitution, which allowed for state intervention in the affairs of religion.
- 84 See Luthera, The Concept of Secular State and Indiq, Oxford University Press, Calcutta, 1964.
- 85 Smith, supra note 82.
- 86 The argument that secularism in India does not mean a wall of separation between religion and politics, but rather the equal respect of all religions, is common throughout the literature. For a typical example, see Engineer, supra note 81, who argues that the western concept of secularism, which involves indifference to religion, has never taken root in India. "The concept of secularism in India emerged in the context of religious pluralism as against religious authoritarianism in the west... It was religious community, rather than religious authority, which mattered in the Indian context."

This dominant concept of secularism, is however, a contested one. Some question whether secularism is even an appropriate normative value within the Indian context, or whether it represents the imposition of a western, colonial normative value, illsuited to the historical realities of Indian society. (see Ashis Nandy). Others question the appropriateness of the particular model of secularism, arguing that Indian democracy might be better served by a more complete separation of religion and politics. For example, Upadhyaya argues that the equal respect for all religions has been responsible for communalising politics in 'The Politics of Indian Secularism, Its Practitioners, Defenders and Critics', Occasional Papers on Perspectives in Indian Development, Nehru Memorial Museum and Library, Number XI, January 1990, and in 'The

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Politics of Indian Secularism', Modern Asian Studies, Vol 26, No 4, 1992, p 815. He argues that the concept of sarva dharma sambhava has failed to transcend the categories of communalism and that this approach to secularism has been an underlying cause of the communalisation of Indian politics. This approach, he argues, has given rise to a majoritarian politics in which "representative politics based on adult franchise have become a contest in which communities are mobilised in a competition for votes, and in which the majority community must always win" He argues that the major lacunae in the conceptualisation of secularism in India "lies in the definition of secularism...in that secularism has not been clearly defined in terms of the separation of religion from politics, either in its constitutional form or in the conventions of the political process."

Yet others argue for a total reconceptualisation of secularism within the Indian polity. For example, Akeel Bilgrami in 'Two Concepts of Secularism: Reason, Modernity and Archimedian Ideal', Economic and Political Weekly, July 9. 1994, pp 1749-55 has argued for a negotiated secularism that could emerge "by negotiation between the substantive commitments of particular religious communities." In a somewhat different vein, Partha Chatterjee in 'Secularism and Toleration', Economic and Political Weekly, July 9, 1994, argues for a reconfiguration of the problem of secularism; that is, of a shift in the understanding of the nature of the challenge presented by the Hindu right as one of minority rights, and argues for a reconceptualisation of the concept of toleration.

In our comments, we focus on the constitutional discourse of secularism which has worked largely within the dominant vision of the equal respect of all religions. In so doing, we bracket the broader question of whether this is in fact the most appropriate vision of secularism — a question that we believe will ultimately need to be addressed to resolve the increasing crisis of secularism in India.

See for example P B Gajendragadkar, 'Secularism: Its Implications for Law and Life in India' in G S Sharma (ed), Secularism: Its Implications for Law and Life in India, N M Tripathi, Bombay, 1966, p 4: "The state does not owe loyalty to any one particular religion as such; it is not irreligious or anti-religion; it gives equal freedom for all religions and holds that the religion of the citizen has nothing to in the matter of socio-economic problems"; R L Chaudhari, The Concept of Secularism in Indian Constitution, (Uppal Publishing House, New Delhi, 1987) who writes at p 169, "the absence of complete separation between the state and the religion is because of the character of Indian society which is basically religious... Separation of the state from the religion is not the basis of Indian secularism, as it is in other countries. Indian Constitution does not reject religion. On the contrary, it respects all religions". See also J M Shelat, Secularism: Principles and

Applications (NM Tripathi, Bombay, 1972), pp 121-22;

88 See for example the work of P K Tripathi, 'Secularism, Law and the Constitution of India' in M S Gore (ed), Secularism in India (Bombay, 1966), who articulated three basic principles of Indian secularism: (1) the principle of the primacy of the individual, who is placed above and before religion; (2) the principle of freedom of religion and religious denomination; and (3) the principle of toleration. Neutrality is thus replaced with an emphasis on toleration. See also Tripathi, 'Secularism: Constitutional Provision and Judicial Review' in G S Sharma, supra note 87, p 165.

Upendra Baxi, in 'The Struggle for the Redefinition of Secularism in India: Some Preliminary Reflections' in Heredia and Mathias, supra note 39, argues that these principles find recognition in the Indian Constitution. Baxi identifies several other features of Indian secularism that have been affirmed through constitutional decisions:

- i) the state by itself shall not espouse or establish or practice any religion;
- ii) public revenues will not be used to promote any religion;
- iii) the state shall have the power to regulate any "economic, financial or other secular activity" associated with religious practice (Article 25(2)(a) of the Constitution);
- iv) the state shall have the power through the law to provide for "social welfare and reform or the throwing open of Hindu religious institutions of public character to all classes and sections of Hindus" (Article 25(2)(b) of the Constitution);
- v) the practice of untouchability is constitutionally outlawed by Article 17;
- vi) every individual person will have, in that order, an equal right to freedom of conscience and religion;
- vii) these rights are furthermore subject to other fundamental rights in Part III,
- viii) the courts, especially the Supreme Court, shall have the final 'say' on adjudging state action as valid or otherwise under the above principles. Another feature was added through a constitutional amendment which imposed a fundamental duty on all citizens to "preserve the rich heritage of our composite culture" (Article 51-A(f)). Baxi places considerable reliance on the courts and judiciary in determining the meaning of secularism in India and argues that such constitutional perspective has been absent from public debate. He argues that the judiciary can bring a sharper focus to the debate. While we agree that the judiciary has a role to play, the hindutva decision highlights how the judiciary has failed to so do.
- 89 Although there are some echoes to the principle of neutrality within the constitutional discourse, these discussions tend to infuse the concept of neutrality with the ipirit of 'saarva dharma samabhava'. Neutrality to all religions tends not to be associated with a wall of separation, as it is in the American context, but rather with the idea that the state must not discriminate against any religion.
- 90 Smith, supra note 82, p 133, has argued that

the third principle of liberal democratic secularism regarding the separation of religion and state includes two distinct principles: "(1) the non-interference of the state and religious organisations in each other's affairs; (2) the absence of a legal connection between the state and a particular religion The Indian Constitution...does not subscribe to the first principle; it does however uphold the second".

- 91 Kapur and Cossman, 'Communalising Gender' supra note 3.
- 92 For a detailed discussion of these competing visions of equality in the context of Indian constitutional law, see Ratna Kapur and Brenda Cossman, "On Women, Equality and the Constitution: Through the Looking Glass of Feminism", National Law School Journal, Special Edition, Feminism and Law, (Bangalore, 1993), p 1. See also Kapur and Cossman, Subversive Sites, supranote 3.
- 93 Ibid.
- 94 See Kapur and Cossman, 'Communalising Gender' and Subversive Sites, supra note 3.
- 95 Article IV, BJP Constitution and Rules, as approved by the National Council, May 2, 1992.
- 96 See BJP manifesto as quoted in speech delivered by L K Advani in Parliament on November 7, 1990. Interestingly, the 1996 BJP Election Manifesto does not mention secularism at all.
- 97 L K Advani, Press Conference, January 18, 1993 Similar statements can be found in articles and commentaries throughout the Organiser. For example, Madhok writes, "There are three universally accepted essential postulates of a secular state (1) The state must not discriminate between its citizens on the basis of religion or form of worship. (2) There should be uniform laws for all citizens. (3) All citizens should be equal before the law. Balraj Madhok, 'An Open Letter to the President, Prime Minister, Party Leaders and Editors', Organiser, republic day 1993, Nationalism Special, p 52. Within this definition, secularism is rendered synonymous with the formally equal treatment of all citizens. Significantly, there is no mention of a non-denominational state within this definition of secularism.
- 98 K Jayaprasad, RSS and Hindu Nationalism Deep and Deep, New Delhi, 1991, p.93. See also Nana Deshmukh, RSS: Victim of Slander Vision Books, New Delhi, 1979.
- 99 For a discussion of the dangers of majoritarianism that lies within the vision of secularism, see Upadhyaya, 'The Politics of Secularism in India', supra note 86.
- 100 H V Seshadri, 'Strange Political Diction', Organiser, February 4, 1990
- 101 Golwalkar, From Red Fort Grounds.
- 102 Balasheb Deoras, Answers Questions, Sahitya Sindhu, Bangalore, 1984, p 53.
- 103 Organiser, supra note 100.
- 104 The term 'dharma rajya' used by Upadhyaya and taken up by the Jana Sangh Party and subsequently by the BJP can be seen to be a rough equivalent of Hindu rashtra, a term that has since been explicitly adopted by the BJP.
- 105 Upadhyaya, Integral Humanism, p 53.
- 106 Ibid.
- 107 The 1996 BJP election manifesto includes

- a commitment to amending Article 30, although it does not specify the nature of the amendment. The manifesto states (p 64) that the BJP is committed to: "Ensure equality for all and discrimination against none on the grounds of religion in matters of education by amending Article 30."
- O8 Conversions from Hinduism to either Islam or Christianity has long been a major theme within the Hindu right. Savarkar, Golwalkar, as well the contemporary ideologues such as Seshadri and Deoras have focused attacks on the proselytising religions, the problem of conversions, and the goal of bringing those who have strayed from Hinduism back into its folds. Similarly, the Organiser is filled with articles dealing with the problem of conversions, detailing recent conversions of Hindus to other religions, and condemning these proselytising religions for their intolerance.
- 109 This seems to be precisely the strategy adopted by the BJP in its 1996 election campaign. It has placed the face of moderation at the front of the party, displacing and even distancing itself from the more militant faces. At the same time, the BJP continues to campaign on its platform of secularism, which continues to include all of its usual characteristics: 'one nation one people', repeal Article 370, uniform civil code, human rights commission, detection and deportation (of Bangladeshi immigrants). See also discussion supra note 74.
- 110 Mohammed Aslam Bhure v Union of India, supra note 2, p 65.
- 111 Supra note 2, Sawant and Kuldip Singh J J, at paras 148, 149; K Ramaswamy J, at paras 189, 196
- 112 The opinions dealing with secularism were delivered by Justice Sawant (on behalf of Kuldip Singh J with Pandian, J concurring); Justice Jeevan Reddy (on behalf of S C Agrawal, J, with Pandian J, also concurring); and Justice Ramaswamy.
- 113 Quoting and reviewing at length with approval from a 1965 lecture by M C Setalvad, Sawant J noted that secularism in India does not imply a complete separation of religion and state as in the US. "In our country, all religions are placed on the basis of equality".
- 114 Sawant J further wrote: "... Secularism under our Constitution is that whatever the attitude of the state towards the religions, religious sects and denominations, religion cannot be mixed with any secular activity of the state. In fact, the encroachment of religion into secular activities is strictly prohibited. This is evident from the provisions of the Constitution to which we have made reference above. The state's tolerance of religion or religious belief does not make it either a religious or a theocratic state. When the state allows citizens to practice and profess their religions, it does not either explicitly or implicitly allow them to introduce religion into non-religious and secular activities of the state. The freedom and tolerance of religion is only to the extent of permitting pursuit of spiritual life which is different from the secular life... This is also clear from subsection (3) of Section

- 123 of the Representation of the Peoples Act, 1951...[and] subsection 3(A) of the same section...religious tolerance and equal treatment of all religious groups and protection of their life and property and of the places of their worship are an essential part of secularism enshrined in our Constitution."
- 115 Ibid, at para 92. Although each of the decisions echoed the general idea of Indian secularism as the equal respect of all religions there were however slightly different emphases in each of the decisions. For example, while Sawant J most strongly emphasised the equal respect of all religions and its requirement of toleration, Jeevan Reddy's decision placed some emphases on the idea of the separation of religion and politics. After a long discussion of the requirement of equal respect, Jeevan Reddy I stated: "In short, in the affairs of the state religion is irrelevant; it is strictly a personal affair. In this sense...our Constitution is broadly in agreement with the US constitution, the First Amendment whereof declares that 'Congress shall make no laws respecting an establishment of religion or prohibiting the free exercise thereof...' Perhaps, this is an echo of the doctrine of separation of church and state; maybe it is the modern political thought which seeks to separate religion from the state - it matters very little." By way of contrast again, Ramaswamy J's opinion, while also speaking of the equal respect of all religions, included several references to the concept of neutrality.
- 116 For example, Jeevan Reddy J stated, at para

243: "...it is clear that if any party or organisation seeks to fight the elections on the basis of a plank which has the proximate effect of eroding the secular philosophy of the Constitution would certainly be guilty of following an unconstitutional course of action...Introducing religion into politics is to introduce an impermissible element into body politic and an imbalance in our constitutional system. If a political party espousing a particular religion comes to power, that religion tends to become, in practice, the official religion...This would be plainly antithetical to Articles 14 to 16, 25 and the entire constitutional scheme adumbrated hereinabove. Under our Constitution, no party or organisation can simultaneously be a political and a religious party." Ramaswamy J's decision similarly strongly condemns the rise of fundamentalism as a violation of the constitutional principle of secularism For example, at ibid para 132, he writes: "Rise of fundamentalism and communalisation of politics are anti-secularism. They encourage separatist and divisive forces and become breeding grounds for national disintegration and fail the parliamentary democratic system and the Constitution." Sawant J, Jeevan Reddy J and Ramaswamy J were all of the view that the declaration of presidential rule was not unjustified, since there was sufficient evidence available to the president that state governments were not acting in accordance with the provisions of the Constitution. There was, in other words, a reasonable apprehension that the constitutional principle of secularism was in jeopardy.

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2630

### **Understanding the Anthropological Method**

Meenakshi Thapan

I AM writing in response to Carol Upadhya's review (EPW, ''Native' Voices and Ethnographic Noise', July 20, 1996, pp 1932-34). Upadhya has undertaken a review of two books on women in India by anthropologists. I am not here to defend the books against the disdainful and condescending comments made by Upadhya. The authors of the books under review might perhaps decide to take up Upadhya on those issues. I would however like to comment on the method that Upadhya chooses to debunk in a most ill-informed and casual manner.

Upadhya expresses the view that the "anthropological tradition... presumes that the people whom they study are automatons who only reproduce their traditional structures, rather than thinking and acting persons..." (p 1933). If Upadhya is at all familiar with the "anthropological tradition" it will be clear to her that there is no monolith tradition but several traditions and that the discipline has been increasingly questioning the earlier assumptions of anthropological discourse [most recently, see Das 1995: Introduction]. Of course, never has an anthropologist seen her subject of study as an "automaton" and, as Upadhya does not tell us who she has in mind, one can only conclude that she is completely ignorant about the bonds anthropologists develop with subjects in the field [see, for example, Madan 1975, Srinivasan 1976] which is only possible when the anthropologist is interacting with the subject. It also appears that Upadhya is not very familiar with the works of Vincent Carapanzano, Clifford Geertz (to whom a fleeting reference is made) and Paul Rabinow, among others, which indicate the intersubjective nature of fieldwork and understanding and certainly not the top-down approach which she thinks is representative of anthropology. Not-so-recent postmodernist writings within anthropology, such as those of James Clifford and others, argue precisely against viewing the subject as other and of transcending one's position in the field as ethnographer. Feminist anthropologists such as Marilyn Strathern and Mascia Lees et al have in the pages of the journal Signs argued for engagement with the subjects of study in order to give voice to the often voiceless and invisible other as well as pose the question of political commitment to the subjects whose lives one chooses to examine. Perhaps Upadhya first needs to understand the many dimensions and debates of contemporary anthropological discourse before she sets out to dismiss it.

Upadhya also mentions the "trendy theoretical problematic" of "structure versus agency mediated by resistance" which she sees as being empty rhetoric. I think it is important to understand that the notion of structure and agency is around since Marx and the problem of resistance has been the preoccupation of social scientists in one way or another, In education, Paul Willis's important work on working class children (Learning to Labour) in which he examines resistance in educational processes was published in 1977. James Scott's well known work on peasant resistance was published in 1985. In an important paper, Gillian Hart (1991) has critiqued Scott and presented a more nuanced understanding of forms of resistance. Veena Talwar Oldenburg (1990) and Rosalind O'Hanlon (1991) have analysed resistance among women in northern and colonial western India respectively. Paola Bacchetta (1994) critically presents a case of resistance drawn from the life of a Hindu nationalist woman in contemporary India. The work of Foucault has of course come under severe criticism by feminists precisely for the lack of a coherent theory of resistance [for example, Ramazanoglu 1993, Thapan 1995]. It is therefore not exactly a "trendy" pastime to be concerned with the possibilities of rebellion and change in everyday lives. It is a real concern of those of us who seek to understand social processes and the experience of individuals within them in terms of the structures of power and control as well as the forms of resistance to them.

Upadhya objects to this concern primarily because of the lack of political commitment and engagement which she thinks is only present in the writings on women by activists. She also complains that anthropological texts on women in India are devoid of references to work within India "on women and gender" (whatever that means). Upadhya perhaps needs to carefully examine the bibliographies in such anthropological writings on women in India as Leela Dube et al (1986), Kalpana Ram (1992), Kamala Ganesh (1993), among

Upadhya ends her, if I may say so, rather incoherent review of the two texts, by saying that ethnographies "end up saying what their authors want them to say..." because of the "highly personalised and subjective nature of fieldwork". In the preceding paragraph, she says that it is because of their "detachment" that ethnographies fail to understand women's lives. It is clear that Upadhya is rather confused about anthropology and cannot make up her mind as to what she finds objectionable in it. She critiques postmodernist anthropology for its inability to deal with the "ethnographer's own subjectivity and her power to construct her subject(s)". Surely this is the dilemma of all writing, whether by dull, ignorant anthropologists or by sympathetic, with-it activists, so that the constitution of the ethnographic text is always never a complete statement of absolute truth but only a fragment of understanding social reality, a contribution towards a deeper understanding of the whole, a movement towards an intersubjective understanding of social relations in everyday life. As anthropologists, we do not set out to "construct subjects", to reveal the world or to radically alter it. The ethnographer is the faithful recorder and interpreter, and not some powerful creator, of social reality. We. only seek to understand it through an intersubjective process in which we consciously seek to represent subjects and their everyday lives through their narrative accounts, our observation of their lives and social practices, and an understanding of the web of social relationships that constitute society.

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# DISCOUNT AND FINANCE HOUSE OF INDIA LIMITED

Regd Office 306-307 Varma Chambers, 3rd Floor, Homji Street, Fort, Mumbai-400 001

Statement of Shri P. G. Kakodkar, Chairman of the Board of Directors of the Discount And Finance House of India Limited at the Eighth Annual General Meeting held at Mumbai on September 18, 1996

I have great pleasure in welcoming you to this Eighth Annual General Meeting of the Company

Before I review the performance of the Company, I would like to place on record our appreciation of the distinguished service rendered by Shri S S Tarapore, Deputy Governor, Reserve Bank of India during the period he was associated with the Company in various capacities. Shri Tarapore was one of the Members of the Working Group on Money Market, which recommended wide ranging reforms in the Indian Money Market, including setting up of DFHI Subsequently, as one of the founder Directors of the Company he contributed significantly for its development and growth During his stewardship as Chairman of the Board of Directors since August, 1993 the Company registered all round progress in major segments of its activities and acquired the status of a Primary Dealer in Government Securities Market It was during this period that the process of divestment of a major part of the shareholding of the Reserve Bank of India in the Company was also successfully completed. The Board of Directors of the Company has placed on record its appreciation for the guidance, support and strength provided to the Company by Shri Tarapore from time to time On behalf of the Company, the Board of Directors and on my own behalf, I take this opportunity to convey our best wishes to Shn Tarapore

### Performance during 1995-96

The report of the Directors and the audited accounts of the Company for the year ended March 31, 1996 have already been circulated I would, however, like to briefly highlight the salient features of the Company's performance in the major segments of money and securities market during the financial year 1995-96

The Company has been accredited as a Primary Dealer in the Government securities market with effect from February 29, 1996. It participated in all the auctions and floatations of Government of India Treasury bills and dated securities during the year under review. The Company's success ratio in auctions and total turnover ratio both in respect of Treasury bills as also dated securities during 1995-98 were well above the minimum levels prescribed by the Reserve Bank of India in the relative guidelines.

The aggregate turnover of the Company in the primary and secondary markets in Treasury bills segment during the year under review was lower at Rs 13,491 crore as against Rs 35,125 crore achieved in the previous year This was due mainly to a sharp decline

in the tradeable stocks of Treasury bills during the year The stock of 364 days Treasury bills in the system declined sharply by Rs 6,288 crore in 1995-96 as against an increase of Rs 6,732 crore in the preceding year Likewise, the stock of 91 days Treasury bills available for trading in the secondary market was also quite low as a major portion of these bills in the primary auctions was subscribed by noncompetitive bidders and the Reserve Bank of India The Company's aggregate turnover in the primary and secondary markets in the Central Government dated securities was, however, significantly higher at Rs 60,143 crore as compared with Rs 13,195 crore in the previous year. The bulk of this turnover was on account of 'Repo transactions as borrowers preferred to borrow monies for longer periods under 'Repo' arrangements instead of borrowing by way of call money on a day-today basis with a view to hedging against the volatility in call rates. The 'Repo' transactions were also undertaken by the Company to facilitate intervention by the Reserve Bank of India for stabilising the conditions in the call money market The Company's aggregate lendings in the call and notice money market were also higher at Rs 5,53,995 crore in 1995-96 as compared with Rs 5,29,183 crore in 1994-95 and consequently the daily average call money lending by the Company during the year under review was higher at Rs 1,500 crore as against Rs 1,431 crore in the preceding year In the Term Money and Commercial Bills segments of the money market the Company's tumover was moderate

In this connection, it would be pertinent to mention that during the year under review the call money rates witnessed greater volatility and ruled at significantly higher levels as compared with the rates in the previous year This is evident from the fact that Company's fortnightly weighted average call money lending rate rose from 8 68 per cent in 1994-95 to 16 99 per cent in 1995-96 and that the average rates for 22 fortnights out of 26 fortnights were higher than those of the corresponding fortnights in the previous year. As a result of this, implicit cut off yields of 91 days Treasury bills went up from 11 40 per cent to 12 97 per cent and of 364 days Treasury bills from 12 08 per cent to 13 12 per cent. The primary market yields of Central Government dated securities also moved upward The Reserve Bank of India also raised the rate of interest on the refinance and 'Repo' facilities extended by them to the Company in the later half of the year All these factors contributed to a significant rise in the cost of funding the stocks of Treasury bills and Government dated securities carried by the Company for its normal tracing operations. As a result of this, the Company's profit before depreciation and taxation during 1995-96 stood lower at Rs 56.23 crore as against Rs 82.26 crore in 1994-95. Net profit for the year also worked out lower at Rs 31 44 crore as compared with Rs 44.26 crore in the previous year. Your directors have proposed the appropriation of the net profit of Rs 31.44 crore as under-

| Transfer to General                                       | *************************************** |
|-----------------------------------------------------------|-----------------------------------------|
| Reserve                                                   | Rs 200 crore                            |
| Proposed Dividend Balance in Profit & Loss account carned | Rs 28 00 crore                          |
| forward                                                   | Rs 1 44 crore<br>Rs 31 44 crore         |

In view of the lower profit, your Directors have recommended a dividend of 14 00 per cent (subject to tax) for the year ended March 31, 1996 as against a dividend of 15 00 per cent paid for the previous year

### Review of Operations during the Current Financial Year

The Company's turnover in the major segments during the current financial year upto August 30, 1996 as compared with the turnover in the corresponding period last year has been as under

(Rs in crore)

| Seg         | ment                                                     | Aug                  | 996-97<br>(upto<br>just 30<br>1996) | Septe              | 195-96<br>(upto<br>Imber 1,<br>1995) |
|-------------|----------------------------------------------------------|----------------------|-------------------------------------|--------------------|--------------------------------------|
| (1)         | Treasury E                                               | Bills                |                                     | T                  |                                      |
|             | - Outnight                                               | 4,478                |                                     | 1,245              |                                      |
|             | - Repo                                                   | 933                  | 5,411<br>(4 073)                    | 8,154              | 9,399<br>(8,751)                     |
| (H)         | Governme                                                 | nt Date              |                                     |                    | <b>\-</b> //                         |
| 1,          | - Outright                                               | 270                  |                                     | 140                |                                      |
|             | - Repo                                                   | 5,298                | 5,5 <b>68</b> (5 403)               |                    | 12,146<br>(12 120)                   |
| (111)       | Call, Notice<br>and Term<br>Money                        | <b>e</b>             | (0 100)                             |                    | (12 120)                             |
|             | Lending                                                  | 2                    | 2 02,211                            | :                  | 2 13,217                             |
| (IV)        | Commercia                                                |                      |                                     |                    | ,                                    |
| ,,,         | Bills                                                    | -                    | 19                                  |                    | 91                                   |
| turn<br>aga | iures in brac<br>lover Figu<br>inst Treasu<br>unties com | ires oi<br>iry bills | dicate se<br>foutngi<br>and Go      | ht trani<br>vernme | y market<br>sactions<br>int dated    |

markets purchases and sales)

The Company's performance as revealed by its turnover data needs to be viewed in the context of the conditions prevailing in the money and securities markets at the material time. During the first five months of the current year, the liquidity position of the banks improved considerably and the money market witnessed easy conditions on account of an unprecedented growth in bank deposits, substantial decline in bank credit and release of about Rs. 9.300 crore by reduction/waiver of CRR prescriptions by the Reserve Bank of India. Consequently, the borrowing requirements of the banks declined and some of the chronic borrowing banks even turned lenders in the money market. As a result of these developments. the 'Repo' turnover of the Company against Treasury bills and Government dated securities has been lower at Rs. 933 crore and Rs. 5,298 crore respectively during the first five months of the current year as against Rs. 8,154 crore and Rs. 12,006 crore in the corresponding period last year. The turnover of the Company in the Treasury bills segment on outright basis has, however, been substantially higher at Rs. 4,478 crore representing 82.76 per cent of the total Treasury bills turnover during the current year so far as against Rs. 1,245 crore or 13.25 per cent of the total turnover during the corresponding period of the previous year. The turnover in the Government dated securities segment on outright basis during the first five months of the current year has also been higher at Rs. 270 crore as against Rs. 140 crore in the corresponding period last year. The Company's performance as a Primary Dealer in the Government securities market has also been quite encouraging during the current year so far. Its success ratio at the auctions upto August 30, 1996 has been 51.56 per cent in the case of Treasury bills and 87.30 per cent in the case of Government dated securities as against the prescribed ratios of 40 per cent and 33.33 per cent respectively. The Company's total turnover ratio during the aforesaid period was 10.42 times in the case of Treasury bills and 13.85 times for Government dated securities as against the prescribed ratios of 10 times and 5 times respectively.

On account of ample liquidity in the system, the demand for funds in the call money market has also been subdued. Despite this, the aggregate lending by the Company in the call, notice and term money market has been marginally lower at Rs. 2,02,211 crore during the current year so far as against Rs. 2,13,217 crore in the corresponding period last year. The fortnightly weighted average call money lending rate of DFHI covering ten fortnights of the current year has been much lower at 9.15 per cent as against an average of 17.08 per cent for the corresponding period last year.

Due to the comfortable liquidity position, the implicit cut-off yields in respect of 91 days Treasury bills auctions fell sharply from the level of 12.97 per cent in the auctions held till April 4, 1996 to 9.99 per cent in the auction held on August 23, 1996 after touching a low of 8.48 per cent on August 9, 1996. Similarly, the implicit cut-off yield of 364 days Treasury bills also came down from a level of 13.12 per cent in the auctions held till April 10, 1996 to 12.65 per cent on July

17, 1996. However, the easy conditions had little effect on softening the yields of Government dated securities in the auctions, though the secondary market yields came down marginally.

### **Concluding Observations**

The Indian Money and Securities Markets have witnessed wide ranging reforms in recent times, particularly since 1991. The Money Market has been made vibrant with the freeing of interest rates. It has also been widened and deepened by allowing many more institutions to participate as lenders and by introduction of new instruments. In the Government securities market also far reaching reforms have been brought about. There is now a clear shift towards market related yields on primary issues. The auction system has stabilised and the Reserve Bank of India is coming out with new and varied instruments to suit the needs of various types of investors. Apart from this, healthy accounting standards are being put in place by gradually moving towards a fully marked to market system for valuation of Government securities. The Government securities market has been made more transparent and risk free by daily publication of the particulars of SGL transactions and by introduction of Delivery versus Payment system.

The most notable and outstanding reform has been introduced recently by creation of necessary institutional infrastructure in the form of Primary Dealers (PDs) for the development of an active secondary market in Government securities. So far six institutions have been accredited by Reserve Bank of India as Primary Dealers in the Government securities market and your Company has been one of the first two institutions to be accorded this status. With the operationalisation of six PDs, the turnover in the Government securities market has gone up and more reliable quotes are now available. The Reserve Bank of India is providing the required support to PDs. It has reduced the rate of interest on 'Repo' facilities to them from 12.50 per cent to 11.50 per cent against Treasury bills and from 14.00 per cent to 13.00 per cent against dated securities. Further, with a view to providing incentives to PDs for developing the secondary market in Government securities. Reserve Bank of India has also introduced with effect from July 10, 1996, a scheme of paying commission to PDs on Central Government securities purchased by them in all the floatations in the primary market including the underwriting commitments. The rates of commission per Rs. 100 are 12.50 paise, 50 paise and Rupee one for 91 days Treasury bills, 364 days Treasury bills and dated securities respectively. Obviously, the commission is being paid to enable the PDs to widen the investors base, to bring about proper alignment in the primary and secondary market yields and to meet unforeseen losses in adverse market conditions. These underlying objectives are yet to be fulfilled. Firstly, after the introduction of the system of payment of commission, some of the existing investors have started the practice of routing their bids through PDs on a commission sharing basis and the purpose of paying the commission to PDs for widening the investors base is yet to be achieved. Secondly, in my view, the rate of commission needs to be rationalised with the basic objective of integrating the primary market and secondary market yields so as to get better market responses to the primary market auctions/floatations. In other words, the quantum of commission should be so determined that it fully compensates the PDs for the difference between the secondary market and primary market yields.

To facilitate retailing of securities, particularly to the house-hold sector the question of introducing the system of satellite dealers is being actively considered.

For the development of an active second-

ary market, suggestions have been made to widen the 'Repo' market by increasing the number of participants and by allowing more securities to be made eligible for conducting 'Repos'. The number of Government dated securities eligible for 'Repo' has already been sufficiently enlarged in the recent past and further increase in the number thereof does not appear to be necessary for the present having regard to the volume of 'Repo' transactions taking place in the market. Without undermining the need for an active 'Repo' market, it may be stated that 'Repo' transactions, particularly in the Indian context, are not quite conducive to the development of an outright secondary market. So long as the 'Repo' route is open, there is a tendency amongst the investors to meet even their relatively longer term liquidity needs through this route, and to keep on postponing the outright sale of securities without analysing the cost-benefit thereof. In view of this, greater stress needs to be laid on the development of an outright market.

During the financial year 1995-96, particularly during the second half, the money market rates ruled high and witnessed greater volatility. On the other hand, during the current year, the call money rates are ruling at much lower levels since July 1996. Such prolonged spells of very high and unduly low levels of money market rates are not conducive to the healthy development of the financial system. Keeping in view this aspect, your Company was the first institution to make an attempt to develop a Term Money market by offering to borrow 60 days money from banks at fairly competitive rates. While there were several enquiries in this regard from banks, none of them came forward to place the money eventhough the rates offered by your Company were much higher than the average call money rates during the relevant period. It would take some more time for the Term Money market to develop and your Company would continue to strive in this direction. Term Money market, when developed, would also meet the need of a 'bench mark rate' for pricing of other short dated instruments and take care, to some extent, of the asset-liability mismatches of banks and financial institutions.

### **Acknowledgement**

I take this opportunity to sincerely thank the Government of India, the Government of Maharashra, the Reserve Bank of India, the commercial and co-operative banks and all-India financial institutions for their whole-hearted co-operation and support. I would like to place on record my appreciation of the painstaking efforts of the Company's dedicated team of officials for the good performance of the Company.

# SPECIAL STATISTICS

# Finances of Government of India

EPW Research Foundation

Table 1: Overall Budgetary Position

|                          |               |                                   |              |                      | =      |              |           |          | indic is Oftian Daughary I waste |              |          |        |         |                   |          |           | (Rs crore) | ore)       |
|--------------------------|---------------|-----------------------------------|--------------|----------------------|--------|--------------|-----------|----------|----------------------------------|--------------|----------|--------|---------|-------------------|----------|-----------|------------|------------|
|                          | 1996-97       |                                   | 16-9661      | 1995-96              |        | 1994-95      | 661       | 993-94   | 1992-93                          | 1991-92      | 16-0661  | 16     | 1989-90 | 8 -               | 1988-89  | ١.        | 1987-88    |            |
|                          | Budget (July) |                                   | Budget (Feb) | Revised              |        | Actuals      | Act       | Actuals  | Acruals                          | Actuals      | Actuals  | s      | Aciumis | 2                 | ACIMENS  |           | CIGNIS     | 1          |
| (1) Revenue receipts     | 130345 (1     | (18 3)127162 (15.4) 110191 (21.0) | (15.4)       | 161011               | 21.0)  | 91083 (20.7) | 7) 75453  | 3 (1.8)  | 74128 (123)                      | 66031 (20.2) | 54954    | (5.1)  | 52296   | (20.0)            | 43591 (1 | (17.7)    | 37037 (13  | (12.0)     |
|                          | [10.5]        | [10 2]                            |              | [10.2]               |        | [9.6]        | [9 4]     | =        |                                  | [10.7]       | [10 3]   |        | [11 4]  |                   |          |           |            |            |
| (a) Tax revenue (net to  | 97310 (2      | (20.0) 94513 (16.6)               | 3 (16.6)     | 81088                | (20 2) | 67454 (26.2) | 2) 53449  | 9 (-1.1) | 54044 (7.9)                      | ٠,           | 42978    | (12.1) | 38349 ( | (13.6) 33         | _        | (20.5) 28 | _          | (15.2)     |
| centre)                  | [4 8]         | [7 6]                             | -            | [7 5]                |        | [1 1]        | [6 7]     | _        | [7.7]                            | [8.1]        | [8.0]    |        |         |                   |          |           |            |            |
| (b) Non-tax revenue      |               | (13.5) 32649 (12.2)               | 9 (12.2)     | 29103 (23.2)         | 23.2)  | 23629 (7.4)  | 4) 22004  | 4 (9.6)  | 20084 (25 8)                     | _            | 11976 (  | -14.1) | _       | (41.7)            |          | (9.1)     | _          | (5.9)      |
|                          |               | [5.6]                             |              | [2.7]                |        |              |           |          |                                  | [2 6]        | [2.2]    |        | [3.1]   |                   |          |           |            |            |
| (2) Capital receipts     | 67737 (       | (39) 69862                        | 2 (71)       | 65213 (-             | را ک   | 68695 (239)  | Ś         | 0 (53.2) | 36178 (-6.1)                     | "            | 38997    | (58.9) | 30020   | (0.5) 25          | _        | (17.6) 25 | -          | (17.8)     |
|                          | [3.9]         |                                   |              | [6.0]                |        |              |           |          |                                  | [62]         | [7.3]    | i      | [6.6]   |                   |          |           |            | í          |
| (a) Recovery of loans    | 7048 (4.9)    | •                                 | (9 Q)<br>8   | 7411 (16             | 16.8)  | 6345 (2.5)   | •         | 1 (-26)  | 6356 (5.6)                       |              | 5712     | (14.7) | 4980    | (8.3)             | _        | 4 (0.01)  |            | (19.7)     |
|                          | [0.6]         |                                   |              | [0 ]                 |        |              |           |          | [60]                             | [1 0]        | F.E.     |        |         | _                 | [7:1]    |           | [5:1]      |            |
| (b) Other receipts       | 5001 (259 3)  |                                   | 5000(259.2)  | 1392(-7              | 75.2)  |              | (;<br>(;  | (;<br>∞  | 1961(-35.5)                      |              |          |        | :       | •                 | :        | :         | :          | :          |
|                          | [0.4]         | [04]                              |              | [0.1]                |        |              |           |          |                                  | [0 2]        |          |        |         |                   |          |           |            | :          |
| (c) Borrowings and other | -) 88955      | 55688 (-1.3) 57404                | 4 (1.8)      | 56410 (-             | 9.6    | 56743 (151)  | 1) 49297  | 7 (769)  | 27861 (~5.5)                     | ~            | 33285    | (35.9) | _       | (-1.0) 2          |          | (19.1) 21 |            | (17.4)     |
| liabilities              | [4.6]         | [4.6]                             | <u></u>      | [5.2]                |        | [0.9]        | [6 2]     |          |                                  | <u>+</u> .8  | [6.2]    |        |         |                   |          |           |            |            |
| (3) Total receipts       | 198082 (1     | (12.9)197024                      |              | (12.3) 175404        | (9.8)  | 59778 (22.1) | 1) 130893 | 3 (18.7) | 110306 (5.5)                     | =            | 93951    | (14.1) |         | (12.0) 7:         |          | (17.7) 62 |            | <b>143</b> |
| •                        | [15.9]        | [15.8]                            | =            | [162]                |        | [16.9]       | [16 3]    | =        | [15 6]                           |              | [17.5]   |        |         |                   |          |           |            |            |
| (4) Non-Plan expenditure | 149975 (1     | (11 7)151503                      |              | (12.8) 134320 (      | 18.5)  | 13361 (145)  | •         | 8 (152)  | 82928 (6.8)                      | 90           | 76933    | (17.7) |         | (23.5) 5;         |          | (20.2) 44 |            | (10.4)     |
| •                        | [12.0]        | [12.2]                            |              | [12 4]               |        | [12.0]       | [12.4]    |          |                                  | [13.0]       | [144]    |        |         |                   |          |           |            |            |
| (a) On revenue account   | 128353 (1     | (13 5)128425                      | 5 (13.6)     | (13.6) 113099 (20.5) | 20.5)  | 93847 (12.3) |           | 5 (146)  | 72925 (8.5)                      |              | 96809    | (166)  |         | (21.5) 4;         |          | (18.2) 36 |            | (I.4)      |
|                          | [10.3]        | [10.3]                            | =            | [10.4]               |        | [6.6]        | [104]     | =        | [10.3]                           | [10.9]       | [114]    |        | [11.4]  | =                 | [10,9]   | Ē         | [10.9]     |            |
| of which                 |               |                                   |              |                      |        |              |           |          |                                  |              |          |        |         |                   |          |           |            |            |
| (a.1) Interest payment   |               | 60000 (154) 60000 (154) 52000 (1  | 0 (154)      | 22000 (              | 18.1)  | 44049 (20.0) | w         | 5 (18.2) | 31035 (167)                      | ~            |          |        | _       | (24.4) 14278      |          | (269)     |            | (21.7)     |
|                          |               | [4.8]                             |              | [4.8]                |        |              |           |          |                                  |              | 6.0      |        |         |                   |          |           |            |            |
| (b) On capital           | 21622 (       | (1.9) 23078                       |              | (8.8) 212221         | (8.7)  | 19514 (26.3) |           | 3 (18 6) | 13033 (-1 5)                     | _            | 16037    | (21.9) | _       | (31.9)            | _        | (36.9) 7  |            | 9.         |
| account                  |               | [61]                              |              | [2 0]                |        |              | [6:1]     |          |                                  | [2.1]        |          |        | [5:9]   |                   |          |           |            | •          |
| (5) Plan expenditure     | 54685 (1      | (12.3) 50521                      | 1 (3.8)      | 48684                | (3.8)  | 9            | 6) 42855  | 5 (169)  | 36658 (18.4)                     | m            | ~        | (3.1)  | 27520   | (2.2) 2(          |          | (8.0) 24  |            | (2.3)      |
|                          | [4.4]         | [4 1]                             | _            | [4 5]                |        | [2 0]        | [5.3]     |          |                                  | [20]         |          |        | [6.0]   |                   |          |           |            |            |
| (a) On revenue account   |               | (100) 32232                       | 2 (5.9)      | 30423                | (2.6)  | 28265 (14.8) | Ą         | 4 (24.5) | 19777 (31.2)                     |              | -        | (5.4)  | 1979    | (1.7)<br>El (1.7) | _        | (12.2)    |            | (50.6)     |
|                          |               | [5.6]                             |              | [2.8]                |        |              |           |          |                                  | [2 4]        |          |        | [5.6]   |                   |          |           |            |            |
| (b) On capital account   |               | (16 2) 18289                      | (0.2)        | 18261                | 4 5    | 19113 (48)   |           | (80)     | 16881 (6.3)                      | 15887 (0.9)  | <b>-</b> | (1.3)  | 5541    | (3.4) 15          |          | (5.1) 14  |            | (-3.2)     |
|                          | [7:7]         | (c   )                            | -            |                      |        | [0.7]        | [2.5]     | ,        | [24]                             | [7:0]        | [6:7]    |        | [3.4]   | -                 | [3.6]    | ٠         | [4.3]      |            |
|                          |               |                                   |              |                      |        |              |           |          |                                  |              |          |        |         |                   |          |           | Š          | (Contd)    |

Table 1: Overall Budgetary Position (Contd)

|                                                                    | 1996-97 1996-97<br>Budget (Jul) Budget (Feb)            | 1996-97<br>Budget (Fe |                              | 1995-96<br>Revised | 1994-95<br>Actuals | <b>5</b> 0 10 | 1993-94<br>Actuals | 1992-93<br>Actuals | 9.<br>P. 9. | 1991-92<br>Actuals | 1990-91<br>Actuals | le-(   | 1989-90<br>Actuals |                        | 988-89<br>Actuals | 1987-88<br>Actuals           |
|--------------------------------------------------------------------|---------------------------------------------------------|-----------------------|------------------------------|--------------------|--------------------|---------------|--------------------|--------------------|-------------|--------------------|--------------------|--------|--------------------|------------------------|-------------------|------------------------------|
| (6) Total expenditure (4+5)                                        | 204660 (11.8) 202024 (10.4) 183004 (13.9) [16.4] [16.2] | 202024 (1             | <b>0.4) 183004</b><br>[16.9] | 94 (13.9)          | 160739<br>[17.0]   | (13.3) 14     | 141853 (15.7)      | 122616 (10.1)      | -           | 12 (5.8)           |                    | (13.3) |                    | (17.4) 79111<br>[20.0] | 1 (15.9)          | <b>68261 (8.5)</b><br>[20.5] |
| (a) Revenue expenditure                                            | i G1820 (12.7) 160657 (11.9) 143522 (17.5) 12           | 160657 (1             | 1.9) 1435.                   | 22 (17.5)          | 22112              | (12.9)        | 108169 (16.7)      | -                  | 7) 82291    | (11.9)             | 73516              | (14.5) | 64210              | (18.7) 54106           | 6 (17.2)          | 46174 (13.0)                 |
| enditure                                                           | 42840 (8.5)                                             | 41367 (               | 4.8) 394(                    | \$2 (2.2)          | 18627              | (14.7) 3:     | 33684 (12.6)       | 29914 (2.7)        |             | 21 (-8.4)          |                    | (10.7) | _                  | (14.8) 25005           | s (13.2)          |                              |
|                                                                    | [34]                                                    | [3.3]                 | E.                           | [9                 | <b>4</b> .E        |               |                    |                    |             |                    |                    |        | [6.3]              | [9]                    | =                 | [9.9]                        |
| (7) Revenue deficit (1 - 6.a)                                      | 31475                                                   | 33495                 | 333.                         | 31                 | 31029              | 3.            | 2716               | 18574              | 162         | S                  | 18562              |        | 11914              | 1051                   | S                 | 9137                         |
|                                                                    | [2 5]                                                   | [2.7]                 | <u>.</u>                     | =                  | [3.3]              |               | [4.1]              | [5.6]              | [2]         | [9                 | [3.5]              |        | [5.6]              | <u>[2</u>              | _                 | [2.7]                        |
| (8) Budgetary deficit (3 – 6)                                      | 6578                                                    | 2000                  | 76                           | 8                  | <del>-</del> 8     | <u> </u>      | 0960               | 12310              | 68          | 53                 | 11347              |        | 10592              | Š                      | 7                 | 2816                         |
|                                                                    | [6 5]                                                   | [0.4]                 | <u>o</u>                     | [/                 | [0.1]              |               | [1.4]              | [1.7]              | Ξ           | =                  | [2.1]              |        | [2.3]              | 7.1                    | =                 | [1.7]                        |
| (9) Fiscal deficit (2.c + 8)                                       | 62266                                                   | 62404                 | 540                          | 2                  | 57704              | Ø             | 0257               | 40171              | 363.        | 22                 | 44632              |        | 35632              | 3092                   |                   | 27044                        |
|                                                                    | [5.0]                                                   | [20]                  | [5                           | 6                  | [6.1]              |               | [7.5]              | [5.7]              | <u>5</u>    | 6                  | [8.3]              |        | [7.8]              | 8.7                    | =                 | [8.1]                        |
| (10) Primary deficit (9 - 4a.1)                                    | 2266                                                    | 2404                  | 120                          | 2                  | 13655              | 7             | 3562               | 9136               | .76         | <i>1</i> 2         | 23134              |        | 17875              | 166                    | ×                 | 15793                        |
|                                                                    | [0 2]                                                   | [0.2]                 | =                            | =                  | [1 4]              |               | [5:9]              | [1 3]              | 911         | 9                  | [4.3]              |        | [3.9]              | [4.2                   | _                 | [4.7]                        |
| Memo Items                                                         |                                                         |                       |                              |                    |                    |               |                    |                    | 1           |                    | 1                  |        | 1                  | 1                      |                   |                              |
| (1) Budget support for central                                     | 32713 (13.5)                                            | 31015 (               | 7.6) 288.                    | 38 (8.1)           | 26675              | (12.6) 2:     | 23685 (19.8)       | (1.51) 77761       |             | 17096 (-2.3)       | _                  |        |                    | (10.5) 163             | 16333(13.0)       | 14458(-3.6)                  |
| plan                                                               | [2.6] [2.5] [2.7]                                       | [2.5]                 | 2                            | 1                  | (2.8)              |               | [30]               | [2.8]              | [2.8]       | <b>8</b>           | [3.3]              |        | [4.0]              | <b>[4.1</b> ]          | _                 | [4.3]                        |
| (2) Internal and external budgetary                                | žį.                                                     |                       |                              |                    |                    |               |                    |                    |             |                    |                    |        |                    |                        |                   |                              |
| resources of public                                                | 54373 (18 8)                                            | 53989 (1              | 8.0) 457                     | (8.9)              | 42863              | 7.6)          | 86442 (21.9)       |                    |             | (10.0)             | 20451              | 17.0)  |                    | (30.5) 13395           | 5 (25.7) 10657    | 10657 (20.6)                 |
| enterprises, etc                                                   | [4.4]                                                   | [4.3]                 | ₹.                           | 2]                 | [4.5]              |               | [4.5]              | [4.2]              |             | <u>S</u>           | [3.8]              |        | [3.8]              | [3.4]                  | _                 |                              |
| (3) Total central plan outlay (1+2)87086 (16.7) 85004 (14.0) 74594 | 2)87086 (16.7)                                          | 85004 (1              | 4.0) 745                     | 94 (7.3)           | 69538              | 57)           | 0127 (21.0)        | 49683 (25.5)       | 5) 39597    | 7 (4.3)            | 37947              | (8.9)  |                    | (19.5) 2972            | 8 (18.4) 25115    | 25115 (5.4)                  |
|                                                                    | [7.0]                                                   | [6.8]                 | <u>6</u>                     | 9                  | [7.4]              |               | [7.5]              | [1.0]              | <u>ف</u>    | ₹                  | [7.1]              |        | [7.8]              | [7.5]                  |                   | [7.5]                        |
| #00000 1 Ct - ct - ct - ct - ct - ct - ct - ct -                   | 3450000                                                 | 12,15000              | 108500                       | •                  | 517570             | 80            | 1032               | 705328             | 61675       | 2                  | P25525             | •      | 56821              | 39578                  |                   | 33201                        |

\* Estimated

Notes: (1) Figures in round brackets next to absolute numbers are variations over the previous year in percentages (2) Figures in square brackets are percentages to GDP at current market prices.

(3) Data for internal and external budgetary resources of public enterprises are as per revised estimates.

|            |                                                             |                   |                   |                  |                    |                    |                    |                    |                    |                    |                    | (Ks ctore)         |
|------------|-------------------------------------------------------------|-------------------|-------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|            |                                                             | 1996-97<br>Budget | 1996-97<br>Budget |                  | 1994-95<br>Actuals | 1993-94<br>Actuals | 1992-93<br>Actuals | 1991-92<br>Actuals | 1990-91<br>Actuals | 1989-90<br>Actuals | 1988-89<br>Actuals | 1987-88<br>Actuals |
| <u>(I)</u> | Revenue receipts (A+B)                                      | 128037            | 127162            | 110191           | 91083              | 75453              | 74128              | 66031              | 54954              | 52296              | 43591              | 37037              |
|            | (a) Gross tax revenue (1+2)                                 | [65.4]<br>129453  | [64.5]<br>128540  | [62.8]<br>110354 | [57.0]<br>92294    | [57.6]<br>75743    | [67.2]<br>74637    | [63.2]<br>67361    | [58.5]<br>57576    | [63.5]<br>51636    | [59.3]<br>44474    | [59.3]<br>37666    |
|            | (1) Taxes on income, property                               | 38092             | 37393             | 32526            | 26966              | 20298              | 18132              | 15207              | 11024              | 10005              | 8825               | 6748               |
|            | and capital transactions of which                           | (29.4)            | (29.1)            | (29 5)           | (29.2)             | (26.8)             | (24.3)             | (22.6)             | (19.6)             | (19.4)             | (19.8)             | (17.9)             |
|            | Corporation tax                                             | 18688             | 18688             | 16250            | 13822              | :0060              | 8899               | 7853               | 5335               | 4729               | 4407               | 3433               |
|            | •                                                           | (144)             | (14.5)            | (147)            | (15.0)             | (13.3)             | (11.9)             | (11.7)             | (9.3)              | (9.2)              | (9.9)              | (9.1)              |
|            | Taxes on income other than                                  |                   | 17400             | 15100            | 12025              | 9123               | 7888               | 6731               | 5371               | 5010               | 4241               | 3192               |
|            | corporation tax                                             | (13.8)            | (13.5)            | (13.7)           | (13.0)             | (12.0)             | (10.6)             | (10.0)             | (9.3)              | (9.7)              | (9.5)              | (8.5)              |
|            | Wealth tax                                                  | 110               | 100               | 90               | 105                | 154                | 468                | 307                | 231                | 179                | 122                | 101                |
|            | (2) Taxes on commodities and services                       | 91361<br>(70 6)   | 91151<br>(70.9)   | 77828<br>(70.5)  | 65328<br>(70.8)    | 55445<br>(73 2)    | 56505<br>(75.7)    | 52154<br>(77.4)    | 46552<br>(80.9)    | 41631<br>(80.6)    | 35649<br>(80.2)    | 30918<br>(82.1)    |
|            | of which                                                    | 43485             | 43485             | 35352            | 26789              | 22193              | 23776              | 22257              | 20644              | 18036              | 15805              | 13702              |
|            | Custom duties                                               | (33.6)            | (33.8)            | (32 0)           | (29.0)             | (29.3)             | (31.9)             | (33.0)             | (35.9)             | (34.9)             | (35.5)             | (36.4)             |
|            | Excise duties                                               | 46124             | 46124             | 41000            | 37347              | 31697              | 30832              | 28110              | 24514              | 22406              | 18841              | 16426              |
|            |                                                             | (35.6)            | (35.9)            | (37 2)           | (40.5)             | (41 8)             | (41.3)             | (41.7)             | (42.6)             | (43.4)             | (42.4)             | (42.6)             |
|            | (b) State and UTs' share of tax                             | 34451             | 34027             | 29266            | 24840              | 22294              | 20593              | 17292              | 14598              | 13287              | 10723              | 9651               |
|            | revenue                                                     | (26 6)            | (26.5)            | (26.5)           | (26 9)             | (29.4)             | (27.6)             | (25.7)             | (25.4)             | (25.7)             | (24.1)             | (25.6)             |
|            | (A) Centre's net tax revenue (a-b)                          | 95002             | 94513             | 81088            | 67454              | 53449              | 54044              | 50069              | 42978              | 38349              | 33751              | 28015              |
|            |                                                             | (73.4)            | (73.5)            | (73.5)           | (73.1)             | (70.6)             | (72.4)             | (74 3)             | (74.6)             | (74 3)             | (75 9)             | (74.4)             |
|            |                                                             | [48.5]            | [48.0]            | [46 2]           | [42 2]             | [40.8]             | [49.0]             | [47 9]             | [45 7]             | [46.6]             | [45.9]             | [44 9]             |
|            | (B) Centre's non-tax revenue                                | 33035             | 32649             | 29103            | 23629              | 22004              | 20084              | 15962              | 11976              | 13947              | 9840               | 9022               |
|            |                                                             | [16 9]            | [16.6]            | [16 6]           | [14.8]             | [16.8]             | [18.2]             | [15 3]             | [12.7]             | [16.9]             | [13.4]             | [14.4]             |
|            | Interest receipts                                           | 21393             | 21717             | 18369            | 15797              | 15078              | 12487              | 10933              | 8730               | 8474               | 6981               | 5755               |
|            | Dividend and profits Other non-tax revenue                  | 4051<br>7591      | 4051<br>6881      | 3229<br>7505     | 2716<br>5116       | 2451<br>4475       | 2493<br>5104       | 1058<br>3970       | 774<br>2472        | 716<br>4757        | 475<br>2384        | 605<br>2662        |
| ar         | Capital receipts                                            | 7371              | 0001              | 7.505            | 3110               | 7713               | 2104               | 3910               | 2412               | 7/5/               | 2304               | 2002               |
| (          | (A+B+C+D+E+F+G)                                             | 67737             | 69862             | 65213            | 68695              | 55440              | 36178              | 38528              | 38997              | 30020              | 29878              | 25408              |
|            | (,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,                     | [34 6]            | [35.5]            | [37 2]           | [43 0]             | [42.4]             | [32.8]             | [36.8]             | [41.5]             | [36 5]             | [40 7]             | [40.7]             |
|            | (A) Net internal borrowings (a-b)                           | 25498             | 25498             | 27500            | 20326              | 28928              | 3676               | 7510               | 8001               | 7404               | 8418               | 5862               |
|            | (a) Gross                                                   | 33419             | 33419             | 33056            | 21250              | 30065              | 4821               | 8921               | 8988               | 8044               | 8894               | 6684               |
|            | (b) Repayments                                              | 7921              | 7921              | 5556             |                    | 1137               | 1145               | 1411               | 987                | 640                | 476                | 822                |
|            | (B) Net external borrowings (a-b)                           | 2461              | 2461              | 1969             | 5146               | 5074               | 5319               | 5421               | 3181               | 2595               | 2460               | 2893               |
|            | (a) Gross                                                   | 9908              | 9908              | 8609             | 10615              | 10024              | 9625               | 8279               | 5339               | 4443               | 4016               | 4069               |
|            | (b) Repayments                                              | 7447<br>7048      | 7447<br>7458      | 6640<br>7411     | 5469<br>6345       | 4950<br>6191       | 4306<br>6356       | 2858<br>6021       | 2158<br>5712       | 1848<br>4980       | 1556<br>4597       | 1176<br>4180       |
|            | (C) Recovery of loans (net) (D) Small savings (net)         | 14000             | 15716             | 13500            |                    | 9100               | 5717               | 6640               | 9104               | 8575               | 5835               | 3911               |
|            | (a) Centre's share                                          | 3000              | 2816              | 3388             |                    | 4100               | 1453               | 1159               | 2078               | 2833               | 1630               | 814                |
|            | (b) States' share                                           | 11000             | 12900             | 10112            |                    | 5000               | 4264               | 5481               | 7026               | 5742               | 4205               | 3097               |
|            | (E) Net provident fund                                      | 2250              | 2250              | 2150             | 2003               | 1790               | 1611               | 1286               | 1221               | 1116               | 961                | 893                |
|            | (F) Special deposits                                        | 9548              | 9548              | 8563             | 8262               | 7568               | 7144               | 6670               | 7716               | 7970               | 6151               | 4381               |
|            | (G) Other items of capital                                  |                   |                   |                  |                    |                    |                    |                    |                    |                    |                    |                    |
|            | receipts (net)                                              | 6932              | 6931              | 4120             |                    | -3211              | 6356               | 4980               | 4062               | -2620              | 1456               | 3288               |
|            | I) Aggregate receipts (I+II)                                | 195774            | 197024            | 175404           | 159778             | 130893             | 110306             | 104559             | 93951              | 82316              | . 73469            | 62445              |
| (11        | ') Central government's                                     | 670224            | 647422            | 605710           | 620411             | 477968             | 401024             | 254662             | 314558             | 268193             | 229771             | 195561             |
|            | total liabilities (A+B) (A) Central government's debt (a+b) |                   | 667632<br>386210  | 356025           | 538611<br>317395   | 293057             | 401924<br>241369   | 354662<br>209698   | 185529             | 161536             |                    | 121869             |
|            | (a) Internal debt                                           | 335229            |                   |                  | 266467             | 245712             |                    | 172750             | 154004             |                    |                    | 98646              |
|            | (b) External debt                                           | 54902             |                   | 52666            |                    | 47345              | 42269              | 36948              | 31525              | 28343              | 25746              | 23323              |
|            | (B) Other liabilities                                       | 280093            |                   |                  | 221215             | 184911             | 160554             | 144964             | 129029             | 106657             | 89527              | 73692              |
| Ra         | tios (percentages)                                          |                   |                   |                  |                    |                    |                    |                    |                    |                    |                    |                    |
|            | (1) Gross tax revenue to GDP at current market prices       | 10 4              | 103               | it 7             | 9.8                | 9.5                | 10.6               | 10.9               | 108                | 113                | 11.2               | 11.3               |
|            | (2) Taxes on income, property and capital transactions to   |                   | •••               | •• /             | 7.0                | ,,,                |                    | ,                  |                    |                    |                    |                    |
|            | GDP at current market prices                                | 3 1               | 30                | 3 0              | 29                 | 2.5                | 26                 | 2.5                | 2 1                | 2.2                | 2.2                | 2.0                |
|            | (3) Taxes on commodities and services to GDP at             |                   |                   |                  |                    |                    |                    |                    |                    |                    |                    |                    |
|            | current market prices (4) Central government's total        | 73                | 7.3               | 7 2              | . 69               | 69                 | 8.0                | 8 5                | 8.7                | 9.1                | 9.0                | 9.3                |
|            | liabilities to GDP at current market prices                 | 53 8              | 53 6              | 55.8             | 570                | 59.7               | 57.0               | 57.5               | 58 7               | 58.7               | 58.1               | 58.7               |
|            | (A) Central government's deb                                | l to              |                   |                  |                    |                    |                    |                    |                    |                    |                    |                    |
|            | GDP at current market pr                                    |                   |                   | 32.8             |                    |                    |                    |                    |                    |                    |                    | 36.6               |
|            | (a) Internal debt                                           | 26 9              |                   | 28.0             |                    |                    |                    |                    |                    |                    |                    | 29.6               |
|            | (b) External debt                                           | 4.4               |                   | 4.9              |                    |                    |                    |                    |                    |                    |                    |                    |
|            | (B) Other liabilities                                       | 22.5              | 22 6              | 23.0             | 23,4               | 23.1               | 22.8               | 23.5               | 24.1               | 23.3               | 22.6               | 22.1               |

Notes: (1) Figures in round brackets are percentages to gross tax revenue.

(2) Figures in square brackets are percentages to aggregate receipts.

(3) 'Other items' of capital receipts includes Rs 5,000 crore in 1996-97 (July), Rs 5,000 crore in 1996-97 (Feb), Rs 357 crore in 1995-96 (revised), Rs 5,607 crore in 1994-95, Rs -48 crore in 1993-94, Rs 1,961 crore in 1992-93 and Rs 3,038 crore in 1991-92; disinvestments of equity holdings in public sector enterprises.

|         |                                                        | 1996-97          | 1996-97          | 1995-96                 | 1994-04          | 1993-94         | 1992-93         | 1991 92              | 1000.01         | 1989 90         | 1988-89         | 1097 00         |
|---------|--------------------------------------------------------|------------------|------------------|-------------------------|------------------|-----------------|-----------------|----------------------|-----------------|-----------------|-----------------|-----------------|
|         |                                                        | Budget           | Budget           | Revised                 |                  | Actuals         | Actuals         | Actuals              | Actuals         | Actuals         | Actuals         | Actuals         |
|         |                                                        |                  | Rebruary)        |                         |                  |                 |                 |                      |                 |                 |                 |                 |
| Non-p   | lan expenditure                                        | 150013<br>(73 3) | 151503<br>(75 0) | 134320<br>(73 4)        | 113361<br>(70 5) | 98191<br>(69 2) | 85958<br>(70 1) | 80453<br>(72 2)      | 76933           | 65388           | 52960           | 44052           |
| (A) Int | terest payments                                        | 60000            | 60000            | 52000                   | 44049            | 36741           | 31075           | 26596                | (73 1)<br>21498 | (70 4)<br>17757 | (66 9)<br>14278 | (64.5)<br>11251 |
| (B) De  | efence                                                 | (29 3)<br>27798  | (29 7)<br>27819  | (28 4)<br>26879         | (27 4)<br>23245  | (25 9)<br>21845 | (25 3)<br>17582 | (23 9)<br>16347      | (20 4)          | (19 1)          | (180)           | (16.5           |
| (0) 0   | JIVHOC                                                 | (136)            | (13 8)           | (147)                   | (14.5)           | (15.4)          | (14 3)          | (147)                | 15426<br>(14 5) | 14416<br>(15.5) | 13341<br>(169)  | 1196            |
| (C) Su  | ibsidies                                               | 16320            | 14439            | 13726                   | 12982            | 12682           | 11995           | 12253                | 12158           | 10474           | 7732            | 598             |
| Fo      | od                                                     | (8 0)<br>5884    | (7 1)<br>5774    | (7 5)<br><b>5500</b>    | (8 I)<br>5100    | (8 9)<br>5537   | (9 8)<br>2800   | (11 0)<br>2850       | (11 5)<br>2450  | (11 3)<br>2476  | (9 8)<br>2200   | (8 8<br>200     |
|         | rtilisers (indigenous+importe                          | d) 6148          | 6800             | 6235                    | 5241             | 4562            | 5796            | 5185                 | 4389            | 4542            | 3201            | 216             |
|         | port promotion                                         | 460<br>1604      | 320              | 315                     | 658              | 665             | 818             | 1758                 | 2742            | 2014            | 1386            | 96              |
|         | ther subsidies<br>eneral services                      | 16974            | 1045<br>17539    | 1176<br>12881           | 1111<br>10199    | 1600<br>9278    | 1081<br>8860    | 1035<br>6932         | 1075<br>6849    | 1442<br>6129    | 945<br>4979     | 81<br>438       |
| (-,     |                                                        | (8 3)            | (87)             | (70)                    | (6 3)            | (6 5)           | (7 2)           | (62)                 | (65)            | (66)            | (63)            | (6              |
|         | olice                                                  | 3680             | 3339             | 3143                    | 2665             | 2432            | 2119            | 1849                 | 1564            | 1297            | 1132            | 98              |
|         | ensions (defence+civil) otal (A+B+C+D)                 | 4509<br>121092   | 4509<br>119797   | 4295<br>105486          | 3643<br>90475    | 3338<br>80546   | 3005<br>69512   | 2416<br>62128        | 2138<br>55931   | 2327<br>48776   | 2014<br>40330   | 158<br>3358     |
|         | (11.27.5.2)                                            | (59 2)           | (59 3)           | (57 6)                  | (56 3)           | (56 8)          | (56 7)          | (55.8)               | (53.1)          | (52 5)          | (510)           | (40             |
| (E) So  | ocial services                                         | 3188             | 3169             | 3344                    | 2646             | 2503            | 2103            | 1945                 | 1783            | 1522            | 1293            | 130             |
| Ed      | lucation sports, youth affairs                         | (16)             | (1 6)<br>1183    | (1 8)<br>1227           | (1 6)<br>993     | (1 8)<br>938    | (1 7)<br>774    | (1 7)<br>762         | (1 7)<br>721    | (1 6)<br>589    | (1 6)<br>474    | (1)             |
|         | ealth and family welfare                               | 483              | 478              | 454                     | 393              | 357             | 303             | 281                  | 236             | 200             | 140             | 10              |
|         | bour and employment                                    | 483              | 483              | 516                     | 395              | 482             | 313             | 288                  | 269             | 253             | 231             | 10              |
|         | formation and broadcasting conomic services            | 486<br>5115      | 475<br>6691      | 466<br>5032             | 427<br>4181      | 347<br>3426     | 346<br>2660     | 305<br>2606          | 282<br>2492     | 222<br>2782     | 150<br>1944     | 16<br>189       |
| (1) 14  | CHOMIC BUTTICES                                        | (2 5)            | (3.3)            | (27)                    | (2.5)            | (24)            | (° 2)           | (2 3)                | (24)            | (30)            | (2.5)           | (2              |
|         | griculture and allied activities                       |                  | 507              | 536                     |                  | 527             | 442             | 431                  | 418             | 378             | 261             | 24              |
|         | nergy industry and minerals cansport and communication | 930<br>601       | 922<br>566       | 809<br>630              | 762<br>667       | 706<br>555      | 688<br>456      | 938<br>210           | 830<br>340      | 1791<br>482     | 672<br>232      | 80              |
|         | ience technology and                                   | 001              | 700              | 010                     | 007              | 223             | 4 10            | 210                  | 140             | 402             | 212             | 21              |
| e       | environment                                            | 991              | 951              | 941                     | 843              | 756             | 672             | 621                  | 555             | 476             | 427             | 3'              |
| (G) Po  | ostal deficit                                          | <b>590</b>       | 490              | 406                     | -                | 200             | 86              | 209                  | 186             | 260             | 170             | 10              |
| (H) No  | on plan expenditure of UTs                             | (0 3)<br>633     | (0 2)<br>633     | (0 2)<br>599            | (0 2)<br>573     | (0 1)<br>1257   | (0 1)<br>1299   | (0 2)<br>1174        | (0 2)<br>986    | (0 3)<br>865    | (0 2)<br>725    | (0<br>4         |
|         | thout legislatures                                     | (0 3)            | (0 3)            | (0 3)                   | (0 4)            | (0 9)           | (11)            | (1.1)                | (0 9)           | (0.9)           | (0 9)           | (0              |
| (l) G1  | rants to states and UTs                                | 6368             | 6240             | 5972                    |                  | 2398            | 2645            | 3921                 | 3982            | 2143            | 2186            | 171             |
| (I) G   | rants to foreign governments                           | (3 I)<br>319     | (3 I)<br>319     | (3 3)<br>274            | (1 4)<br>149     | (1 7)<br>155    | (2 2)<br>132    | (3 <b>5</b> )<br>147 | (3 8)<br>139    | (2 3)<br>120    | (2 8)<br>124    | (2<br>1         |
| (3) (3  | imits to totalen baverimikans                          | (0 2)            | (02)             | (01)                    | (01)             | (01)            | (01)            | (01)                 | (0.1)           | (01)            | (02)            | (0              |
|         | oans and advances to                                   | 11101            | 12991            | 10517                   | 9753             | 4985            | 4728            | 5532                 | 7606            | 5793            | 4293            | 31              |
|         | ates and UTs<br>ther loans                             | (5 4)<br>1612    | (6 4)<br>1177    | (5 7)<br>1492           |                  | (3 5)<br>1515   | (3 9)<br>1008   | (5 0)<br>2009        | (7 2)<br>2881   | (6 2)<br>2036   | (5 4)<br>1107   | (4<br>9(        |
| (L) O   | uici iomis                                             | (0.8)            | (06)             | (0.8)                   |                  | (1.1)           | (0.8)           | (18)                 | (27)            | (2 2)           | (14)            | (i              |
| (M)N    | on plan capital expenditure                            | -5               | 5                | 1198                    |                  | 1206            | 1785            | 782                  | 947             | 1091            | 788             | 60              |
| Memo    | . item                                                 | (-neg)           | (-neg)           | (07)                    | (1 2)            | (0 9)           | (1 5)           | (0 7)                | (0 9)           | (1 2)           | (10)            | (1              |
|         | ce pension (Revised Estimate                           | es) 3300         | 3300             | 3197                    | 2721             | 2531            | 2343            | 1840                 | 1670            | 1600            | 1597            | 12              |
|         | lan outlay                                             | 54685            | 50521            | 48684                   | 47378            | 43662           | 36660           | 30961                | 28365           | 27520           | 26151           | 242             |
| (A) D.  | udget support for central plar                         | (26 7)<br>32713  | (25 0)<br>31015  | (26 6)<br><b>2883</b> 0 |                  | (30 8)<br>23685 | (29 9)<br>19777 | (27 8)<br>17096      | (26 9)<br>17496 |                 | (33 I)<br>16333 | (35<br>144      |
| (A) D   | noger support for central plan                         | (160)            | (15 4)           | (15 8)                  |                  | (167)           | (16 1)          | (15 3)               | (16 6)          |                 |                 | (21             |
| (1      | ) Economic services                                    | 20690            | 19050            | 19157                   |                  | 17892           | 15412           | 13122                | 13859           |                 | 13073           | 117             |
|         | (a) Association and                                    | (10 1)           | (9 4)            | (10 5)                  | (12 1)           | (12 6)          | (12 6)          | (118)                | (13 2)          | (15 9)          | (16 5)          | (17             |
|         | (a) Agriculture and allied activities                  | 2777             | 2806             | 2655                    | 2697             | 2005            | 1897            | 1634                 | 1184            | 1291            | 1275            | 11              |
|         | (b) Rural development                                  | 5394             | 5394             | 6095                    | 5380             | 4676            | 3208            | 2279                 | 2672            | 2766            | 1753            | 18              |
|         | (c) Irrigation and flood                               | 1040             | 240              | 249                     | 222              | 143             | 75              | 210                  | 161             | 46              | 209             | 1               |
|         | control (d) Energy                                     | 1248<br>3302     | 348<br>3310      |                         |                  | 4308            | 3143            |                      | 3646            |                 |                 | 29              |
|         | (e) Industry and manerals                              |                  | 2496             | 2780                    | 2785             | 3371            | 2601            | <b>_368</b>          | 2372            |                 |                 | 30              |
|         | (f) Transport                                          | 2618             | 2418             | 2088                    |                  | 1742            | 3216            |                      | 2313            |                 |                 | 20              |
|         | (g) Communication (h) Science technology               | 90               | 90               | 90                      | 93               | 356             | 80              | 72                   | 335             | 144             | 194             | 1               |
|         | and environment                                        | 1686             | 1655             |                         |                  | 953             | 838             |                      | 706             |                 |                 | 4               |
|         | (1) General economic ser                               |                  | 533              | 496                     |                  | 338             | 354             |                      | 470             |                 |                 | 26              |
| (2      | 2) Social services                                     | 11742<br>(5 7)   | 11753            | 9475<br>(5 2)           |                  |                 | 4294<br>(3 5)   |                      | 3597<br>(3 4)   |                 |                 | 26<br>(3        |
|         | (a) Education, arts and ci                             | , ,              | (5 8)<br>3598    | 2732                    |                  |                 | (3 5)<br>1104   |                      | 965             |                 |                 | 6               |
|         | (b) Health and family we                               |                  | 2349             |                         |                  |                 | 1419            |                      | 1037            |                 |                 | 7               |
|         | (c) Water supply sanitation                            |                  |                  |                         |                  |                 |                 |                      |                 |                 |                 |                 |
|         | housing and urban<br>development                       | 2827             | 2868             | 2147                    | 1214             | 1143            | 684             | 845                  | 718             | 511             | 456             | 2               |
|         | ac serobinent                                          | 2021             | 4008             | 617/                    | 1214             | 1143            | U04             | U                    | / 10            | , ,,,           | U. F            | 4               |

Table 3: Central Government's Expenditure (Continued)

|                                       | 1996-97<br>Budget |             |        | 1994-95<br>Actuals | 1993-94<br>Actuals | 1992-93<br>Actuals | 1991-92<br>Actuals | 1990-91<br>Actuals                    | 1989-90<br>Actuals | 1988-89<br>Actuals | 1987-88<br>Actuals |
|---------------------------------------|-------------------|-------------|--------|--------------------|--------------------|--------------------|--------------------|---------------------------------------|--------------------|--------------------|--------------------|
|                                       | (July) (          | February)   |        |                    |                    |                    |                    |                                       |                    |                    |                    |
| (d) Information and                   |                   | <del></del> |        |                    |                    |                    |                    | · · · · · · · · · · · · · · · · · · · |                    |                    |                    |
| broadcasting                          | 101               | 101         | 99     | 55                 | 45                 | 25                 | 112                | 154                                   | 266                | 225                | 198                |
| (e) Welfare of SC/STs and C           | BCs811            | 811         | 814    | 697                | 560                | 485                | 414                | 344                                   | 345                | 299                | 234                |
| (f) Labour and labour welf            | are 188           | 183         | 79     | 95                 | 44                 | 34                 | 69                 | 20                                    | 27                 | 20                 | 15                 |
| (g) Social welfare and nutr           | ition I 863       | 1843        | 1449   | 1458               | 624                | 543                | 413                | 359                                   | 303                | 267                | 504                |
| (3) General services                  | 281               | 212         | 198    | 156                | 145                | 71                 | 27                 | 40                                    | 47                 | 58                 | 69                 |
|                                       | (0.1)             | (01)        | (0.1)  | (0.1)              | (0.1)              | (0.1)              | (neg)              | (neg)                                 | (0.1)              | (0.1)              | (0.1)              |
| (B) Central assistance to state plans | 21220             | 18726       | 19071  | 20210              | 19021              | 15664              | 12708              | 9949                                  | 8719               | 9082               | 8923               |
| •                                     | (10.4)            | 9.3)        | (10.4) | (12.6)             | (13.4)             | (12.8)             | (11.4)             | (9.4)                                 | (9.4)              | (11.5)             | (13.1)             |
| (C) Central assistance to UTs         | 752               | 780         | 783    | 493                | 956                | 1220               | 1157               | 920                                   | 752                | 736                | 828                |
|                                       | (0.4)             | (04)        | (0 4)  | (0.3)              | (0.7)              | (1.0)              | (1.0)              | (0.9)                                 | (0.8)              | (0.9)              | (1.2)              |
| Aggregate Expenditure (I + II)        | 204698            | 202024      | 183004 | 160739             | 141853             | 122618             | 111414             | 105298                                | 92908              | 79111              | 68261              |
|                                       |                   |             |        |                    |                    |                    |                    |                                       |                    |                    |                    |

Notes: Figures in brackets are percentages to aggregate expenditure, Subsidies include debt relief to farmers of Rs 341 crorc in 1994-95, Rs 500 crore in 1993-94, Rs 1500 crore in 1992-93, Rs 1425 crore in 1991-92 and Rs 1502 crore in 1990-91.

**Table 4: Revenue from Custom Duties** 

(Rs crore)

|      |       |                                       |          |           |         |          |         |          |         |          |         | (Rs crore) |
|------|-------|---------------------------------------|----------|-----------|---------|----------|---------|----------|---------|----------|---------|------------|
|      |       | 1                                     | 996-97   | 1996-97   | 1995-96 | 1994-95  | 1993-94 | 1992-93  | 1991-92 | 1990-91  | 1989-90 | 1988-89    |
|      |       |                                       | (July) ( | February) |         |          |         |          |         |          | _       |            |
| Cwae |       | tom duties (A+B+C+D)                  | 45039    | 45039     | 36724   | 27681    | 23117   | 24599    | 22881   | 21226    | 18562   | 16234      |
|      |       | nd duty drawbacks                     | 1550     | 1550      | 1372    | 998      | 878     | 882      | 804     | 658      | 654     | 479        |
|      |       | m duties                              | 43485    | 43485     | 35352   | 26683    | 22339   | 23717    | 22077   | 20568    | 17908   | 15755      |
|      |       | ort duties                            | 44323    | 44323     | 36066   | 27145    | 22655   | 24136    | 21839   | 20962    | 18326   | 16019      |
| (4)  | ımpı  |                                       | (42778)  | (42778)   | (34702) | (26155)  |         |          | (21047) |          |         | (15546)    |
|      | Ot wi |                                       | 42//0/   | (42770)   | (, 02)  | (201.55) | (2.704) | (2.7201) | (21047) | (20.500) | (17075) | (1.5540)   |
|      | •     | Fruits (dried and fresh)              | 214      | 214       | 190     | 192      | 139     | 107      | 92      | 93       | 80      | 77         |
|      |       | Animal or vegetable oils and fats     |          |           |         |          |         | •••      | . –     | -        | **      |            |
|      | ,     | and their cleavage products, prepared |          |           |         |          |         |          |         |          |         |            |
|      |       | edible fats, animal or veg waxes      | 985      | 985       | 816     | 276      | 128     | 101      | 148     | 429      | 249     | 626        |
|      | (3)   | Mineral substance                     | 198      | 198       | 172     | 133      | 170     | 215      | 216     | 206      | 153     | 120        |
|      |       | Petroleum oils and oils obtained from |          |           |         |          |         |          |         |          |         |            |
|      | , .,  | bituminous minerals and crude         | 4197     | 4197      | 3660    | 3464     | 4549    | 4053     | 3344    | 3145     | 2149    | 1917       |
|      | (5)   | Petroleum oils and oils obtained from |          |           |         | -        |         |          | •       |          |         |            |
|      |       | bituminous minerals other than crude  | 5142     | 5142      | 4219    | 2302     | 1988    | 1227     | 731     | 555      | 282     | 396        |
|      | (6)   | Organic and inorganic chemicals and   |          |           |         |          |         |          |         |          |         |            |
|      | ,     | pharmaceuticals                       | 3667     | 3667      | 3040    | 2392     | 1804    | 1977     | 1916    | 1742     | 1613    | 1408       |
|      | (7)   | Dyes, colours, paints and varnishes   | 268      | 268       | 232     | 165      | 140     | 174      | 155     | 164      | 131     | 100        |
|      |       | Photographic and cinematographic good | s 374    | 374       | 339     | 333      | 302     | 335      | 286     | 241      | 182     | 155        |
|      |       | Plastic and articles thereof          | 1944     | 1944      | 1482    | 1138     | 876     | 1516     | 1782    | 1332     | 997     | 869        |
|      | (10)  | Rubber and articles thereof           | 581      | 581       | 461     | 320      | 324     | 378      | 321     | 290      | 210     | 174        |
|      | άĎ    | Manmade filaments and staple fibres   | 488      | 488       | 396     | 196      | 99      | 84       | 127     | 396      | 328     | 219        |
|      |       | Primary materials of iron and steel   | 484      | 484       | 384     | 381      | 252     | 509      | 392     | 538      | 433     | 271        |
|      |       | Iron and non-alloy steel              | 1380     | 1380      | 1197    | 924      | 612     | 876      | 864     | 808      | 754     | 776        |
|      | •     | Stainless steel -                     | 187      | 187       | 162     | 146      | 105     | 102      | 149     | 136      | 156     | 131        |
|      |       | Other alloy steel, hollow drill,      |          |           |         |          |         |          |         |          |         |            |
|      |       | bars and rods                         | 395      | 395       | 314     | 237      | 207     | 387      | 341     | 299      | 264     | 201        |
|      | (16)  | Articles of iron and steel            | 567      | 567       | 450     | 291      | 325     | 386      | 488     | 364      | 318     | 283        |
|      |       | Copper                                | 1331     | 1331      | 1165    | 931      | 741     | 693      | 530     | 505      | 439     | 431        |
|      |       | Machinery excl machine tools and      |          |           |         |          |         |          |         |          |         |            |
|      |       | ball or roller bearings               | 4335     | 4335      | 3313    | 2385     | 1971    | 2214     | 1835    | 1945     | 1541    | 1065       |
|      | (19)  | Machine tools (parts and accessories) | 759      | 759       | 629     | 561      | 241     | 202      | 225     | 209      | 164     | 135        |
|      |       | Ball or roller bearings               | 395      | 395       | 327     | 473      | 217     | 256      | 232     | 232      | 144     | 141        |
|      | (21)  | Electrical machinery                  | 3633     | 3633      | 2785    | 2116     | 1328    | 1859     | 1654    | 1589     | 1733    | 1348       |
|      | (22)  | Motor vehicles and parts thereof      | 1394     | 1394      | 1035    | 697      | 450     | 300      | 294     | 352      | 297     | 265        |
|      | (23)  | Instruments (optical, surgical, etc)  | 736      | 736       | 610     | 454      | 447     | 473      | 315     | 381      | 317     | 193        |
|      | (24)  | Project imports                       | 2721     | 2721      | 2331    | 1837     | 1242    | 1360     | 1874    | 1291     | 960     | 1154       |
|      | (25)  | Baggage                               | 969      | 969       | 840     | 761      | 659     | 664      | 487     | 619      | 586     | 453        |
| (B)  | Exp   | ort duties                            | 2        | 2         | 2       | 54       | 41      | 130      | 16      | . 1      | 6       | 26         |
|      | -     |                                       | (1)      | (1,       | (1)     | (53)     | (40)    | (129)    | (16)    | (1)      | (5)     | (23)       |
| (C)  | Cess  | on exports                            | 126      | 126       | 108     | 85       | 66      |          | 47      |          | 32      | 30         |
|      |       |                                       | (123)    | (123)     | (106)   | (84)     | (66)    | (54)     | (46)    | (35)     | (32)    | (30)       |
|      | (1)   | Coffee                                | 6        | 6         | 5       | 3        |         | -        | •       | _        | 3       | 3          |
|      | (2)   | Tobacco unmanufactured                | 2        | 2         | 2       | i        | _       |          |         |          | 1       | 1          |
|      | (3)   | Marine products                       | 21       | 21        | 17      | 17       |         |          | 9       |          | -       | 4          |
|      |       | Iron ore                              | 12       | 12        | 11      | 17       | _       | _        | -       | _        | _       | 2          |
| (D)  |       | er receipt incl sale of gold and      | 588      | 588       | 548     | •        |         |          |         |          |         | 159        |
|      | silve | er confiscated                        | (584)    | (584)     | (544)   | (390)    | (351)   | (274)    | (969)   | (224)    | (196)   | (156)      |

Notes. Figures in brackets are net of refunds and duty drawbacks. Due to rounding off, totals may not tally

Table 5: Revenue from Union Excise Duties

|                       |                                                                       |                             |                                 |                    |                    |                    |                    |                                         |                    |                    | (Rs crose)         |
|-----------------------|-----------------------------------------------------------------------|-----------------------------|---------------------------------|--------------------|--------------------|--------------------|--------------------|-----------------------------------------|--------------------|--------------------|--------------------|
|                       |                                                                       | 1996 97<br>Budget<br>(July) | 1996-97<br>Budget<br>(February) | 1995 96<br>Revised | 1994-95<br>Actuals | 1993 94<br>Actuals | 1992 93<br>Actuals | 1991 92<br>Actuals                      | 1990 91<br>Actuals | 1989 90<br>Actuals | 1988 89<br>Actuals |
|                       | excise duties                                                         | 47424                       | 47424                           | 43930              | 38557              | 32696              | 31362              | 28585                                   | 24881              | 22670              | 19122              |
|                       | nd drawbacks                                                          | 1300                        | 1300                            | 1230               | 942                | 824                | 710                | 465                                     | 4 10               | 380                | 296                |
| Net union ex          |                                                                       | 46124                       | 46124                           | 41000              | 37615              | 31872              | 30652              | 28120                                   | 24451              | 22290              | 18825              |
| (A) Basic ex          | cise duties                                                           | 40639                       | 406 19                          | 35860              | 32269              | 27193              | 26412              | 23557                                   | 20036              | 17719              | 15308              |
| Ot which              | 4                                                                     | (39339)                     | (39339)                         | (34630)            | (31328)            | (26368)            | (25702)            | (23092)                                 | (19606)            | (17339)            | (15012)            |
| •                     | a incl tea waste                                                      |                             |                                 |                    |                    |                    | 68                 | 75                                      | 76                 | 79                 | 77                 |
|                       | getable fats and oils partly or                                       |                             |                                 |                    |                    |                    | UII                | ,,                                      | 70                 | 17                 | ''                 |
|                       | olly hydrogenated                                                     | 12                          | 12                              | 11                 | 11                 | 16                 | 45                 | 49                                      | 50                 | 103                | 100                |
|                       | ne or beet sugar and chemically                                       |                             |                                 |                    |                    |                    | •                  | • • • • • • • • • • • • • • • • • • • • |                    | • • •              |                    |
|                       | re sucrose in solid form                                              | 356                         | 356                             | 343                | 290                | 338                | 311                | 284                                     | 216                | 200                | 185                |
| (4) Mo                | plasses resulting from extraction                                     |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | refining of Sugar                                                     | 74                          | 71                              | 67                 | 96                 | 81                 | 90                 | 75                                      | 58                 | 52                 | 26                 |
| (5) To                | bacco manufactures                                                    | 28J6                        | 2806                            | 2668               | 2034               | 2116               | 2134               | 1842                                    | 1602               | 1506               | 1291               |
| •                     | ment clinkers cement of all sorts                                     | 2460                        | 2460                            | 2242               | 2017               | 1887               | 1769               | 1281                                    | 1086               | 951                | 898                |
|                       | otor spirit                                                           | 1663                        | 1663                            | 1643               | 1524               | 1359               | 1287               | 1245                                    | 1202               | 1201               | 1034               |
| (8) R I               |                                                                       | 1395                        | 1 195                           | ı 386              | 1181               | 795                | 743                | 703                                     | 693                | 731                | 683                |
| (9) Ke                |                                                                       | 414                         | 414                             | 405                | 306                | 247                | 239                | 246                                     | 255                | 268                | 241                |
|                       | ustic soda and potash                                                 |                             |                                 |                    |                    |                    |                    |                                         |                    | <b>.</b> .         |                    |
| •                     | eroxides                                                              | 312                         |                                 | 264                | 186                | 119                | 117                | 111                                     | 118                | 95                 | 71                 |
| (11) So               |                                                                       | 260                         | 260                             | 217                | 182                | 131                | 125                | 98                                      | 79                 | 69                 | 63                 |
|                       | ganic chemicals<br>armaceuticals                                      | 1385<br>842                 | 1385<br>842                     | 1235               | 1010<br>659        | 653<br>551         | 714<br>527         | 633                                     | 437<br>252         | 288                | 246                |
|                       | innaceuticals<br>ints and varnishes                                   | 220                         | 220                             | 706<br>198         | 283                | 289                | 294                | 426<br>239                              | 353<br>187         | 311<br>138         | 292<br>119         |
|                       | sential oils resinoids perfumery                                      | 220                         | 220                             | 170                | 201                | 207                | 274                | 2 17                                    | 107                | חי ו               | 114                |
|                       | smetics or toilet preparations                                        | 322                         | 322                             | 265                | 314                | 264                | 295                | 263                                     | 226                | 188                | 167                |
| (16) So               | • •                                                                   | 379                         | 379                             | 318                | 311                | 254                | 216                | 186                                     | 152                | 118                | 111                |
|                       | ganic surface active agents                                           | 281                         | 281                             | 242                | 206                | 285                | 255                | 164                                     | 129                | 112                | 95                 |
|                       | istic and articles thereof                                            | 1701                        | 1704                            | 1477               | 1405               | 1417               | 1221               | 792                                     |                    | 441                | 359                |
|                       | res tubes and flaps                                                   | 1520                        | 1520                            | 1319               | 1305               | 1051               | 837                | 811                                     | , 803              | 629                | 676                |
|                       | per and paper board, articles of                                      |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
| pa                    | per pulp or paper or paper board                                      | 812                         | 842                             | 697                | 582                | 488                | 430                | 388                                     | 340                | 313                | 250                |
| (21) Co               | otton and cotton yarn                                                 | 531                         | 531                             | 506                | 487                | 331                | 295                | 191                                     | 185                | 129                | 118                |
| (22) Sy               | nthetic filament yarr and sewing                                      |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | ead ctc                                                               | 1464                        | 1464                            | 1331               | 1523               | 1541               | 1503               | 1630                                    | 1401               | 1049               | 924                |
|                       | tificial or synthetic staple fibres and                               |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | w including waste                                                     | 522                         |                                 | 487                | 367                | 376                | 298                | 256                                     |                    | 227                | 221                |
|                       | on and steel and articles                                             | 5236                        |                                 | 4549               | 3516               | 2359               | 2009               | 1431                                    | 1181               | 1070               | 829                |
|                       | urninium and articles                                                 | 449                         |                                 | 400                | 541                | 538                | 615                | 653                                     |                    |                    | 271                |
|                       | efrigerators and air conditioners                                     | 468                         |                                 | 381<br>53          | 30ն<br>48          | 264<br>36          | 261<br>60          | 271<br>88                               | 196<br>61          | 180<br>32          | 153<br>24          |
|                       | achinery tools<br>ill or roller bearings                              | 65<br>211                   |                                 | 175                | 195                | 173                | 186                | 184                                     |                    |                    | 64                 |
| 1                     | •                                                                     |                             | 211                             | 177                | 171                | 173                | 1 00               | 104                                     | 1 17               | 111                | U-7                |
|                       | eception apparatus radio bioadcasters<br>evision receivers incl video | )                           |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | onitors and projectors                                                | 280                         | 280                             | 216                | 166                | 194                | 189                | 232                                     | 264                | 216                | 139                |
|                       | sulated with sables electrical                                        | 200                         | •                               |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | nductors                                                              | 538                         | 538                             | 461                | 481                | 404                | 421                | 271                                     | 205                | 202                | 188                |
| (31) Tr               | actors                                                                | 35                          |                                 | 30                 | 52                 | 22                 | 79                 | 82                                      | 59                 | 46                 | 43                 |
| (32) M                | otor cars and other motor vehicles                                    |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
| for                   | r transport of persons                                                | 1856                        | 1856                            | 1429               | 918                | 597                | 711                | <i>1</i> 79                             | 608                | 391                | 291                |
| (33) In               | struments (optical photographic                                       |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | rgical)                                                               | 133                         |                                 | 111                | 105                |                    |                    | 91                                      |                    |                    | 59                 |
|                       | nal duties on textiles and products                                   | 440                         |                                 | 403                | 526                |                    |                    |                                         |                    |                    | 189                |
|                       | nal duties in lieu of sales tax                                       | 2985                        | 2985                            | 2812               | 2794               | 2438               | 2177               | 1868                                    | 1490               | 1475               | 1276               |
| Of whice              |                                                                       |                             |                                 |                    |                    |                    |                    |                                         |                    |                    |                    |
|                       | ine or beet sugar and chemically                                      |                             | ***                             | .00                | 200                | 3/1                | 120                | 214                                     | 244                | 220                | 226                |
| •                     | re sucrose in solid form                                              | 198                         |                                 | 183                | 327                |                    |                    |                                         |                    |                    |                    |
|                       | obacco manufactures                                                   | 1251                        |                                 | 1190               |                    |                    |                    |                                         |                    |                    |                    |
| , ,                   | extile products                                                       | 1322                        |                                 | 1226<br>3154       | 1 390<br>2968      |                    |                    |                                         |                    |                    |                    |
| (D) Cess on<br>(1) Su | commodities                                                           | 3361<br>176                 |                                 | 170                | 2908<br>141        |                    |                    |                                         |                    |                    |                    |
|                       | igar<br>digenous crude oil                                            | 2806                        |                                 | 3222               |                    |                    |                    |                                         |                    |                    |                    |
|                       | oal and coke                                                          | 100                         |                                 | 97                 |                    |                    |                    |                                         |                    |                    |                    |
|                       |                                                                       | 100                         | . ,,,,,                         | ,,                 | 07                 | / /                | 4                  |                                         |                    |                    |                    |

Notes As in Table 4

Table 6: Resources Transferred to State and Union Territory Governments

|          |                                       |                   |                   |               |               |               | The second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second second secon |               |                   |               |                                         |               |
|----------|---------------------------------------|-------------------|-------------------|---------------|---------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------|---------------|-----------------------------------------|---------------|
|          |                                       | 1996 97<br>Budget | 1996 97<br>Budget | 1995-96<br>RE | 1994-95<br>RE | 1993 94<br>RE | 1992 93<br>RE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 1991-92<br>RE | 1990-91<br>RE     | 1989-90<br>RE | 1988-89<br>RE                           | 1987-88<br>RE |
|          |                                       | (Amr)             | (recordingly)     |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
| 3        | (1) States' share of taxes and duties | 34835             | 34027             | 29266         | 24843         | 22244         | 20525                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 17199         | 14535             | 13232         | 10669                                   | 9886          |
| 3        | Income tax                            | 13024             | 12600             | 11288         | 8560          | 1771          | 0909                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 2106          | 4121              | 3922          | 2749                                    | 2589          |
|          | I non excise dubes                    | 21811             | 21427             | 17978         | 16283         | 14473         | 14465                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 12093         | 10414             | 9310          | 7919                                    | 7003          |
| (2)      | Share of small savings etc            | 11000             | 12900             | 10112         | 9649          | 2000          | 4400                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 2200          | 6770              | 2000          | 4100                                    | 3200          |
|          | (3) Non Plan grants and loans         | 999               | 6468              | 6550          | 2634          | 2311          | 3730                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 3244          | 3749              | 2504          | 2518                                    | 2056          |
| }        | Grants*                               | 6503              | 6376              | 6145          | 2544          | 3302          | 3262                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 3265          | 3164              | 7443          | 2424                                    | 1984          |
|          | Loans**                               | 101               | 92                | 405           | 8             | <b>o</b>      | 468                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | -21           | 585               | 9             | 8                                       | 12            |
| €        | Central assistance for state          |                   | •                 |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
|          | and UT Plans**                        | 66661             | 17566             | 17910         | 19770         | 19550         | 15598                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 13732         | 10909             | 9016          | <u> </u>                                | <b>2</b>      |
|          | Grants                                | 9701              | 8544              | 8981          | 11027         | 10295         | 8332                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 7215          | 4965              | 3635          | 3745                                    | 3617          |
|          | Loans                                 | 10298             | 9022              | 8929          | 8743          | 9255          | 7266                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 6517          | 5944              | 5381          | 2766                                    | 5224          |
| છ        | Assistance for central and            |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
|          | centrally sponsored schemes           | 8256              | 7682              | 7033          | 7123          | 8088          | 1669                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 5888          | 5185              | 2971          | 4156                                    | 3781          |
| J        | Grants                                | 7219              | 7545              | 6862          | 16951         | 7918          | 6824                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | \$599         | 50 <del>4</del> 4 | 2796          | 3953                                    | 3529          |
|          | Loans                                 | 1037              | 117               | 171           | 172           | 180           | 191                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 289           | 141               | 175           | 203                                     | 22            |
| 6        | Total grants and loans (2+3+4+5)      | 45859             | 44616             | 41605         | 39176         | 35959         | 30719                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 28364         | 26613             | 20391         | 19785                                   | 17878         |
|          | Grants                                | 23423             | 22465             | 21988         | 20522         | 21515         | 18418                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 16079         | 13173             | 8874          | 10122                                   | 9130          |
| _        | Loans                                 | 22436             | 22151             | 1961          | 18654         | 1444          | 12301                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 12285         | 13440             | 11517         | 9663                                    | 8748          |
| 7 (2)    | Less—recovery of loans                |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               | ;                                       |               |
|          | and advances                          | 2360              | 5532              | 5350          | 4354          | 4076          | 3381                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 3167          | 3816              | 3002          | 2969                                    | 2606          |
| 2 2      | Net resources transferred to state    |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 70001         |                   | ,000          | 30710                                   | 46976         |
|          | and UT governments (1+6-7)            | 75334             | 73111             | 65521         | 29663         | 2412/         | 4/803                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 423%          | 3/332             | 17005         | 2000                                    | 27047         |
| <u>0</u> | Centre's receipt of interest          | 15113             | 15974             | 13131         | 1183          | 9558          | 7843                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 6563          | 5174              | 424           | 9//5                                    |               |
|          | from the Mate and UTs                 |                   |                   |               | €             | €             | €                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | €             | €                 | 3             | 3                                       | 3             |
| 600      | Net resources transfers               |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
|          | excluding interest payments           | •                 |                   |               |               | *             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   | 201,70        | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, | 6.2.0         |
|          | by strates and UTs (8-9)              | 60221             | 57137             | 22390         | 48482         | 44574         | 40020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 32831         | 35138             | 16197         | 61/67                                   | 21/17         |
| 3        | Provision for rural electrification   |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
|          | corporation and north-eastern         |                   |                   |               |               |               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                   |               |                                         |               |
|          | council and UTs without               |                   |                   | •             |               | •             | ****                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 900           | 1463              | 7661          | 7011                                    | 6761          |
|          | legislatures (addition to 4 above)    | 1973              | 1940              | <u> </u>      | 1057          | 404           | 14/1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 6701          | 1433              | 0771          | \$11                                    | 3             |
| [[2]     | Total assistance to state             | 71077             | 10505             | 10864         | 20877         | 21014         | 17330                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 15261         | 13262             | 10242         | 56101                                   | 0881          |
|          |                                       | 71617             | 3                 | +0001         | 1957          | 1217          | 200                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 1000          |                   |               |                                         |               |

Notes in the absence of actuals under all of the above heads of resource transfers revised estimates as contained in the centre's Budget at a Glance for all the years are presented in this table except for interest payments in item 9 for which accounts data for 1987-88 to 1994-95 are available in the budget documents

States' share of taxes and duties in item 1 includes estate duties of Rs 1 crore in 1988-89 and Rs 6 crore in 1987-88 \* Inclusive of subsidies \*\* Net of recovery of short-term loans and advances RE = Revised Estimates

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Table 7: Estimated Strength of Central Government Establishments and Provision Therefor

(Strength in numbers and pay and allowances in rupees crore)

|                                                 | 1004 07     | 20                   | 1001        | y                                                                                | 1001.05     | 90                    | 1003.04  | 7.04                   | 1997-93               | 8                     | 1001.00               | 9                     | 1000                 | ١                                              |
|-------------------------------------------------|-------------|----------------------|-------------|----------------------------------------------------------------------------------|-------------|-----------------------|----------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|------------------------------------------------|
| i                                               | Strength    | Pay and              | Stren       | Pay and<br>Allowances                                                            | Strength    | Pay and<br>Allowances | Strength | Pay and<br>Allow ances | Strenngth<br>1 3 1993 | Pay and<br>Allowances | Strength<br>1 3 1992  | Pay and<br>Allowances | Strength<br>1 3 1991 | Pay and<br>Allowance                           |
| Ministries/Departments                          |             | BE                   |             | RE                                                                               |             | RE                    |          | æ                      |                       | RE                    |                       | 2                     |                      | <b>5</b>                                       |
| Agnoulture<br>Dural devalorment                 | 11738       | 64 25                | 11753       | 58 18                                                                            | 11615       | 49 67                 | 11977    | 45 30                  | 12355                 | 40 81<br>8 82         | 12809                 | 37 10<br>8 23         | 12509                | 27.75<br>7.81                                  |
| Chemicals and petrochemicals                    | 121         | 22 16                | 121         | 8                                                                                | 298         | 89                    | 327      | 101                    | 211                   | 0 98                  | 207                   | 0 95                  | 205                  | 0 80                                           |
| Fertilisers<br>Derroleum and natural cas        | 381         | 2 54                 | 381         | 2 42<br>2 52                                                                     | 3.59<br>797 | 2 05<br>1 85          |          | 25                     | 381                   | 88<br>                | 332<br>322            | <br>8 <del>4</del>    | 2 £                  | 22                                             |
| Civil aviation                                  | 162         | 131                  | 28          | 10 62                                                                            | 1427        | 8 47                  | 1312     | 45                     | 1540                  | 8 05                  | 1513                  | 737                   | 1514                 | 10 97                                          |
| Tourism                                         | 682         | 883                  | 682         | 843                                                                              | 683         | 6.50                  | 929      | 5 66                   | 889                   | <b>%</b> 6            | 6<br>6<br>6<br>6<br>6 | 4 °<br>2 9            | 724                  | 4.74<br>4.04                                   |
| Civil supplies, etc<br>Front                    | 986         | 12 29                | 65)<br>1927 | 2 62<br>1 08<br>1 08                                                             | 1917        | 8 62                  | 920      | 8 45<br>8 45           | 2546                  | 1037                  | 2501                  | 24                    | 2501                 | 60<br>63<br>7<br>63<br>7                       |
| Food processing industries                      | 987         | 621                  | 987         | 6 14                                                                             | 731         | 4 52                  | 1076     | 4 21                   | 1070                  | 200                   | 947                   | 4 31                  | 247                  | 3.58                                           |
| Commerce                                        | 9803        | 77 61                | 9843        | 82.76                                                                            | 10149       | 68 63                 | 035000   | 63 27                  | 950735                | 50 22                 | 048760                | 48 92<br>7 192 94     | 2,775<br>2,775       | 1040 7                                         |
| Communication<br>Defence (Civil)                | 41400       | 245 65               | 38390       | 217 56                                                                           | 38154       | .86 94<br>186 94      | 37899    | 176 63                 | 38680                 | 159 86                | 39983                 | 140 47                | 39003                | 137 87                                         |
| Environment and forest                          | 5493        | 35 15                | 5525        | 30 38                                                                            | 2466        | 24 01                 | 5460     | 21 86                  | 2484                  | 27 42                 | 5439                  | 1933                  | 6903                 | <b>7</b> 5 7 5 7 5 7 5 7 5 7 5 7 5 7 5 7 5 7 5 |
| External affairs<br>Finance                     | 7500        | 302 08               | 237106      | 253 63                                                                           | 15/4        | 273                   | 212880   | 1026 14                | 229331                | 856 81                | 225838                | 743 02                | 222097               | 672.86                                         |
| Health and family welfare                       | 29231       | 181 26               | 26104       | 16475                                                                            | 29198       | 141 39                | 10952    | 118 78                 | 29106                 | 128 71                | 41455                 | 108 76                | 41122                | 98 45                                          |
| Home affairs and police                         | 615942      | 2667 44              | 548259      | 2321 84                                                                          | 538180      | 1936 92               | 529834   | 1789 51                | 543318                | 161291                | 579028                | 1354 03               | 14796                | 1217 67                                        |
| ruman resource development<br>Industry          | 7835        | 43 95                | 7822        | 1070                                                                             | 6527        | 346                   | 7562     | 36 71                  | 8412                  | 33.45                 | 8528                  | 32 39                 | 8814                 | 38<br>38<br>38<br>38<br>38                     |
| Information and broadcasting                    | 64970       | 304 80               | 29050       | 288 24                                                                           | 54860       | 224 31                | 53167    | 228 37                 | 52444                 | 185 68                | 53910                 | <u>4</u> 8            | 52544                | 134 98                                         |
| Labour                                          | 4370        | 22.29                | 4748        | 24 63<br>24 63                                                                   | 3636        | 5 C                   | 3903     | \$ £                   | 6331                  | 4, 6,<br>26 76        | 2<br>2<br>2<br>2<br>3 | 24 14 5               | 2968                 | 21.79                                          |
| Coal                                            | 478         | 2.62                 | 4           | 2.55                                                                             | 4           | 88                    | 44       | 7 02                   | 465                   | 223                   | 4                     | 3                     | 474                  | 1 82                                           |
| Non-conventional energy sources                 | 497         | 4 i                  | 497         | 3.53                                                                             | 408         | 8.9                   | 442      | 252                    | 493                   | 279                   | 536                   | 2 35                  | 328                  | 282                                            |
| Power<br>Dodiemanno offers                      | 2682        | 2 80                 | 7897<br>163 | 1987                                                                             | 152         | 0 82                  | 154      | 0.78                   | 174                   | 690                   | 152                   | 190                   | 162                  | 20                                             |
| Personnel, public grevance pensions             | 8697        | . 5.<br>. 8.         | 80          | 51 01                                                                            | 8527        | 42 98                 | 8255     | 37.23                  | 8026                  | 34 87                 | 8018                  | 28 16                 | 8015                 | 26 12                                          |
| Planning                                        | 12130       | 84 18                | 12160       | 78 40                                                                            | 10818       | 26 35<br>7994 01      | 1706000  | 7337 16                | 1774000               | 65 95<br>5971 22      | 1764000               | 5487 24               | 1796000              | 497395                                         |
| Science and technology                          | 25297       | 141 34               | 25063       | 133 33                                                                           | 24038       | 1:733                 | 24257    | 107 54                 | 25257                 | 89 51                 | 24270                 | 73 12                 | 28233                | 70 62                                          |
| Steel                                           | 628         | 4 49                 | 628         | 4 21                                                                             | 628         | 315                   | 617      | 22.54                  | 90206                 | 3 11                  | 989                   | \$ \$<br>2 °S         | 2021                 | <b>7</b>                                       |
| Mines<br>Surface transport                      | 5491        | 37.58                | 5635        | 31 93                                                                            | 5393        | 30.8                  | 5545     | 26 21                  | 5435                  | 24 80                 | 5485                  | 21 92                 | 5457                 | 19 33                                          |
| Textiles                                        | 6500        | 38 12                | 6500        | 28 81                                                                            | 6500        | 24 99                 | 6119     | 18 72                  | 2200                  | 11 78                 | 2200                  | 4 5 5 5               | 2500                 | 10 48                                          |
| Urban development                               | 9960        | 215 65               | 1414        | 161<br>182<br>183<br>183<br>183<br>183<br>183<br>183<br>183<br>183<br>183<br>183 | 39910       | 02 27<br>05 27        | 39308    | 25.5                   | 17114                 | 63.78                 | 2097                  | 57 89<br>57 89        | 17319                | 53 93                                          |
| water resources<br>Welfare                      | 1219        | 9 8                  | 1226        | 7 82                                                                             | 1075        | 641                   | 1071     | 5.40                   | 101                   | 4 86                  | 1079                  | 4 80                  | 1179                 | 4 68                                           |
| Atomic energy                                   | 36318       | 254 70               | 35754       | 25825                                                                            | 32647       | 193 83                | 32863    | 174 72                 | 34926                 | 169 39                | 34635                 | 146 89<br>2 2 2       | 34162                | 36                                             |
| Electronic                                      | 1728        | 14 45<br>- 97        | 1823        | 8.4                                                                              | 8 g         | 2 S                   | 200      | 0 88                   | 220                   | 5 <del>.</del>        | 232                   | 77                    | 254                  | 32                                             |
| Space                                           | 16594       | 135 85               | 16594       | 131 50                                                                           | 16573       | 11 53                 | 16484    | 103 07                 | 18254                 | 94 37                 | 18024                 | 06 89                 | 17773                | <i>L</i> 9 <i>6</i> 9                          |
| Cabinet                                         | 1525        | 2761                 | 3175        |                                                                                  | 2927        | 21 06                 | 214      | 1 57                   | 318                   | 1 24                  | 310                   | 1 13                  | 310                  | 304                                            |
| President secretariat                           | 515<br>7001 | - 1 × 5              | 5101        | 9 29                                                                             | 555<br>557  | 1 20                  | 703      | . 4                    | 24.5<br>45.           | 3 55                  | 833                   | 317                   | 774                  | 2 83                                           |
| Kajya kaona seutralian<br>Lok sabha secretariat | 1825        | 11 68                | 1825        | =======================================                                          | 1768        | 91 01                 | 1891     | 9 32                   | 1643                  | 7 20                  | 1613                  | 6 12                  | 1613                 | 5.45                                           |
| Vice-president secretarial                      | 21          | 0.35                 | 51          | 0.29                                                                             | 518         | 0 17                  | 50       | 56                     | 42                    | 020                   | 1830                  | 020                   | 5 62                 | 017                                            |
| UPSC                                            | 1805        | 317 50               | 65.40       | 310 75                                                                           | 61374       | 26. 5<br>26. 5        | 61519    | 229 89                 | 59058                 | 765 58                | 197440                | 589 85                | 199934               | 538 17                                         |
| C. 15 Without legislatures Total                | 3930678     | 19811 37             | 3841209     | 18267 74                                                                         | 3782117     | 16549 14              | 3841896  | 15208 62               | 3974290               | 13462 05              | 4139256               | 11897 41              | 4081852              | 10743.54                                       |
| W.s. # 1007 Sames are actimates or              | nh as nee 1 | nee July 1006 hadges | lenet BE =  | Rudget Estr                                                                      | nates RE=   | Revised Est           | imates   |                        |                       |                       |                       |                       |                      |                                                |

Nue • 1997 figures are estimates only as per July 1996 budget. BE = Budget Estimates. RE = Revised Estimate.

Day and allowances include mayed extremeses also.

Table 8: Expenditures of Ministries and Departments of the Government of India

|         | man / Than and man and m | Eumanditum                | 1996 97          |         | 1996 97         | 1995-96       |           | 1994 95           | 1993-94       | 1992 93     | 1991-92 | 1990-91 |
|---------|--------------------------|---------------------------|------------------|---------|-----------------|---------------|-----------|-------------------|---------------|-------------|---------|---------|
| linistr | nes/Departments          | Expenditure<br>Categories | Budget<br>(July) |         | Budget<br>(Feb) | Revised       |           | Revised           | Revised       | Revised     | Revised | Revised |
|         |                          | 2                         | 3                |         | 4               | 5             |           | 6                 | 7             | 8           | 9       | 10      |
| Ag      | riculture and allied     | activities                |                  |         |                 |               |           | <del></del>       |               | <del></del> |         |         |
| 1       | Agriculture and          | Total                     | 3745 33          | (87 5)  | 2021 44         | 1997 47       | (30)      | 2373 35           | 2346 55       | 3221 94     | 2764 84 | 2321 45 |
|         | co operation             | Revenue                   | 3372 33          |         | 1650 23         | 1598 09       |           | 1975 03           | 2195 09       | 2852 80     | 2534 45 |         |
|         | •                        | Capital                   | 371 21           |         | 371 21          | 399 38        |           | <del>398 32</del> | 151 46        | 369 14      | 230 19  |         |
|         |                          | Plan                      | 1471 25          |         | 1471 25         | 1323 00       |           | 1457 22           | 1319 02       | 1272 90     | 1016 31 | 786 79  |
|         |                          | Revenue                   | 1100 30          |         | 1100 30         | 923 80        |           | 1059 13           | 1012 75       | 974 95      | 666 36  |         |
|         |                          | Capital                   | 370 95           |         | 370 95          | 399 90        |           | 398 09            | 306 27        | 297 95      | 349 95  |         |
|         |                          | Non plan                  | 2274 19          |         | 550 19          | 674 47        |           | 916 13            | 1027 53       | 1949 04     | 1748 33 | 1534 66 |
|         |                          | Revenue                   | 2273 93          |         | 549 93          | 674 29        |           | 915 90            | 1182 34       | 1877 85     | 1868 09 |         |
| M       | emo ilems                | Capital                   | 0 26             |         | 0 26            | 0 18          |           | 0 23              | 154 81        | 71 19       | -11976  |         |
|         | yment to manufacture     |                           | 2224 00          |         | 5 10 00         | 500 00        |           | 517 00            |               |             |         |         |
|         | encies for concession    |                           |                  |         |                 |               |           |                   |               |             |         |         |
|         | le of decontrolled       | _                         |                  |         |                 |               |           |                   |               |             |         |         |
|         | nulisers                 |                           |                  |         |                 |               |           |                   |               |             |         |         |
| 2       | Animal husbandry         | Total                     | 294 25           | (-161)  | 294 25          | 350 65        | $(29\ 2)$ | 340 55            | 372 94        | 246 49      | 175 06  | 97 27   |
| _       | and dairying             | Revenue                   | 183 15           | ,       | 183 15          | 199 34        | \/        | 163 43            | 199 68        | 129 14      | 100 08  |         |
|         |                          | Capital                   | 111 10           |         | 111 10          | 151 31        |           | 177 12            | 173 26        | 117 35      | 74 98   |         |
|         |                          | Plan                      | 259 92           |         | 259 92          | 296 00        |           | 331 40            | 345 34        | 205 33      | 129 35  | 84 80   |
|         |                          | Revenue                   | 148 82           |         | 148 82          | 144 69        |           | 154 28            | 172 03        | 87 98       | 54 37   | 07 00   |
|         |                          | Capital                   | 111 10           |         | 111 10          | 151 31        |           | 177 12            | 173 26        | 117 35      | 74 98   |         |
|         |                          | Non plan(R)               | 34 33            |         | 34 33           | 54 65         |           | 9 15              | 27 60         | 41 16       | 45 71   | 12 47   |
| 3       | Research and             | Total(R)                  | 533 38           | (-04)   | 533 38          | 535 73        | (10 9)    | 495 63            | 459 80        | 375 65      | 351 81  | 31971   |
| ,       | education                | Plan(R)                   | 289 30           | (~0 4)  | 789 30          | 290 00        | (ע טו)    | 274 99            | 250 00        | 184 00      | 180 51  | 154 34  |
|         | education                |                           |                  |         |                 | 245 73        |           |                   |               |             |         | 165 37  |
|         | Ford                     | Non plan(R)               | 244 08           | /4 D\   | 244 08          |               | (10.5)    | 220 64            | 209 80        | 191 65      | 171 30  |         |
| 4       | Food                     | Total                     | 6051 45          | (0 0)   | 5415 93         | 5666 80       | (103)     | 5322 21           | 5434 20       | 2966 83     | 3003 67 | 2641 04 |
|         |                          | Revenue                   | 6032 79          |         | 5396 83         | 5647 70       |           | 5299 99           | 5414 07       | 2937 82     | 2986 72 |         |
|         |                          | Capital                   | 18 66            |         | 19 10           | 19 10         |           | 22 22             | 20 13         | 29 01       | 16 95   |         |
|         |                          | Plan                      | 29 57            |         | 21 05           | 26 05         |           | 29 00             | 25 28         | 34 59       | 21 57   | 29 77   |
|         |                          | Revi nue                  | 2 89             |         | 1 95            | 2 10          |           | 2 03              | 2 35          | 5 58        | 4 62    |         |
|         |                          | Capital                   | 26 68            |         | 19 10           | 23 95         |           | 26 97             | 22 9 3        | 29 01       | 16 95   |         |
|         |                          | Non plan                  | 602188           |         | 5394 88         | 5640 75       |           | 5293 21           | 5408 92       | 2932 24     | 2982 10 | 2611 2  |
|         |                          | Revenue                   | 6029 90          |         | 5394 88         | 5645 60       |           | 5297 26           | 541172        | 2932 24     | 2982 10 |         |
|         |                          | Capital                   | ዛ 02             |         | 0 00            | -4 85         |           | -4 75             | -2 80         | 0 00        | 0.00    |         |
| 5       | Food processing          | Fotal                     | 50 46            | (0.4)   | 50 13           | 50 26         | (110)     | 49 89             | 51 31         | 43 58       | 36 09   | 29 82   |
|         |                          | Revenue                   | <b>39 9</b> 6    |         | 4113            | 41 26         |           | 42 60             | 42 15         | 38 36       | 25 93   |         |
|         |                          | Capital                   | 10 50            |         | 9 00            | 9 00          |           | 7 29              | 9 16          | 5 22        | 10 16   |         |
|         |                          | Plan                      | 45 00            |         | 45 00           | 45 00         |           | 45 00             | 45 57         | 40 00       | 31.11   | 25 80   |
|         |                          | Revenue                   | 34 50            |         | 36 00           | 36 00         |           | 37 72             | 37 42         | 34 80       | 21 96   |         |
|         |                          | Capital                   | 10 50            |         | 9 00            | 9 00          |           | 7 28              | 9 15          | 5 20        | 10 15   |         |
|         |                          | Non plan                  | 5 46             |         | 5 13            | 5 26          |           | 4 89              | 4 74          | 3 58        | 3 98    | 4 02    |
|         |                          | Revenue                   | 5 46             |         | 5 13            | 5 26          |           | 4 88              | 4 73          | 3 56        | 3 97    |         |
|         |                          | Capital                   | 0 00             |         | 0 00            | 0 00          |           | 001               | 0.01          | 0 02        | 0.01    |         |
| I R     | ural development, p      |                           |                  | nlovmen |                 | , ,           |           |                   |               |             |         |         |
|         | Civil supplies           | Total                     |                  | (-32 0) | 85 72           | 155.45        | (52 8)    | 46 95             | 22 79         | 22 95       | 15 73   | 18 70   |
| •       | consumer affairs         | Re venue                  | 97 79            | ,       | 77 79           | 147 62        | ,,        | 39 68             | 13 72         | 14 50       | 8 83    |         |
|         | public distribution      | Capit il                  | 793              |         | 7 93            | 793           |           | 7 27              | 9 07          | 8 45        | 6 90    |         |
|         | parate oranitation       | Plan                      | 19 85            |         | 19 85           | 49 85         |           | 17 45             | 18 50         | 19 00       | 12 00   | 12.8    |
|         |                          | Revenue                   | 11 92            |         | 11 92           | 41 92         |           | 10 18             | 9 43          | 10 55       | 5 17    | . 4 0   |
|         |                          | Capital                   | 793              |         | 7 93            | 7 93          |           | 7 27              | 907           | 8 45        | 683     |         |
|         |                          |                           | 85 87            |         | 65 87           | 105 69        |           | 29 50             | 4 29          | 3 95        | 373     | 59      |
|         |                          | Non plan                  | 85 87            |         |                 |               |           | 29 50             |               | 3 95        |         | 3 9     |
|         |                          | Revenue                   |                  |         | 65 87           | 105 69        |           |                   | 4 29          | 0 00        | 3 66    |         |
| -       | C.                       | Capital                   | 0 00             | (34.3)  | 0 00            | 0 00          |           | 0 00              | 000           |             | 0 07    | 244 .   |
| 2       | Environment force        |                           |                  | (34 2)  | 552 74          |               | (10.8)    | 419 93            | 398 98        | 329 37      | 305 80  | 246 1   |
|         | and wild life            | Revenue                   | 545 63           |         | *45 63          | 406 55        |           | 412 62            | 19161         | 323 58      | 300 38  |         |
|         |                          | C apital                  | 7 11             |         | 7 11            | 5 35          |           | 7 31              | 7 37          | 5 79        | 5 42    |         |
|         |                          | _ Plan                    | 469 40           |         | 469 40          | 335 50        |           | 360 00            | 336 80        | 278 76      | 266 09  | 208 8   |
|         |                          | Revenue                   | 462 29           |         | 262 29          | 130 15        |           | 352 69            | 329 43        | 272 97      | 260 67  |         |
|         |                          | Capital                   | 7 11             |         | 7 11            | 5 35          |           | 7 31              | 7 37          | 5 79        | 5 42    |         |
|         |                          | Non plan (R)              | 83 34            |         | 83 34           | 76 40         |           | 59 93             | 62 18         | 50 61       | 39 71   | 37 3    |
| 1       |                          | t Total                   | 8652 50          | (46)    | 8652 50         | 8268 06       |           | 7336 81           | 5620 16       | 3613 24     | 3021 24 | 2973 2  |
|         | employment and           | Revenue                   | 8652 50          |         | 8652 50         | 8268 06       |           | 7336 80           | 5617 81       | 3607 74     | 3020 74 |         |
|         | poverty alleviation      |                           | 0 00             |         | 0 00            | 0 00          |           | 0 01              | 2 35          | 5 50        | 0 50    |         |
|         |                          | Plan                      | 8632 00          |         | 8632 00         | 8248 06       |           | 7320 00           | 5605 60       | 3599 12     | 3008 00 | 2960 €  |
|         |                          | Revenue                   | 8632 00          |         | 8632 00         | 8248 06       |           | 7319 99           | 5603 25       | 3593 62     | 3007 50 |         |
|         |                          | Capital                   | () 00            |         | 0 00            | 0 00          |           | 001               | 2 35          | 5 50        | 0.50    |         |
|         |                          | Non plan(R)               | 20 50            |         | 20 50           | 20 00         |           | 16 81             | 14 56         | 14 12       | 1124    | 12.6    |
| 4       | Wasteland                | Total(R)                  |                  | (0 01)  | 60 33           |               | (9 5)     | 60 26             | 50 25         | 17 12       | 1124    | 1210    |
| 4       | development              | Plan                      |                  |         |                 |               |           |                   |               |             |         |         |
|         | acrempation              | Non plan                  | 60 00<br>0 33    |         | 60 00<br>0 33   | 60 00<br>0 28 |           | 60 00<br>0 26     | 50 00<br>0 25 |             |         |         |
|         |                          |                           |                  |         |                 |               |           |                   |               |             |         |         |

Table 8: Expenditures of Ministries and Departments of the Government of India (Continued)

(Rs crore) 1996-97 Ministries/Departments Expenditure 1996-97 1995-96 1994-95 1993-94 1992-93 1991-92 1990-91 Categories Budget Budget Revised Revised Revised Revised Revised Revised (July) (Feb) 2 9 3 6 7 8 10 III Industry Chemicals and petro 493.73 (26.1) Total 486.73 391.64 (87.8) 148 32 95.71 83 15 53.60 16.77 chemicals 454.85 Revenue 454.85 351.14 99.42 58 65 50.66 14.65 Capital 38.88 30.88 40.50 44.40 37 06 32.49 38.95 19.10 Plan 19.10 39.31 31.03 29 29 17.00 21.25 Revenue 7.10 7.10 17 92 25.68 21 79 10.60 3.85 Capital 12.00 12.00 7.50 13.63 13.11 6.40 17,40 Non-plan 474 63 466.63 352.33 112.79 66.42 66.15 32.35 16.18 Revenue 447.75 447.75 325.46 81.50 36.86 40.06 10.80 Capital 26.88 18.88 26.87 31.29 29.56 26.09 21 55 2 Fertilisers 6967 60 (1.3) Total 7347.59 6876.87 (8.5)5724.92 4660.65 5974.33 4937.58 4581.60 6163 75 Revenue 6815.75 4840 08 5337.82 6252.77 4428.55 5824.10 Capital 803.85 531.84 624.10 387.10 232.10 150.23 97 50 Plan 373.25 373,25 354.00 186.25 93.84 97.55 168.00 89.24 9.75 Revenue 9.75 11.90 12 15 20.90 16.75 16.34 Capital 363 50 363.50 342.10 174 10 147.10 72.49 77 50 6594.35 Non-plan 6974.34 4843 74 6522.87 5538.67 4484.06 4492 65 5885.09 6154 00 Revenue 6806 00 6240.87 5325.67 4407.65 5807.35 4823.74 Capital 440.35 168.34 212.00 282.00 85.00 77.74 20.00 3 Coal 530.88 (-1.6) 1085 64 Total 570 38 539.69 (-13.00)643.37 885 78 874 97 856,95 Revenue 185.86 168.06 153.42 135.18 170.37 169.97 135.95 Capital 345.02 705.00 402.32 386,27 508.19 715.41 721 00 411.36 Plan 397.80 437.31 531.68 732 41 728.00 734.00 946.80 Revenue 52.80 36.00 25.10 23.50 17 00 23 00 13 00 715.41 Capital 345.00 402 31 386.26 508.18 705 00 721 00 Non-plan 133.08 133 07 128.33 111.69 153 37 146 97 122 95 138 84 133.06 133 06 122 95 128 32 111 68 146 97 Revenue 153 37 Capital 0.02 0.01 0.01 0.01 0.00 0.00 0.00 Industrial policy. 440 72 (34.5) 439 53 327.68 (3.4)326.25 1119 95 944 98 191.31 277.37 Total development and Revenue 439.20 438 01 327.29 325 88 1119.03 943.06 191 19 promotion 1.52 1.52 0 39 0.37 092 1.92 0 12 Capital 276 50 1077.00 880 11 243.60 380.00 380.00 262.00 58 00 Plan Revenue 378.80 378.80 261 73 276.25 1076.20 878.31 58 (0) 0 27 0.25 0.00 1 20 0.80 1 80 1.20 Capital Non-plan 60.72 59 53 65.68 49 75 42.95 64 87 133 31 33.77 60.40 59 21 65.56 49.63 42.83 64.75 133 19 Revenue 0.12 0.12 0.12 0.12 0.12 Capital 0.32 0.32 Public enterprises Total (NP.R) 1.94 (9.0) 1.94 1.78 (7.0)180 1.55 1.57 1.33 1.27 681 97 233 46 367.17 288 97 257 86 245.44 350 34 32X 66 Heavy industries Total 21.97 20.90 459 26 15 37 27.63 22.13 8 31 Revenue 218 09 343.49 266.84 235.89 237.13 329 44 Capital 222 71 147 91 159 35 160 49 163 63 196 94 130 09 158 22 Plan 130.09 10 45 3,30 7 66 4 05 8.83 Revenue 7.00 7.00 188 49 144 61 150 56 155.30 151 66 123.09 Capital 123.09 189 85 165 03 103 37 168.23 141 06 99.64 86 09 Non-plan 551.88 8.37 13 23 18.83 14.31 4 26 12.07 452.26 Revenue 81.83 177 78 95.00 99.62 155 00 122.23 85 33 Capital 549 05 952.47 941.38 825.77 728 03 510 64 546 88 Small-scale, agro. Total 952.47 (1.2) 635 94 463 34 376.29 315 76 295.82 655 54 and rural industry Revenue 655.54 296.93 305.44 362 43 351.74 194 88 251.06 Capital 296.93 107 66 604.30 583.30 453.72 375.80 323 80 304,54 604.30 Plan 523.97 355.41 196.18 272 88 213.10 Revenue 544.72 544.72 59.58 59.33 98.31 102.92 110 70 i11.48 59.58 Capital 34X 17 358.08 372.05 352.23 186.84 239.22 244.51 Non-plan 348.17 107.93 110.82 111 97 103 41 102 66 99.64 Revenue 110.82 139.58 237.35 246.11 264.12 248.82 84 18 Capital 237.35 16 37 (12.7) 15.45 10.00 9 00 Company affairs Total (NP) 17.50 (6.9) 17.50 15.00 13.00 15 44 12.99 17.49 16.36 14 99 9.99 17.49 Revenue 0.01 0.01 0.01 0.01 0.01 0.01 Capital 0.01 228.59 213.08 (-2.5)196.15 184.04 178.44 163.23 241.33 Mines Total 245.59 (15.3) 210.21 167 46 166.18 146.34 135 25 149 68 Revenue 210.21 28.97 18 38 45.62 37.70 43.19 13 55 Capital 35.38 97.72 87 50 145 86 Plan 126 63 126 63 97.72 84.39 66.52 74 00 74.00 52 97 63.80 53 50 112.25 112.25 Revenue 14.38 23 72 23 72 23.70 30.89 13.55 14.38 Capital 101.96 115.36 97 43 96.54 94 05 96.71 95.47 Non-plan 118.96 97.96 93.46 92 I K 82.54 81.75 96.71 Revenue 97.96 Capital 4.00 21.90 5.25 14.00 12.30 0.00 21.00

Table 8: Expenditures of Ministries and Departments of the Government of India (Continued)

| Ministr | ies/Departments                      | Expenditure           | 1996-97          |         | 1996-97          | 1995-96          |         | 1994-95                  | 1993-94          | 1992-93          | 1991-92          | 1990-91 |
|---------|--------------------------------------|-----------------------|------------------|---------|------------------|------------------|---------|--------------------------|------------------|------------------|------------------|---------|
|         |                                      | Categories            | Budget           |         | Budget           | Revised          |         | Revised                  | Revised          | Revised          | Revised          | Revised |
|         |                                      | 2                     | (July)<br>3      |         | (Feb)<br>4       | 5                |         | 6                        | 7                | 8                | 9                | 10      |
| 10      | Science and                          | Total                 | 481 05           | (137)   | 461 05           | 423.17           | (12.2)  | 418.85                   | 338.95           | 282.46           | 256.58           | 237.96  |
|         | technology                           | Revenue               | 446.08           |         | 426.08           | 392.83           |         | 382.88                   | 313.68           | 261.45           | 225.35           |         |
|         |                                      | Capital               | 34.97            |         | 34 97            | 30.34            |         | 35.97                    | 25.27            | 21.01            | 31.23            |         |
|         |                                      | Plan                  | 242.55           |         | 242.55           | 223.17           |         | 229.80                   | 170.78           | 128.25           | 114.29           | 103.68  |
|         |                                      | Revenue               | 208.87           |         | 208.87           | 194.07           |         | 195.07                   | 147.08           | 108.89           | 84.81            | •       |
|         |                                      | Capital               | 33.68<br>238.50  |         | 33.68<br>218.50  | 29.10<br>200.00  |         | 34.73<br>1 <b>8</b> 9.05 | 23.70<br>168.17  | 19.36<br>154.21  | 29.48<br>142.49  | 134.28  |
|         |                                      | Non-plan<br>Revenue   | 237.21           |         | 217.21           | 198.76           |         | 187.81                   | 166.60           | 152.56           | 142.49           | 134.20  |
|         |                                      | Capital               | 1.29             |         | 1.29             | 1.24             |         | 1.24                     | 1.57             | 1.65             | 1.75             | •       |
| 11      | Scientific and                       | Total                 | 438.97           | (0 8)   | 421 24           |                  | (12.7)  | 411.03                   | 342.94           | 277 60           | 258.37           | 239.17  |
|         | industrial research                  | Revenue               | 432 47           | (,      | 414.74           | 426.91           | (,      | 402.04                   | 334 04           | 273.50           | 255 13           |         |
|         |                                      | Capital               | 6.50             |         | 6.50             | 8.49             |         | 8.99                     | 8.90             | 4.10             | 3 24             |         |
|         |                                      | Plan                  | 186.00           |         | 186 00           | 182.50           |         | 186.00                   | 147.97           | 113.48           | 107 71           | 96.59   |
|         |                                      | Revenue               | 179 50           |         | 179 50           | 174.01           |         | 177.01                   | 139.07           | 109.38           | 104.47           |         |
|         |                                      | Capital               | 6.50             |         | 6.50             | 8.49             |         | 8.99                     | 8.90             | 4.10             | 3.24             |         |
|         |                                      | Non-plan (R)          | 252.97           |         | 235 24           | 252.90           |         | 225.03                   | 194 97           | 164.12           | 150.66           | 142.58  |
| 12      | 2 Biotechnology                      | _ Total               | 96 67            | (97)    | 96 97            | 88.14            | (81)    | 96 52                    | 88.10            | 77.97            | 66 66            | 59.65   |
|         |                                      | Revenue               | 92.17            |         | 92 17            | 88.14            |         | 96.52                    | 82.10            | 77.97            | 66.46            | •       |
|         |                                      | Capital               | 4.50             |         | 4.50             | 0.00             |         | 0.00                     | 6.00             | 0.00             | 0.20             |         |
|         |                                      | Plan                  | 90 00            |         | 90.00            | 81.74            |         | 90.00                    | 84.95            | 75 00            | 63.90            | 56.74   |
|         |                                      | Revenue<br>Capital    | 85.50<br>4.50    |         | 85.50<br>4.50    | 81.74<br>0.00    |         | 90.00<br>0.00            | 78.95<br>6.00    | 75.00<br>0.00    | 63.70<br>0.20    | •       |
|         |                                      | Non-Plan (R)          | 6.67             |         | 6.67             | 6.40             |         | 6.52                     | 3.15             | 2.97             | 2.76             | 2.91    |
| 13      | Steel                                | Total                 | 26 18            | (-89 4) | 26.18            | 247 14           | (-20 6) | 294.37                   | 422 25           | 360 87           | 497.97           | 783 77  |
| • •     | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, | Revenue               | 5 98             | (-0) 4) | 5 98             | 5 64             | (-20 0) | 4 85                     | 4.28             | 4 49             | 12 67            | 70.5 7  |
|         |                                      | Capital               | 20 20            |         | 20.20            | 241.50           |         | 289.52                   | 417.97           | 356 38           | 485.30           |         |
|         |                                      | Plan (C)              | 15 20            |         | 15 20            | 229.50           |         | 284.50                   | 359.00           | 289.10           | 429 32           | 526.62  |
|         |                                      | Non-plan              | 10 98            |         | 10.98            | 17.64            |         | 9.87                     | 63 25            | 71.77            | 68 65            | 257.15  |
|         |                                      | Revenue               | 5 98             |         | 5 98             | 5 64             |         | 4.85                     | 4 28             | 4 49             | 12.67            |         |
|         |                                      | Capital               | 5.00             |         | 5 00             | 12.00            |         | 45.02                    | 58 97            | 67.28            | 55 98            |         |
| IV Jr   | frastructure                         |                       |                  |         |                  |                  |         |                          |                  |                  |                  |         |
| 1       | Civil aviation                       | Total                 |                  | (-11.5) | 87.66            | 145 05           | (13.5)  | 136 70                   | 178.90           | 74.54            | 78.20            | 76 84   |
|         |                                      | Revenue               | 75.19            |         | 34 48            | 95.64            |         | 120 19                   | 166.46           | 65 17            | 51.92            |         |
|         |                                      | Capital               | 53.18            |         | 53.18            | 49.41            |         | 16 51                    | 12.44            | 9.37             | 26 28            |         |
|         |                                      | Plan                  | 53 46            |         | 53 46            | 49.69            |         | 21.57                    | 12.65            | 9.77             | 27 30            | 5.4     |
|         |                                      | Revenue               | 0.28             |         | 0 28             | 0.28             |         | 5.06                     | 0.21             | 0 40             | 1.02             |         |
|         |                                      | Capital               | 53 18<br>74.91   |         | 53.18<br>34 20   | 49.41<br>95.36   |         | 16.51<br>115.13          | 12.44<br>166 25  | 9 37<br>64.77    | 26.28<br>50.90   | 71 45   |
| 2       | Tourism                              | Non-plan (R)<br>Total |                  | (-8 4)  | 109 12           | 119 14           | (9.7)   | 108.96                   | 99.36            | 94.47            | 84.88            | 74.84   |
| -       | i Ourism                             | Revenue               | 96 02            | (-0 4)  | 96 02            | 103 95           | (71)    | 93.45                    | 76.30            | 72 44            | 61.67            | /4.0    |
|         |                                      | Capital               | 13.10            |         | 13 10            | 15.19            |         | 15.51                    | 22 66            | 22.03            | 23 21            |         |
|         |                                      | Plan                  | 90 00            |         | 90 00            | 97.87            |         | 89 71                    | 83.49            | 79.07            | 71 36            | 61.00   |
|         |                                      | Revenue               | 76 90            |         | 76.90            | 82.68            |         | 74.20                    | 60.83            | 57.04            | 48.15            |         |
|         |                                      | Capital               | 13 10            |         | 13 10            | 15 19            |         | 15.51                    | 22.66            | 22 03            | 23.21            |         |
|         |                                      | Non plan (R)          | 19.12            |         | 19 12            | 21.27            |         | 19.25                    | 15.87            | 15.40            | 13.52            | 13.84   |
| 3       | Posts                                | Total                 | 671.50           | (37.7)  | 571.50           | 487.50           | (20.1)  | 397.60                   | 234.40           | 209.63           | 297 00           | 195.0   |
|         |                                      | Revenue               | 612 29           |         | 512 29           | 424.62           |         | 331.12                   | 185.00           | 159.36           | 255 00           |         |
|         |                                      | Capital               | 59 21            |         | 59 21            | 62 88            |         | 65.88                    | 49.40            | 50.27            | 42.00            |         |
|         |                                      | _ Plan                | 85 00            |         | 85.00            | 85 00            |         | 92.00                    | 67.17            | 66.00            | 57.00            | 48.0    |
|         |                                      | Revenue               | 22 29            |         | 22 29            | 18.62            |         | 18.12                    | 11.77            | 11 13            | 12.00            |         |
|         |                                      | Capital               | 62 71            |         | 62.71            | 66.38            |         | 73.88                    | 55.40            | 54.87            | 45.00            | 147.0   |
|         |                                      | Non-plan<br>Revenue   | 586.50<br>590.00 |         | 486 50<br>490.00 | 402.50<br>406.00 |         | 305.00<br>313.00         | 167.23<br>173.23 | 143.63<br>148.23 | 240.00<br>243 00 | 147 0   |
|         |                                      | Capital               | -3,50            |         | -3.50            | -3.50            |         | -8 00                    | -6.00            | -4.60            | -3.00            |         |
| 4       | Telecommunication                    |                       | 17 88            |         | 17.67            |                  | (-60)   | 40 86                    | 51.29            | -4.00            | 17.00            | 64.6    |
| •       | · orocannumeath                      | Plan (R)              | 4 00             |         | 4 00             | 3.95             |         | 3 02                     | 2.00             |                  | 17.00            | 64.6    |
|         |                                      | Non-plan (R)          | 13 88            |         | 13.67            | 43.44            |         | 37.84                    | 49.29            | ••               | 0.00             | 0.0     |
| 5       | Information, films                   |                       |                  | (3.4)   | 585 00           | 576.95           |         | 484.51                   | 444.40           | 428.17           | 454.21           | 501.1   |
|         | publicity and                        | Revenue               | 545 19           |         | 526 68           | 523.29           |         | 453.39                   | 403.47           | 398.76           | 405.83           | 501.1   |
|         | broadcasting                         | Capital               | 51 31            |         | 58 32            | 53.66            |         | 31 12                    | 40.93            | 29.41            | 48.38            |         |
|         | 6                                    | Plan                  | 101.00           |         | 101.00           | 99.27            |         | 57.98                    | 63.61            | 49.87            | 115.69           | 178.8   |
|         |                                      | Revenue               | 50.77            |         | 43.746           | 48.61            |         | 27.74                    | 24.54            | 23.22            | 71.48            |         |
|         |                                      | Capital               | 50.23            |         | 57.24            | 50.66            |         | 30.24                    | 39.07            | 26.65            | 44.21            |         |
|         |                                      | •                     |                  |         |                  |                  |         |                          | 380.79           | 378.30           |                  | 322.3   |
|         |                                      | Non-plan              | 495 50           |         | 494.00           | 477.68           |         | 426.53                   | 360.17           | 3/0.30           | 338.52           | 244.2   |
|         |                                      | Non-pian<br>Revenue   | 495.50<br>494.42 |         | 494.00           | 477.68<br>474.68 |         | 425.65                   | 378.93           | 375.54           | 334.35           | 344.3   |

LAUSE O. Experiences of Partitionies and Departments of the Government of India (Continued)

| istries/Departments    | Expenditure             | 1996-97           |         | 1996-97          | 1995-96          |        | 1994-95          | 1993-94          | 1992-93           | 1991-92           | 1990-9 |
|------------------------|-------------------------|-------------------|---------|------------------|------------------|--------|------------------|------------------|-------------------|-------------------|--------|
|                        | Categories              | Budget<br>(July)  |         | Budget<br>(Feb)  | Revised          |        | Revised          | Revised          | Revised           | Revised           | Revise |
|                        | 2                       | 3                 |         | 4                | 5                |        | 6                | 7                | 8                 | 9                 | ì      |
| 6 Non-conventional     | Total                   | 335.90            | (34.0)  | 335.90           | 250.66           | (16.4) | 249.38           | 204.27           | 128.95            | 135,50            | 117.2  |
| energy resources       | Revenue                 | 220.58            |         | 220.82           | 174.88           |        | 212.20           | 194.23           | 124.39            | 130.54            |        |
|                        | Capital                 | 115.32            |         | 115.08           | 75.78            |        | 37.18            | 10 04            | 4.56              | 4.96              |        |
|                        | Plan                    | 333.00            |         | 333.00           | 247.86           |        | 246.61           | 202.09           | 127.38            | 133.91            | 115.8  |
|                        | Revenue                 | 217.68<br>115.32  |         | 217.92           | 172.08           |        | 209 43           | 192.05           | 122.82            | 128.95            |        |
|                        | Capital<br>Non-plan (R) | 2.90              |         | 115.08<br>2.90   | 75.78            |        | 37.18<br>2.77    | 10.04            | 4.56              | 4.96              | 1.3    |
| 7 Petroleum and        | Total                   | 3 62              |         | 3.62             | 2.80<br>1038.17  |        | 687.10           | 2.18<br>269.18   | 1.57<br>329.03    | 1.59<br>277.28    | 241.4  |
| natural gas            | Revenue                 | 3.62              |         | 3.62             | 3.31             |        | 2.75             | 207.18           | 2.64              | 97.28             | 241    |
|                        | Capital                 | 0.00              |         | 0.00             | 1034.86          |        | 684.35           | 266.39           | 326.39            | 180.00            |        |
|                        | Plan (C)                | 0.00              |         | 0.00             | 0 00             |        | 132 27           | 266 39           | 326,39            | 180.00            | 150.0  |
|                        | Non-plan                | 3.62              |         | 3.62             | 1038.17          |        | 554.83           | 2.79             | 2.64              | 97.28             | 91.4   |
|                        | Revenue                 | 3 62              |         | 3.62             | 3.31             |        | 2.75             | 2.79             | 2.64              | 97.28             |        |
|                        | Capital                 | 0.00              |         | 0.00             | 1034.86          |        | 552.08           | 0.00             | 0.00              | 0.00              |        |
| 8 Power                | Total                   | 2246.84           | (-0.1)  | 2216 33          | 2248 29          | (-3.3) | 2583.48          | 2299.30          | 1823.48           | 2008.25           | 2665.1 |
|                        | Revenue                 | 139.64            |         | 139.64           | 160.80           |        | 83.53            | 169.41           | 192 25            | 174.90            |        |
|                        | Capital                 | 2107.20           |         | 2076 69          | 2087.49          |        | 2499.95          | 2129.39          | 1631.23           | 1833.35           |        |
|                        | Plan                    | 2224.81           |         | 2194.30          | 2226.61          |        | 2563.25          | 2207.17          | 1705.57           | 1889.25           | 2299 4 |
|                        | Revenue                 | 117.61<br>2107.20 |         | 117.61           | 139.12           |        | 63.30            | 77.28            | 76.34             | 55.90             |        |
|                        | Capital<br>Non-plan (R) | 22.03             |         | 2076.69<br>22 03 | 2087 49<br>21 68 |        | 2499.95<br>20.23 | 2129.39<br>92.13 | 1631.23<br>115.91 | 1833 35<br>119.00 | 366.3  |
| 9 Surface transport    | Total                   | 2340 42           | (22.2)  | 2076.42          | 1915.66          | (3.8)  | 1887.53          | 1695.56          | 1368.29           | 1382.51           | 1592.0 |
| 3 Surface transport    | Revenue                 | 906.61            | (22.2)  | 882.26           | 845.80           | (3.6)  | 878 32           | 678.89           | 534.23            | 504.49            | 1./72. |
|                        | Capital                 | 1434.41           |         | 1194.16          | 1069.86          |        | 1009.21          | 1016.67          | 834.06            | 878 02            |        |
|                        | Plan                    | 1315.51           |         | 1115.51          | 900 00           |        | 950.86           | 941 15           | 690.68            | 722 32            | 718.9  |
|                        | Revenue                 | 62.47             |         | 63.72            | 33.47            |        | 20.15            | 72.61            | 51.63             | 33.56             |        |
|                        | Capital                 | 1253.04           |         | 1051.79          | 866.53           |        | 870.71           | 868.54           | 639 05            | 688 66            |        |
|                        | Non-plan                | 1204.91           |         | 960 91           | 1015 66          |        | 936.67           | 754 41           | 677.61            | 660.29            | 873.   |
|                        | Revenue                 | 843.54            |         | 818 54           | 812 33           |        | 798.17           | 606.28           | 482.60            | 470 93            |        |
|                        | Capital                 | 181.37            |         | 142.37           | 203.33           |        | 138.50           | 148.13           | 195.01            | 189 36            |        |
| 10 Water resources     | Total                   | 1374.60           | (269.3) | 474.60           | 372 19           | (4.9)  | 351.31           | 390.42           | 320.99            | 322 47            | 292.   |
|                        | Revenue                 | 427.13            |         | 437.86           | 316.36           |        | 292.83           | 328.29           | 270.50            | 266 26            |        |
|                        | Capital                 | 947.47            |         | 36.84            | 55.83            |        | 58 48            | 62 13            | 50 49             | 56 21             | 100    |
|                        | Plan                    | 1266.93           |         | 366 93           | 264.00           |        | 245.82           | 294 36           | 216.44            | 225 40            | 193.   |
|                        | Revenue                 | 324 44            |         | 332.17<br>34.76  | 210.15<br>36.84  |        | 196 11<br>49 71  | 233 77<br>60.59  | 173.48<br>42.96   | 177.79<br>47.61   |        |
|                        | Capital                 | 942.49<br>107 67  |         | 107.67           | 108.19           |        | 105.49           | 96.06            | 104.55            | 97.07             | 99.    |
|                        | Non-plan<br>Revenue     | 102.69            |         | 107.67           | 106.19           |        | 96.72            | 94.52            | 97.02             | 88.47             | 77.    |
|                        | Capital                 | 4.98              |         | 1.98             | 1.98             |        | 8.77             | 1 54             | 7 53              | 8 60              |        |
| Memo stem:             | Cupital                 | 4.70              |         |                  | •.,,             |        | <b>U</b> ,       |                  | ,                 | - ""              |        |
| Accelerated irrigation |                         |                   |         |                  |                  |        |                  |                  |                   |                   |        |
| scheme                 | Total (P)               | 900.00            |         | ••               |                  |        |                  |                  |                   |                   |        |
| 11 Atomic energy       | Total                   | 1443.00           | (6.2)   | 1443.00          | 1359.32          | (5.8)  | 1223.53          | 1505.33          | 1095.20           | 960 55            | 1025   |
|                        | Revenue                 | 554.64            |         | 554.64           | 536 54           |        | 500.25           | 536.91           | 449 86            | 407 02            |        |
|                        | Capital                 | 888.36            |         | 888.36           | 822.78           |        | 723.28           | 968 42           | 645.34            | 553.53            | 400    |
|                        | Plan                    | 643.00            |         | 643.00           | 568.00           |        | 494.86           | 737 35           | 408.94            | 382.58            | 497    |
|                        | Revenue                 | 54.90             |         | 54.90            | 53 11            |        | 47.09<br>447.77  | 48.87<br>688 48  | 46 12<br>362 82   | 43.76<br>338.82   |        |
|                        | Capital                 | 588.10            |         | 588.10<br>800.00 | 514.89<br>791.32 |        | 728 67           | 767.98           | 686.26            | 577.97            | 527    |
|                        | Non-plan<br>Revenue     | 800.00<br>499.74  |         | 499.74           | 483.43           |        | 453.16           | 488.04           | 403.74            | 363.26            |        |
|                        | Capital                 | 300.26            |         | 300.26           | 307.89           |        | 275.51           | 279.94           | 282.52            | 214.71            |        |
| 12 Electronics         | Total                   | 148.00            | (0 t)   | 148.00           | 147.87           |        | 156.80           | 177 90           | 88.50             | 121.44            | 109    |
| i a mice domes         | Revenue                 | 125.81            | (0.1)   | 116.25           | 134.55           |        | 131 58           | 127 81           | 80.06             | 82.95             |        |
|                        | Capital                 | 22.19             |         | 31.75            | 13 32            |        | 25.22            | 50.09            | 8.45              | 38.49             |        |
|                        | Plan                    | 132.50            |         | 132.50           | 132.00           |        | 140.60           | 164.00           | 75.00             | 108.10            | 96     |
|                        | Revenue                 | 110.91            |         | 101.35           | 119.88           |        | 115.58           | 113 91           | 66 55             | 69 61             |        |
|                        | Capital                 | 22.19             |         | 31 75            | 13.32            |        | 25.22            | 50.09            | 8 45              | 38,49             |        |
| •                      | Non-plan                | 15.50             |         | 15.50            | 15.87            |        | 16.20            | 13 90            | 13.50             | 13.34             | 12     |
|                        | Revenue                 | 14.90             |         | 14.90            | 14.67            |        | 16 20            | 13.90            | 13 50             | 13.34             |        |
|                        | Capital                 | 0.60              |         | 0.60             | 1.20             |        | 0.00             | 0.00             | 0.00              | 0.00              |        |
| 13 Ocean developmen    |                         | 66.83             | (15.6)  | 66.83            |                  | (7.9)  | 59.00            | 56 41            | 48.17             | 41 37             | 39     |
|                        | Revenue                 | 60.08             |         | 60.58            | 50.24            |        | 53.70            | 47.73            | 40.61             | 36 49             |        |
|                        | Capital                 | 6.75              |         | 6.25             | 7.55             |        | 5.30             | 8.68             | 7.56              | 4.88              | ٠.     |
|                        | Plan                    | 52.00             |         | 52.00            | 44.00            |        | 46.00            | 43.00            | 39.00             | 32.27             | 31     |
|                        | Revenue                 | 45.25             |         | 45 75            | 36.45            |        | 40.70            | 34 32            | 31.44             | 27 39             |        |
|                        | Capital                 | 6.75<br>14 83     |         | 6.25<br>14.83    | 7.55<br>13.79    |        | 5.30<br>13 00    | 8.68<br>13.41    | 7.56<br>9.17      | 4 88<br>9.10      | 8      |
|                        | Non-plan (R)            | 14 K 3            |         | 14.51            | 11/9             | ,      | 1500             | 1141             | 41/               | 4 10              |        |

Table 8: Expenditures of Ministries and Departments of the Government of India (Continued)

| inistries/ | Departments      | Expenditure           | 1996-97         |         | 1996-97          | 1995-96 |        | 1994-95          | 1993-94         | 1992-93         | 1991-92          | 1990-91   |
|------------|------------------|-----------------------|-----------------|---------|------------------|---------|--------|------------------|-----------------|-----------------|------------------|-----------|
|            | •                | Categories            | Budget          |         | Budget           | Revised |        | Revised          | Revised         | Revised         | Revised          | Revised   |
|            |                  | 2                     | (July)<br>3     |         | (Feb)<br>4       | 5       |        | 6                | 7               | 8               | 9                | 10        |
| 14 Sp      | nce              | Total                 | 918.00          | (0.5)   | 918 00           | 913.00  | (18.5) | 774.99           | 718.06          | 510.00          | 482.61           | 391.11    |
|            |                  | Revenue               | 815.91          | (4.5)   | 815.91           | 806.07  | (10.0) | 661.17           | 626.47          | 419.02          | 419.95           |           |
|            |                  | Capital               | 102.09          |         | 102.09           | 106.93  |        | 113.82           | 91.59           | 90.98           | 62.66            |           |
|            |                  | Plan                  | 750.00          |         | 750.00           | 750.00  |        | 620.00           | 570.35          | 367 94          | 348.10           | 279.50    |
|            |                  | Revenue               | 647.91          |         | 647.91           | 643.07  |        | 506.18           | 478.76          | 276.96          | 285.44           |           |
|            |                  | Capital               | 102.09          |         | 102 09           | 106.93  |        | 113.82           | 91.59           | 90.98           | 62.66            |           |
|            |                  | Non-plan (R)          | 168 00          |         | 168 00           | 163.00  |        | 154.99           | 147.71          | 142.06          | 134.51           | 111.61    |
| 15 Ra      | ilways           | Total (PC)            | 1269.00         |         | 1269.00          | 1150.00 |        | 1150.00          | 960.00          | 1935.00         | 1694.00          | 1587.00   |
| Huma       | n resource deve  | elopment and c        | ulture          |         |                  |         |        |                  |                 |                 |                  |           |
| 1 Ed       | lucation         | Total                 | 4479.92         | (22.8)  | 4471.92          | 3649.43 | (17.9) | 2486.52          | 2192.26         | 1824.17         | 1678.98          | 1602.10   |
|            | 2                | Revenue               | 4478.40         |         | 4473 40          | 3647.91 |        | 2483.15          | 2188.89         | 1820.80         | 1675.53          |           |
|            |                  | Capital               | 1.52            |         | 1.52             | 1.52    |        | 3.37             | 3.37            | 3 37            | 3.45             |           |
|            |                  | Plan                  | 3386 54         |         | 3381 54          | 2503.07 |        | 1566.30          | 1299.63         | 1011 30         | 904.98           | 937.10    |
|            |                  | Revenue               | 3386.02         |         | 3381.02          | 2502.55 |        | 1565.78          | 1299 11         | 1010.78         | 904.38           |           |
|            |                  | Capital               | 0.52            |         | 0 52             | 0.52    |        | 0.52             | 0.52            | 0 52            | 0.60             |           |
|            |                  | Non-plan              | 1093.38         |         | 1093.38          | 1146.36 |        | 920.22           | 892.63          | 812.87          | 774.00           | 765.00    |
|            |                  | Revenue               | 1092.38         |         | 1092.38          | 1145.36 |        | 917.37           | 889.78          | 810 02          | 771.15           |           |
|            |                  | Capital               | 1.00            |         | 1 00             | 00.1    |        | 2.85             | 2.85            | 2.85            | 2.85             |           |
| Memo       |                  |                       |                 |         |                  |         |        |                  |                 |                 |                  |           |
|            | ion support to   |                       |                 |         |                  |         |        |                  |                 |                 |                  |           |
|            | ry education     | 'i otal (P)           | 1400 00         |         | 1400.00          | 611.79  |        |                  | -               | -               |                  |           |
|            | outh affairs and | Total                 | 136 24          | (2.8)   | 128.24           | 132.52  | (6.0)  | 134 83           | 138 42          | 113 15          | 102 99           | 99.06     |
| sp         | orts             | Revenue               | 134.51          |         | 126.17           | 130.45  |        | 132.40           | 136.41          | 111 14          | 101.80           |           |
|            |                  | Capital               | 1.73            |         | 2 07             | 2.07    |        | 2 43             | 201             | 2 01            | 1 19             |           |
|            |                  | Plan                  | 95 00           |         | 95.00            | 95.00   |        | 94.00            | 98 10           | 74 00           | 64 85            | 62 07     |
|            |                  | Revenue               | 93 28           |         | 92.94            | 92 94   |        | 91.58            | 96.10           | 72.00           | 63 67            |           |
|            |                  | Capital               | 1.72            |         | 2 06             | 2 06    |        | 2 42             | 2 00            | 2.00            | 1 18             |           |
|            |                  | Non-plan              | 41 24           |         | 33.24            | 37.52   |        | 40.83            | 40.32           | 39.15           | 38 14            | 36 99     |
|            |                  | Revenue               | 41 23           |         | 33.23            | 37.51   |        | 40.82            | 40 31           | 39,14           | 38 13            |           |
| 3 Cı       | ulture           | Capital               | 0.01            | ( 1 0)  | 0.01             | 10.0    | (10.0) | 0.01             | 0 01            | 0.01            | 0 01             | 124 (2    |
| 3 C        | uiture           | Total (R)             | 203.23          | (- > 6) | 203.23           |         | (10.8) | 400.50           | 184.51          | 127 84          | 117 52           | 126 67    |
|            |                  | Plan (R)              | 113.76<br>89 47 |         | 113 76<br>89.47  | 123.00  |        | 102.60           | 107.50          | 56 61           | 54 72            | 48 11     |
| 4 W        | omen and child   | Non-plan (R)<br>Total | 895.07          | (3.1)   | 875.07           | 88.27   | (19 9) | 297.90<br>706.16 | 77.01<br>621.99 | 71.23<br>550 99 | 62.80            | 78.56     |
|            | velopment        | Revenue               | 895 07          | (31)    | 875.07<br>875.07 | 868.25  | (19 9) | 706.16           | 616.85          | 549.99          | 404.85<br>403.65 | 351.09    |
| uc         | veropinent       | Capital               | 0.00            |         | 0.00             | 0.00    |        | 0.00             | 5 14            | 1 00            | 1 00             | •         |
|            |                  | Plan                  | 847.07          |         | 827.07           | 821.25  |        | 662.00           | 578.77          | 511 36          | 365.00           | 313 10    |
|            |                  | Revenue               | 847.07          |         | 827.07           | 821.25  |        | 662 00           | 573 63          | 510.36          | 364 00           | 212 10    |
|            |                  | Capital               | 0.00            |         | 0.00             | 0.00    |        | 0.00             | 5.14            | 1.00            | 1 00             | •         |
|            |                  | Non-plan (R)          | 48.00           |         | 48.00            | 47.00   |        | 44 16            | 43 22           | 39.63           | 39.65            | 37 99     |
| 5 La       | abour            | Total (R)             | 634.21          | (10.8)  | 624.21           |         | (14.2) | 517.25           | 532 15          | 359.63          | 364 33           | 294.43    |
|            |                  | Plan (R)              | 168 20          | (10.0)  | 163 20           | 78.04   | (14.2) | 94.45            | 55.75           | 56.46           | 67 46            | 46 08     |
|            |                  | Non-plan (R)          | 466.01          |         | 461.01           | 498.33  |        | 422.80           | 476.40          | 303 17          | 296.87           | 247 35    |
| 6 Pe       | ersonnel, public | Total                 |                 | (194)   | 122.29           |         | (14 9) | 84.91            | 79.74           | 69.14           | 58.65            | 51.22     |
|            | nevances and     | Revenue               | 113.39          | (,, ,,  | 113.39           | 92.68   | (1,1)  | 76.42            | 71.26           | 61.53           | 50.00            | .7 1 . 20 |
| •          | nsions           | Capital               | 8.90            |         | 8.90             | 9.74    |        | 8 49             | 8.48            | 761             | 7.95             | •         |
| ρ.         |                  | Plan                  | 8.10            |         | 8.10             | 8.10    |        | 8.10             | 7.81            | 6 98            | 6.82             | 4.40      |
|            |                  | Revenue               | 6.60            |         | 6.60             | 6.10    |        | 5.61             | 5.33            | 4.73            | 3.52             | 4,40      |
|            |                  | Capital               | 1.50            |         | 1.50             | 2.00    |        | 2.49             | 2 48            | 2 25            | 3 30             | ••        |
|            |                  | Non-plan              | 114.19          |         | 114.19           | 94.32   |        | 76.81            | 71.93           | 62.16           | 51.83            | 46 82     |
|            |                  | Revenue               | i06.79          |         | 106.79           | 86.58   |        | 70.81            | 65 93           | 56 80           | 47 18            | ,,,,,     |
|            |                  | Capital               | 7 40            |         | 7.40             | 7.74    |        | 6.00             | 6.00            | 5.36            | 4 65             | •         |
| 7 U        | rban affairs,    | Total                 | 1292 54         | (6.2)   | 1292.54          | 1216.70 |        | 1234.17          | 907.29          | 738 23          | 716.59           | 653.62    |
|            | nployment, and   | Revenue               | 855.97          |         | 855.97           | 777.83  |        | 763.89           | 480.47          | 412.06          | 438.96           |           |
|            | evelopment       | Capital               | 436.57          |         | 436 57           | 438.87  |        | 470.28           | 426.82          | 326.17          | 277 63           | ••        |
|            | •                | Plan                  | 639 57          |         | 639.57           | 617.97  |        | 507.78           | 421.57          | 313.16          | 353.08           | 293.88    |
|            |                  | Revenue               | 392.00          |         | 392.00           | 358.02  |        | 221.48           | 166.31          | 121.23          | 170.97           |           |
|            |                  | Capital               | 247.57          |         | 247.57           | 259.95  |        | 286 30           | 255.26          | 191.93          | 182 11           |           |
|            |                  | Non-plan              | 652.97          |         | 652 97           | 598.73  |        | 726.39           | 485.72          | 425.07          | 363.51           | 359.74    |
|            |                  | Revenue               | 463.97          |         | 463.97           | 419.81  |        | 542.41           | 314.16          | 290.83          | 267.99           |           |
|            |                  |                       | 189.00          |         | 189.00           | 178.92  |        | 183.98           | 171.56          | 134.24          | 95.52            | ••        |

(Contd,

Table 8: Expenditures of Ministries and Departments of the Government of India (Continued)

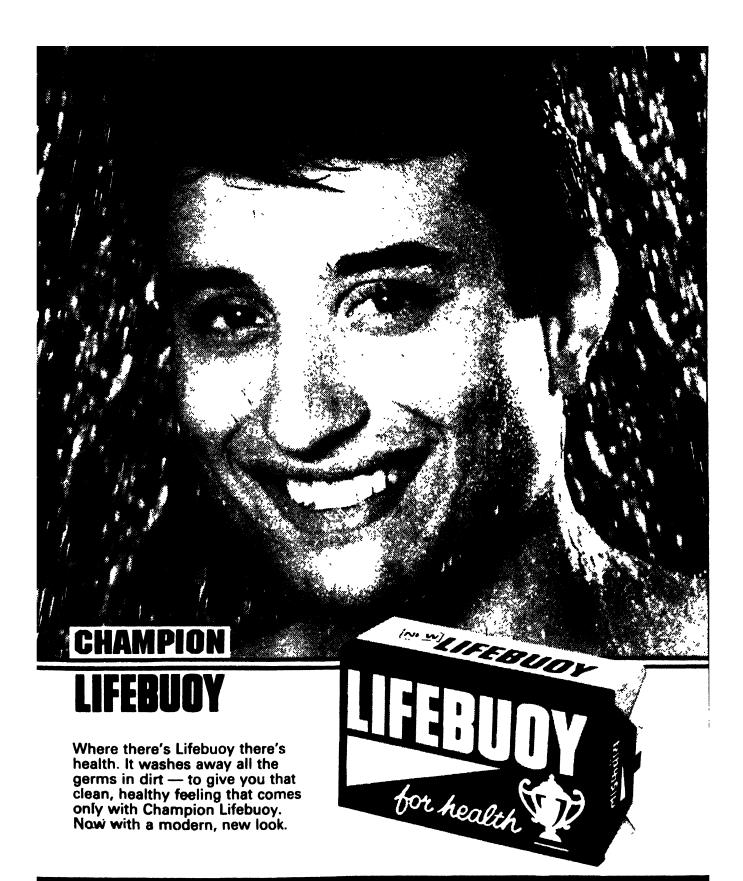
| Ministric | es/Departments                        | Expenditure<br>Categories | 1996-97<br>Budget  |                | 1996-97<br>Budget  | 1995-96<br>Revised | <del></del> | 1994-95<br>Revised | 1993-94<br>Revised  | 1992-93<br>Revised | 1991-92<br>Revised | 1990-91<br>Revised |
|-----------|---------------------------------------|---------------------------|--------------------|----------------|--------------------|--------------------|-------------|--------------------|---------------------|--------------------|--------------------|--------------------|
| ı         |                                       | 2                         | (July)<br>3        |                | (Feb)              | 5                  |             | 6                  | 7                   | 8                  | 9                  | 10                 |
| 8         | Welfare                               | Total                     | 936.00             | (0.0)          |                    |                    |             |                    |                     |                    |                    |                    |
| ŭ         | Welland                               | Revenue                   | 748.33             | (0.9)          | 930.00<br>744.33   | 927.77<br>742 10   | (18.8)      | 839 92<br>658.34   | 681.34              | 559.00             | 507.13             | 392.43             |
|           |                                       | Capital                   | 187.67             |                | 185.67             | 185.67             |             | 181.58             | 624.43<br>66 91     | 514.97<br>44 03    | 466.96<br>40.17    |                    |
|           |                                       | Plan                      | 890 00             |                | 890.00             | 890 00             |             | 803 77             | 661.00              | 530.00             | 477.75             | 365.50             |
|           |                                       | Revenue                   | 702.74             |                | 704.74             | 704.74             |             | 622.60             | 594.50              | 486.38             | 438.13             | 30.7.30            |
|           |                                       | Capital                   | 187.26             |                | 185 26             | 185.26             |             | 181 17             | 66.50               | 43 62              | 39.62              | •                  |
|           |                                       | Non-plan                  | 46.00              |                | 40 00              | 37.77              |             | 36.15              | 30.34               | 29 00              | 29 38              | 26.93              |
|           |                                       | Revenue                   | 45.59              |                | 39.59              | 37.36              |             | 35.74              | 29.93               | 28 59              | 28.83              |                    |
|           |                                       | Capital                   | 0.41               |                | 0.41               | 0.41               |             | 0.41               | 0.41                | 0.41               | 0.55               |                    |
|           | alth and family we<br>Health and      |                           | 1200 44            | (21.4)         | 1250 44            | 1040.00            |             |                    |                     |                    |                    |                    |
|           | Indian medicine,                      | Total<br>Revenue          | 1289.66<br>1266.35 | (21.4)         | 1259.66<br>1264.80 | 1062.23            | (17.2)      | 993.89             | 843 94              | 734 15             | 525.31             | 479.4              |
|           | homeopathy, etc                       | Capital                   | 23 31              |                | -5 14              | 1064.97<br>-2.74   |             | 975 84<br>18 05    | 849.53<br>-5 59     | 739.76<br>-5 61    | 526.21<br>0.90     |                    |
|           | nomeopamy, etc                        | Plan                      | 795.66             |                | 795 66             | 626.50             |             | 585.00             | 493.54              | 493.15             | 271.73             | 247.7              |
|           |                                       | Revenue                   | 765.70             |                | 794 15             | 622.59             |             | 584 30             | 492 48              | 438 84             | 271.73             | 247.7              |
|           |                                       | Capital                   | 29.96              |                | 1.51               | 3 91               |             | 0 70               | 1 06                | 0.31               | 0.20               |                    |
|           |                                       | Non-plan                  | 494.00             |                | 464 00             | 425.73             |             | 408.89             | 350.40              | 295.00             | 253.58             | 231.6              |
|           |                                       | Revenue                   | 500.65             |                | 470.65             | 442.38             |             | 391.54             | 357.05              | 300.92             | 254 68             |                    |
|           |                                       | Capital                   | -6.65              |                | -6.65              | -6.65              |             | 17.35              | 6,65                | -5.92              | -1.10              |                    |
| 2         | Family welfare                        | Total                     | 1550.00            | (1.6)          | 1550.00            | 1525.31            | (13.9)      | 1442 03            | 1284.91             | 1051.41            | 866.60             | 794.7              |
|           |                                       | Revenue                   | 1548.65            |                | 1548 65            | 1525.16            |             | 1441.88            | 1284.76             | 1051.26            | 865.75             |                    |
|           |                                       | Capital                   | 1.35               |                | 1.35               | 0.15               |             | 0.15               | 0.15                | 0.15               | 0.85               |                    |
|           |                                       | Plan                      | 1535.00            |                | 1535 00            | 1506 00            |             | 1430.00            | 1273.57             | 1041 00            | 855.52             | 784.7              |
|           |                                       | Revenue                   | 1533.65            |                | 1533 65            | 1505.85            |             | 1429 85            | 1273.42             | 1040.85            | 855.67             |                    |
|           |                                       | Capital                   | 1.35               |                | 1 35               | 0.15               |             | 0.15               | 0.15                | 0.15               | 0.85               |                    |
| m e.      |                                       | Non-plan (C)              | 15.00              |                | 15 00              | 19.31              |             | 12.03              | 11.34               | 10.41              | 10.08              | 9.9                |
|           | onomic Affairs an<br>Economic affairs | a Commerce<br>Total       | 2615 41            | . 70           | 3711.15            | 2812.20            | 16 A)       | 4166.57            | 3304 01             | 2931.38            | 2232.70            | 2063.1             |
| 1         | Economic arrairs                      | Revenue                   | 2754 96            | (-/ 0)         | 4345 70            | 3035.18            | (64)        | 2224.40            | 1602.76             | 1418 44            | 1089 63            | 2003.1             |
|           |                                       | Capital                   | -139.55            |                | 7634.75            | - 222.98           |             | 1942.17            | 1701 25             | 1512.94            | 1143.07            |                    |
|           |                                       | Plan                      | 1199 96            |                | 699 96             | 888.80             |             | 2147.73            | 1465.79             | 618.09             | 1087 91            | 980.6              |
|           |                                       | Revenue                   | 75.66              |                | 75.66              | 115.82             |             | 93.78              | 100.12              | 128 88             | 139 30             | 7017.0             |
|           |                                       | Capital                   | 1124 30            |                | 624 30             | 773.28             |             | 2053.95            | 1365 67             | 489 21             | 948.61             |                    |
|           |                                       | Non-plan                  | 1415.45            |                | 3011.19            | 1923.40            |             | 2018.84            | 1838 22             | 2313 29            | 1144 79            | 1082.5             |
|           |                                       | Revenue                   | 2679.30            |                | 4270.04            | 2919.66            |             | 2130.62            | 1502.64             | 1289 56            | 950.33             |                    |
|           |                                       | Capital                   | -1263.85           |                | -1258.85           | -996.26            |             | -111.78            | 335.58              | 1023.73            | 194.46             |                    |
|           | mo items.                             |                           |                    |                |                    |                    |             |                    |                     |                    |                    |                    |
|           | ting up of financia                   | l                         |                    |                |                    |                    |             |                    |                     |                    |                    |                    |
|           | titutions for                         |                           |                    |                |                    |                    |             |                    |                     |                    |                    |                    |
|           | rastructure                           | T-4-1 (D)                 | 600.00             |                |                    |                    |             |                    |                     |                    |                    |                    |
|           | velopment                             | Total (P)<br>Total        | 500 00             | (26.2)         | 724 86             | 668 14             | (-30 2)     | 950.50             | 947.85              | 1585 95            | 3141,94            | 4046.4             |
| 2         | Commerce                              | Revenue                   | 909.86<br>848.86   | (30.2)         | 663.86             | 592.11             | (-30 2)     | 861.80             | 902.53              | 1045.97            | 1969.53            | 4040               |
|           |                                       | Capital                   | 61.00              |                | 61 00              | 76.03              |             | 88.70              | 45.32               | 539.98             | 1172.41            |                    |
|           |                                       | Plan                      | 283.80             |                | 243.80             | 194.84             |             | 180.00             | 122.71              | 77.00              | 77.63              | 61.0               |
|           |                                       | Revenue                   | 222.80             |                | 182 80             | 120 34             |             | 91.30              | 77.39               | 55.02              | 55.22              |                    |
|           |                                       | Capital                   | 61.00              |                | 61.00              | 74 50              |             | 88.70              | 45.32               | 21 98              | 22 41              |                    |
|           |                                       | Non-plan                  | 626.06             |                | 481.06             | 473 30             |             | 770.50             | 825.14              | 1508.95            | 3064 31            | 3985.3             |
|           |                                       | Revenue                   | 626.06             |                | 481.06             | 471.77             |             | 770.50             | 825.14              | 990.95             | 1914.31            |                    |
|           |                                       | Capital                   | 0.00               |                | 0,00               | 1.53               |             | 0.00               | 0.00                | 518.00             | 1150 00            |                    |
| 3         | Revenue                               | Total                     | 1519.53            | (12.5)         | 1494.53            | 1351.88            | (12.1)      | 1138.02            | 1041 00             | 922.08             | 845.15             | 763 (              |
|           |                                       | Revenuc                   | 1198.97            |                | 1173 97            | 1094.14            |             | 981.80             | 895.59              | 780.46             | 677.14             |                    |
|           |                                       | Capital                   | 320.56             |                | 320.56             | 257.74             |             | 156.22             | 145.41              | 141.62             | 168.01             |                    |
|           |                                       | Plan (R)                  | 1.00               |                | 1.00               | 0.69               |             | 0.00               | 0 00                | 0.00               | 0.00               | 0.0                |
|           |                                       | Non-plan                  | 1518.53            |                | 1493.53            | 1351.19            |             | 1138.02            | 10410               | 952.08             | 845.15             | 763.               |
|           |                                       | Revenue                   | 1197.97            |                | 1172 97            | 1093 45            |             | 961.80             | 895.59              | 780.46             | 677.14             |                    |
| _         |                                       | Capital                   | 320.56             |                | 320.56             | 257.74             |             | 156.92             | 145 41              | 141.62             | 168.01             | 450                |
| 4         | Expenditure                           | Total                     | 5659.29            | (267.7)        | 6658.01            | 1539.14            |             | 1315 99            | 1169.20             | 999.59             | 823.09             | 252                |
|           |                                       | Revenue                   | 5659.29            |                | 6658.01            | 1539.14            |             | 1314.17            | 1162.44<br>6.76     | 995.68             | 821.09<br>2.00     |                    |
|           |                                       | Capital                   | 0.00               |                | 0.00               | 0.00<br>1.93       |             | 1.82<br>3.51       | 7.50                | 3.91<br>4.43       | 2.48               | 1.                 |
|           |                                       | Plan                      | 1.79               |                | 1.79<br>1.79       | 1.93               |             | 1 69               | 0.74                | 0.52               | 2.48<br>0.48       |                    |
|           |                                       | n                         |                    |                | 1./7               | 1.7.1              |             | 1 (17)             | U.14                | U.JZ               | 0.40               |                    |
|           |                                       | Revenue                   | 1.79               |                |                    |                    | 1           | 1 27               | 676                 | 3 01               |                    |                    |
|           |                                       | Capital                   | 0.00               |                | 0.00               | 0.00               |             | 1.82               | 6.76<br>1161.70     | 3.91<br>995 16     | 2.00               |                    |
| •         | Beansmin official                     | Capital<br>Non-plan (R)   | 0.00<br>5657.50    | /11 <b>0</b> \ | 0.00<br>6656.21    | 0.00<br>1537.21    |             | 1312.48            | 1161.70             | 995.16             | 2.00<br>820.61     | 250.               |
| 5         | Economic affairs centralised          | Capital<br>Non-plan (R)   | 0.00               | (11.8)         | 0.00               | 0.00<br>1537.21    | (16.1)      |                    | 1161.70<br>44442.76 | 995.16<br>39126.36 | 2.00               | 250.<br>32791.     |

Table 8: Expenditures of Ministries and Departments of the Government of India (Continued)

| Minis | tries/Departments                      | Expenditure      | 1996-97            |              | 1996-97            | 1995-96            |         | 1994-95           | 1993-94            | 1992-93       | 1991-92            | 1990-91      |
|-------|----------------------------------------|------------------|--------------------|--------------|--------------------|--------------------|---------|-------------------|--------------------|---------------|--------------------|--------------|
|       |                                        | Categories       | Budget<br>(July)   |              | Budget<br>(Feb)    | Revised            |         | Revised           | Revised            | Revised       | Revised            | Revised      |
| 1     |                                        | 2                | 3                  |              | 4                  | 5                  |         | 6                 | 7                  | 8             | 9                  | 10           |
| VIII  | Administration a                       |                  | fence, Law a       | nd Cour      | ns, Election (     | Commission,        | Parliam | ent, Plannin      | g and Statisti     | cs, Program   | me Impleme         | entation and |
|       | President's Secrete Administration tot |                  | 38545.17           | <b>(5.2)</b> | 38025.60           | 36650 57           | (11.5)  | 32002.40          | 20212 77           | 24734.34      | 22121.26           | 21275.37     |
| ,     | Administration to                      | Revenue          | 28884.18           | (3.2)        | 28412.43           | 28014.44           | (11.5)  | 24490.96          |                    | 18780.47      | 16806.87           | 212/3.3/     |
|       |                                        | Capital          | 9660.99            |              | 9613.17            | 8636.13            |         | 7511.44           | 7178.62            | 5954 37       | 5314.39            | ••           |
|       |                                        | Plan             | 300.54             |              | 263.29             | 250.70             |         | 216.29            | 184.82             | 93.22         | 70.81              | 70.98        |
|       |                                        | Revenue          | 182.14             |              | 182.71             | 182.03             |         | 157.21            | 140.54             | 82.32         | 53.69              | , 0.50       |
|       |                                        | Capital          | 118.40             |              | 80.58              | 68.67              |         | 59.08             | 44.28              | 10 90         | 17.12              |              |
|       |                                        | Non-plan         | 38244 63           |              | 37762.31           | 36399.87           |         | 31766.11          | 29127.95           | 24641.62      |                    | 21204.39     |
|       |                                        | Revenue          | 28702.04           |              | 28229 72           | 27832.41           |         | 24333.75          | 21993.61           | 18698.15      | 16753.18           |              |
| C     | )f which:                              | Capital          | 9542.59            |              | 9532.59            | 8567.46            |         | 7452.36           | 7134 34            | 5943.47       | 5297.27            |              |
| A     | Defence (civil)                        | Total (NP)       | 3540.95            | (3.6)        | 3520 41            | 3419 20            | (12.1)  | 2943.54           | 2791.91            | 2585.66       | 2075.93            | 1934.32      |
|       |                                        | Revenue (NP)     | 3506.27            |              | 3485.73            | 3381 74            |         | 2897.24           | 2702.52            | 2496 28       | 1958 50            |              |
|       |                                        | Capital (NP)     | 34.68              |              | 34.68              | 37.46              |         | 46.30             | 89.39              | 89 38         | 117.43             |              |
| В     |                                        | Total (NP)       | 27798.47           | (3.4)        | 27819.00           | 26879.00           | (11.3)  |                   |                    | 17500.00      | 16350.00           | 15750.00     |
|       | (services)                             | Revenue (NP)     | 18854.59           |              | 18875.12           | 18835.12           |         | 16610.76          |                    | 12361 66      | 11467 11           |              |
| _     |                                        | Capital (NP)     | 8943.88            |              | 8943.88            | 8043.88            |         | 6933.24           | 6556 47            | 5138.34       | 4882.89            |              |
| C     | Home affairs                           | Total            | 4998.88            | (14.1)       |                    | 4379 78            | (12.9)  |                   | 3708.50            | 3533 11       | 2701.27            | 2392.57      |
|       |                                        | Revenue          | 4429 64            |              | 3994.92            | 3905.70            |         | 3458.93           | 3274 78            | 2893 12       | 2449.07            |              |
|       |                                        | Capital          | 569.24             |              | 531.99             | 474.08             |         | 452 67            | 433.72             | 639 99        | 252.20             | 021          |
|       |                                        | Plan<br>Revenue  | 105.00<br>37.75    |              | 76 75<br>36.75     | 76.56<br>36.56     |         | 52.77<br>27.77    | 50 10              | 11.57         | 11 08              | 8.31         |
|       |                                        | Capital          | 67.25              |              | 40.00              | 40.00              |         | 27.77<br>25 00    | 25.10<br>25.00     | 11.57<br>0.00 | 11.08<br>0 00      | •            |
|       |                                        | Non-plan         | 4893 88            |              | 4450 16            | 4303.22            |         | 3858.83           | 3658 40            | 3521 54       | 2690.19            | 2384 26      |
|       |                                        | Revenue          | 4391 89            |              | 3958.17            | 3869.14            |         | 3431.16           | 1249 68            | 2881.55       | 2437 99            | 2304 20      |
|       |                                        | Capital          | 501.99             |              | 491.99             | 434.08             |         | 427.67            | 408 72             | 639 99        | 252 20             | •            |
| IX (  | Central Ministries                     | •                | 181977.82          | (12 0)       |                    |                    | (11.8)  | 140814 03         |                    |               |                    | 92984.55     |
| I     | Departments:                           | Revenue          |                    |              | 150436 37          | 132890.49          | ,,      | 111122.60         |                    | 85012 12      | 74893.36           |              |
| 1     | fotal (I to VIII)                      | Capital          | 31515.54           |              | 31333 47           | 29544.00           |         | 29691.43          | 23014 59           | 21133 04      | 21697 90           |              |
|       |                                        | Plan             | 32713.26           | (13.5)       | 31015.01           | 28830 14           | (10.4)  | 27933.58          | 25012 22           | 19634 23      | 17670.61           | 17593.61     |
|       |                                        | Revenue          | 22824 33           |              | 22763 51           | 20512.51           |         | 17795.83          | 15829 51           | 11791 49      | 9342 79            |              |
|       |                                        | Capital          | 9888,93            |              | 8251.50            | 8317.83            |         | 10137.75          | 9182.71            | 7842 74       | 8327 82            |              |
|       |                                        | •                |                    | (11.7)       | 150754 83          |                    | (12 1)  | 112880.45         |                    | 86510.93      |                    | 75390 94     |
|       |                                        |                  | 127637.95          |              | 127672.86          | 112378.18          |         | 93326.77          |                    | 73220 63      | 65550.57           |              |
|       |                                        | Capital          | 21626.61           |              | 23081.97           | 21226.17           |         | 19553.68          |                    | 13290 30      | 13370.08           |              |
| X S   | State Plans (incl nec                  |                  |                    | (11.3)       | 18726.11           | 19070 70           |         |                   | 20012.93           |               |                    | 11354 02     |
|       |                                        | Revenue          | 10373.08           |              | 9207.33            | 9625 20            |         | 10930 74          | 10261 72           |               | 7194 93            |              |
| VI I  | Union Territories                      | Capital<br>Total | 10847.03           | /A 15        | 9518 78            | 9445 50            |         | 9203.60           | 9751 21            | 7764 22       | 6971 10            |              |
| XI I  | Union Territories                      | Revenue          | 1499.90<br>1022 48 | (0.1)        | 1528 15<br>1013 62 | 1499.07<br>1005.91 | (-0 0)  | 1323 97<br>848.42 | 2320.37<br>1437 98 |               | 2344 80<br>1541.39 |              |
|       |                                        | Capital          | 477.42             |              | 514 53             | 493.16             |         | 475.55            | 822,39             |               | 803.41             | •            |
|       |                                        | Plan             | 751.64             |              | 779.89             | 782.81             |         | 692.79            | 1001 42            |               | 1195.58            | 1008.32      |
|       |                                        | Revenue          | 269.72             |              | 260.86             | 284 88             |         | 210.40            | 263 10             |               | 395.94             | 1000.52      |
|       |                                        | Capital          | 481.92             |              | 519.03             | 497 93             |         | 482 39            | 738.32             |               | 799.64             | ••           |
|       |                                        | Non-plan         | 748.26             |              | 748.26             | 716.26             |         | 631.18            | 1318.95            |               | 1149.22            | 137C.27      |
|       |                                        | Revenue          | 752 76             |              | 752.76             | 721.03             |         | 638.02            | 1174.88            |               | 1145.45            |              |
|       |                                        | Capital          | -4 50              |              | -4.50              | -4.77              |         | -6.84             | 144.07             |               | 3 <b>7</b> 7       |              |
| XII ( | Grand Total                            | Total            | 204697 83          | (11.9)       | 202024.10          | 183004.26          | (11.4)  | 162272.34         | 143871 82          | 124726 04     | 113102.09          | 106717.06    |
| (     | (IX to XI)                             | Revenue          | 161867 84          |              | 160657.32          | 143521.60          |         | 122901.76         | 110223.63          | 94979 59      | 83629 68           |              |
|       |                                        | Capital          |                    |              | 41366.78           | 39482.66           |         | 39370.58          |                    | 29746.45      | 29472 41           |              |
|       |                                        | Plan             | 54685.01           |              |                    | 48683.65           |         |                   |                    | 36972.79      |                    | 29955.85     |
|       |                                        | Revenue          | 33467.13           |              | 32231.70           | 30422,39           |         | 28936 97          |                    | 20517.88      | 16933.66           |              |
|       |                                        | Capital          |                    |              | 18289 31           | 18261.26           |         | 19823 74          |                    | 16454 91      | 16098.56           |              |
|       |                                        |                  |                    |              | 151503.09          |                    |         | 113511.63         |                    | 87753.25      |                    | 76761.21     |
|       |                                        |                  | 128390.71          |              | 128425.62          |                    |         | 93964.79          |                    | 74461.71      | 66696.02           |              |
|       |                                        | Capital          | 21622.11           |              | 23077.4 <b>7</b>   | 21221.40           |         | 19546 84          | 139/3 93           | 13291.54      | 13373.85           | ••           |

Notes: 1 Figures in brackets under col 3 represent growth rate in per cent over col 5 and the same in col 5 represents annual average compound growth rate

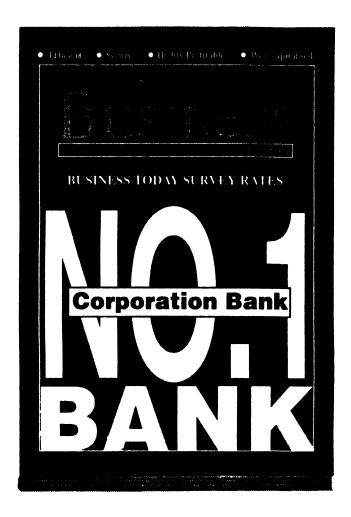
<sup>2</sup> Alphabets under col 2 mean the following: (R) means revenue account, (C) means capital account, (NP) means non-Plan, and (P) means Plan. These short-cuts are used to indicate that only one of the two heads, that is, either revenue account (R) or capital account (C) is relevant for the specified sector, similarly, either non-plan (NP) or plan (P) expenditure alone is prevalent.



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#### LETTERS TO EDITOR

#### **Defining Union Work**

THE article 'Defining Union Work' (July 27) by Vrijendra ostensibly appearing as a review or analysis of a Mumbai High Court ruling in favour of Blue Star, setting aside an Industrial Court order regarding the right of N Vasudevan (our working president) to do trade union work during office hours is in effect an attempt on the part of the author to denigrate trade unions in general and independent unions in particular. We are concerned at the innuendos aimed at the Blue Star Workers Union and its officebearers We disagree with several other formulations propounded by the author.

Masquerading as a friend of labour, Vrijendra says that a significant number of unions including the established ones and their (dedicated?) leaders negotiate with employers cornering privileges and benefits for a small group of office-bearers at the cost of their members. Such undemocratic functioning of the office-bearers isolates the leadership from their members and this isolation gives a handle for the employers to attack unions. According to Vrijendra, Blue Star management would not have succeeded in taking away Vasudevan's right to do trade union work during office hours had the union not resorted to undemocratic practices. The author has not bothered to substantiate his allegations against our union. He has indulged in unalloyed calumny.

Blue Star Workers Union emphatically states that at no stage in a quarter century of its existence have its office-bearers or Vasudevan negotiated with the employers any personal privilege or benefit for any office-bearer of the union. In fact it is the office-bearers of Blue Star Workers Union who have borne the brunt of employer offensive and 65 leading union activists are now under dismissal and Vasudevan has refused to compromise his right to do trade union work and has sacrificed wages since 1989. He is facing an enquiry presently for not giving up trade union activity. Blue Star Workers Union has a long history of struggle for workers' rights inside the company and outside upholding the best working class traditions. Withdrawing Vasudevan's right to do trade union work was to weaken Blue Star workers' collective resistance to the brutal power of Blue Star capitalists and it was only a miscarriage of justice that led to Blue Star Workers Union losing the court battle. All class conscious workers have steadfastly supported the union throughout.

It is a pity that Vrijendra's erudition did not penetrate deep enough to understand the class nature of the court ruling. What is more, his inability to comprehend the legal complexities involved in the case becomes evident when he uncritically adopts the high court ruling in favour of the company.

Apart from the caption, Vrijendra's treatise has miserably failed to offer any definition for trade union work.

Blue Star Workers Union, with was 125 like-minded unions in the coa a part of a Committee for Trade over ry, is Union Rights now campaigning for a legal ght to do trade union work during office ours.

MAYE President, Blue Star Workers Uno Mumbai

II

THE article 'Defining Union Work' by Vrijendra (July 27) makes several day atable points which we do not wish to take here. However, it is necessary to make in immediate clarification. The article inplies that N Vasudevan and other independent union leaders appropriate to themseles, as "personal privileges", "benefits" when have been "negotiated and made availablet union activists". In the case of Vasudevan ad the Blue Star Workers Union, these allegations are totally untrue. No 'benefits' for union activists' were ever 'negotiated'. Vas devan and the Blue Star Workers Union imply created the right to time-off for union work by doing union work in working hours. While the union was in a strong position, the company could not stop the practice. When the balance of power shifted to management, they stopped paying Vasudevan's salary. Since 1989, he has continued to doft 1-time union work without payment from the company. It is surely unjust to refer to his willingness to endure personal hardhip in the cause of his union work as pisonal privileges' or 'benefits'

FRANKI YND SOUZA

Trade Union Solidarity Committee (TUSC), Mumbai

## High Cost of Sardar Sarbvar

THIS refers to my article 'Is Sardar anovar Financially Viable?' (July 20). The following further information received subsequently

in this regard, I presume, will be of interest to your readers.

In December 1995 the government of Gujarat had itself commissioned a study by external consultants for assessing the ways and means of financing the SSP. The study has revealed that "...the trend clearly indicates that SSNN's ability to raise funds through this source [bond issues guaranteed by tripartite agreement) on a sustained basis is doubtful. The credit enhancement does provide a greater safety to the investors. but the total amount is not insignificant in relation to the size of GoG finances. Hence. the degree of safety provided by the same mechanism (of tripartite agreement) cannot remain the same on a sustainable basis for regular borrowing programmes.

The study states further that "it is unlikely that the irrigation water would be priced in a manner that would reflect its true cost. The power component is relatively small, and would be used mainly for peak load requirements. Hence, SSNN is unlikely to be in a position to service its debt obligations on a stand-alone basis, with the likely pricing structure...the project is not a financially viable concept, as a stand-alone

entity...'

To have an idea of the size of the demands on the GoG if SSNN defaults, consider that the project has to return Rs 8,000 crore in 2013 AD for the Rs 256.65 crore that it had raised from the Deep Discount Bonds in 1993. The SSNN, which gets budgetary support each year to the tune of Rs 500 crore. is now required to pay Rs 270 crore as interest this year. The GoG support is also at the cost of Saurashtra and Kutch ir whose name the project is being implemented. All minor and medium irrigation projects in these areas stand abandoned since the last eight years. It is indeed a tragic situation.

K K Oza

Bhavnagar

|                                                 | ubscription<br>Inland<br>Jung Nepal ar |                 |                 |                 |
|-------------------------------------------------|----------------------------------------|-----------------|-----------------|-----------------|
| ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,         |                                        | ,               |                 | (in jupess)     |
| Institutions                                    | Six months                             | One year<br>600 | Two years       | Three years     |
| Individuals                                     | 250                                    | 475             | 875             | 1275            |
| Concessional Rates                              |                                        |                 |                 |                 |
| Teachers/Researchers                            | _                                      | 325             | _               | 900             |
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| Concessional rates are available only           | in India. To a                         | vail of concess | nonal rates, co | rtificate from  |
| rel vant institution is essential               |                                        |                 | •               |                 |
| Remittance by money order/bank dr               | ft/postal order                        | requested Plan  | ease add Rs 14  | 4 to outstation |
| cheques towards bank collection d               |                                        | •               |                 |                 |
| •                                               | Foreign                                | ı               |                 | (in US \$)      |
|                                                 | Air                                    | Mail            | Surfac          | e Mail          |
|                                                 | Institutions                           | Individuals     | Institutions    | Individuals     |
| Pakistan, Bangladesh and Sri Lank               | 80                                     | 50              | 65              | 30              |
| USA, Canada, UK, Europe,<br>Japan, New Zealand, |                                        |                 |                 |                 |
| Australia & Russia                              | 150                                    | 100             | 90              | 65              |
| All other countries                             | 100                                    | 70              | 70              | 50              |
| All remittances to Economic and                 | Political Wee                          | kly             |                 |                 |



## Targeting Inflation, atting Production

THE recent behaviour of inflation in the lith economy exhibits marked structuralist characteris. In the first place, sectoral price increases have shown notal ifferences, reflecting specific supply conditions. Second there have been significant fluctuations in the year-to-year lation rate which are not explainable in terms of the conformal money and income growth, thus exposing the lowness of the monetary authorities' claim of having achid a delicate balance among money, output and prices. Find whether we take the immediate period or a longer on the inflation targeting exercise of the authorities has achieve nothing; on the contrary, it has been shown to have hurtin stiment and output. Against the background of the gride all-round pessimism about a slow-down of real economic ctivity as a direct consequence of liquidity and interest rate straints, the Reserve Bank of India's claim in its recently-used Annual Report for 1995-96 that "it is possible to target thion without hurting real economic activity" is difficult to each.

hurting real economic activity" is difficult to hach.

The developments of the past few years his increasingly questioned the sustainability of the government free market policies and it is no wonder that the RBI had an forced to retrace its steps and switch, however reluctant to interventionist policies in regard to maintaining the exact rate of the rupee, fixation of coupon rates of government curities and monitoring the end-use of credit advanced banks and financial institutions. Even the much-publicity RBI-government agreement on the use of ad hoc treasury that had to be given the go-by. Developments in the economic including the trend of inflation, have driven home the needed he monetary authorities to forget inflation targeting and its instead on restoring the dynamic role of credit in the property of development, which requires attention to be paid to both esize and the distribution of credit. This has to be accepted the monetary authorities as their primary responsibility, not sing the willow-the-wisp of controlling uncontrollable Mainflation.

The RBI had proposed that the parametropic objective of monetary policy in 1994-95 would be to ing down the inflation rate sharply by 4 percentage points in about 10.8 per cent to 6-7 per cent and, with that object, to contain monetary expansion to 14-15 per cent. The greended with a much higher monetary expansion of over 17 cent (though not 22.3 per cent, the RBI's figure for 27 taights) and an inflation rate of 10.4 per cent on a point-to-per basis and 10.9 per cent on the basis of the weekly average the wholesale price index. These targeting exercises had be predicated on the assumption of GDP growth of less than er cent, which was revised to 5.5 per cent in the mid-year dit policy. The year actually ended with 6.3 per cent GDP growth of the strand yet both

the inflation and monetary targets were far exceeded. For 1995-96, again, with a projected GDP growth rate of 5.5 per cent, the inflation target was moderated to 8 per cent because the previous two years had seen large increases in money supply and the M, growth consistent with this inflation objective was placed at 15.5 per cent. Though the government and the RBI have claimed that the economy grew by 7 per cent in 1995-96, the growth is unlikely to have been higher than the 6.3 per cent achieved in the previous year, for the agriculture ministry has now revised downwards its foodgrains production estimate from 190.4 mn tonnes to 185 mn tonnes, an absolute decline of 3.2 per cent over the previous year. Likewise, due to reporting problems, the actual monetary growth in 1995-96 is not known. Conceding that its figure of a moderate monetary growth of 13.2 per cent in 1995-96 was largely on account of the high base of March 31, 1995, the RBI has claimed that actual monetary growth in the year had been equal to the longterm annual average of 17 per cent. Despite such high monetary growth and the same GDP growth as in the previous year, there occurred a sharp fall in the inflation rate from 10.4 per cent in 1994-95 to 5 per cent in 1995-96 on a point-to-point basis. Even in weekly average terms, the inflation rate fell from 10.9 per cent in 1994-95 to 7.8 per cent in 1995-96. All the major reasons to which the decline in inflation is attributable fall outside the monetary sphere. Large releases from government food stocks, lowering of customs and excise duties on a wide range of commodities, augmentation of supplies through import of consumer, intermediate and capital goods and the stability of the rupee's exchange rate for a long period have been one set of factors, though more important perhaps was the suppressing of inflation by the government by refusing to raise administered prices even at the cost of larger budgetary subsidies.

This situation could not obviously continue for long. As soon as the new UF government raised the prices of petroleum products at the beginning of July by 15 to 30 per cent, the annual inflation rate began to move up and was 6.5 per cent for the week ended September 21 compared to 4.2 per cent at the end of June. The government has just announced increases ranging from 3 to 6 per cent in procurement and support prices of kharif foodgrains and other crops. Issue prices under the public distribution system have, on the other hand, remained unchanged since February 1994. Prices of coal, power and once again petroleum are due for revision if budgetary subsidies are to be contained. A significant element of suppression of inflation is thus persisting and is responsible for the still apparently moderate overall inflation rate.

Besides, a significant aspect of the behaviour of inflation has been the persistence of relatively high increases in prices

of 'food articles' among primary articles and 'food products' among manufactures. The price index of 'food articles' has gone up by 9.1 per cent in the last one year (up to September 14), compared to 8.7 per cent in the preceding 12-month period. Similarly, the index for 'food products' has risen by 7.9 per cent against a rise of only 2.8 per cent in the previous 12-month period. As a result, the composite index for food items has shown a rise of 8.8 per cent in the latest period against 6.7 per cent earlier. The sharper rise in prices of food items, which is continuing, is reflected in the persistence of the near two-digit rise in the consumer price indices. The CPI for industrial workers for July showed an annual increase of 8.3 per cent on top of a rise of 11.4 per cent in the preceding 12-month period.

The emerging sluggishness in industrial investment and production is also exerting a dampening influence on inflation. The price index for manufactured products other than 'food products' thus shows a strikingly small increase of 3.4 per cent over the past year against an increase of 11.6 per cent in the preceding 12-month period. The latest data on industrial output, bank credit and exports point unambiguously to a slowing down of economic activity brought on by the ridiculously high levels of real interest rates—the one achievement the much-vaunted financial sector reforms can take credit for.

So much then for the Reserve Bank's claim that "it is possible to target inflation without hurting real activity".

HEALTH

#### Need for New 'Wisdom'

CONVENTIONAL wisdom among health analysts and historians of social medicine is that a country with a developing economy, a good agricultural base and a vibrant growing industrial and manufacturing sector will essay a transformation in its health picture. There will be a snift away from what were referred to (and still are in some quarters) as 'tropical diseases' to an increase in degenerative diseases. This is not only because the population grows older, the assumption is that diseases which are 'preventable' have been prevented, diseases for which there is a medicure are under control and there is sufficient 'health consciousness' to ensure that no ugly pathogens are allowed to get out of hand.

If the government's periodic Economic Surveys and the glorious statements of the finance, agriculture and industry ministers are to be believed. India is at just such a point in its development history when we should be concentrating our resources entirely on dealing with degenerative diseases, diseases of 'leisure', with accidents and addiction, etc. In fact, if one were to look only at the

pattern of growth of our health institutions this indeed would seem to be the superspecialist hospitals for heart dis for cardiovascular ailments, sophistical accident and trauma clinics are a proment feature of the new growth. And you he regularity with which 'resurgence' of deses is being reported tells another story Diauc fever and malaria have both ma a 'comeback' which has been quite unexpeded and have thrown the medical symm completely out of gear. Viral disease ke influenza are taking a toll of lives in age enough numbers. The Kyasanur test disease has today spread far beyond the confines of the forest after which it has en named. And tuberculosis, the old, old disease, is nowhere near under control. It is a thy surprising that the WHO's regional root for South and East Asia concludes the the goal of 'health for all' is nowhere nearling achieved.

That this ill health picture is larely confined to the poorer sections of the population is of course true. And the explanation is obvious – the public health system, which is the only provider of health care to the poor is rapidly deteriorating and populations already devastated by he ger and despair are further conftonted with diseases which they cannot cope with

But the situation in Kerala is not only intriguing but should give cause for sime serious enquiry. Towards the end of the monsoons, cholera was reported in not em Kerala, a region not particularly underserviced or poor compared to the rest of his 'developed' state. Worse, there were many deaths due to this old adversary of India's public health system. That cholera should have taken a near-epidemic form in a ate with the best health indices is itself disturbing, but that there should have been deaths in a state with high literacy and health awardess and an accessible and affordable health are system should prompt some cogitation. Given that Kerala is already giving thought to the post-health-transition diseases, it prompts the question whether developing countries should be preparing themselves for a vally different scenario from the one conventional wisdom has elaborated: that of continuing spread of communicable diseases in yeurore devastating forms, plus the degenerative diseases in populations which are nowhere near a general health status level where they can cope with these.

**1984 RIOTS** 

#### **Layers of Guilt**

A DELHI additional sessions judge has convicted some 80-odd criminals and passed the death sentence on one accused for their involvement in the 1984 massacre of Sikhs

in the capital. But even this belated justice may not be carried out expeditiously, judging by the time-consuming and tortuous process that marks the functioning of the hierarchical judicial system in our country.

Since the sentences were passed by an additional sessions judge in the lower echelon of the judicial hierarchy, the convicted persons have now approached the Delhi High Court with petitions seeking reversal of the judgment. The Delhi High Court has accepted their petitions and issued notices to the state on the petitions returnable on October 8. For all practical purposes, therefore, their conviction will remain shelved till that date and will continue to be held in abeyance till a judgment is arrived at. The matter will not end there. Even after the Delhi High Court delivers a judgment, the aggrieved petitioners (if the court upholds the judgment of the additional sessions judge) may go to the Supreme Court seeking the setting aside of the judgment. Thus they can evade punishment for a long while more. In fact, quite a few among these accused of the killings in 1984 are reported to have died by now

The very fact that these convicted petitioners can afford to appoint lawyers and continue with expensive legal battles suggests that they are not small-time criminals or riffraff, but enjoy the support of powerful politicians who were alleged to have hired them for the killings. Justice S N Dhingra, who sentenced the accused, pointed his finger at these powers behind them when he said, "the above accused persons have been convicted but those who engineered the riots are still at large".

The conviction of the 80-odd accused is thus a selective judgment. The brains behind the massacre (among whom are alleged to be such leading Congress politicians as H K L Bhagat and Sajjan Kumar, who have been indicted repeatedly by commissions of inquiry) have managed to escape even token conviction. Although charges have been framed against Bhagat and Sajjan Kumar, they are yet to be convicted. While these Congress politicians are believed to have been directly involved in the killings - as alleged by victims who saw them leading the mobs - there were other more important Congressmen at the helm of power who let the mobs go on a killing rampage for two to three days.

Among them Narasimha Rao needs to be indicted first, since as union home minister at that time he just refused to use his authority to order the police to stop the riots. It was this same deliberate refusal to act against the zealots of the 'Sangh-parivar' who demolished the Babri masjid and went on a killing spree against Muslims in 1992 that makes Narasimha Rao the arch villain again. But neither in the case of the 1984 massacre

of Sikhs nor in the 1992 case of anti-Muslim riots is Rao likely to be ever hauled up before the courts.

It is only after 12 years that at least some of those accused of the 1984 killings are being punished now. How many more years will it take to bring to trial the killers of Muslims in the 1992 riots?

THE ECONOMY

## Why Are Interest Rates High?

THE Reserve Bank of India's Annual Report for 1995-96 has at least one innovation to its credit. It has for the first time attempted an estimate of the consequences of its intervention in the foreign exchange market on the availability of liquidity in the system. This has become necessary because the shift to a liberalised exchange rate and capital flow regime has rendered the rupee susceptible to volatile fluctuations. Since a stable exchange rate is crucial for sustained 'investor confidence', intervention in the foreign exchange market has become a crucial function of the central bank.

During 1995-96, for example, a widening trade and current account deficit and a slow down in net portfolio inflows resulted in some downward pressure on the rupec. The nominal value of the currency initially fell to Rs 35.65 per US dollar in October 1995 and, as the strain persisted, the rupee touched a record low of Rs 37.95 to the dollar in February 1996. This forced the RBI to intervene in foreign exchange markets, sell dollars from its reserves, stabilise the rupee and pre-empt any collapse in investor confidence. As a result the net foreign exchange assets of the central bank declined. Since this involves a reduction in reserve money on the basis of which money supply expansion occurs, pressure on the rupee results in a squeeze in liquidity available to the system. In response, many observers attributed the 'tight money' situation and the high interest rates in 1995-96 to a slow-down in portfolio flows.

The RBI's Annual Report begs to differ. Evidence garnered by it does indicate that the cumulative net sales of foreign exchange between October 1995 and February 1996 amounted to Rs 5,995 crore, which provides an estimate of the impact of foreign exchange intervention on reserve money. However, starting March the central bank actually began purchasing dollars because of a turnaround in foreign institutional investor investments in the last quarter of the financial year. As a result, by June 1996, cumulative net sales of foreign exchange by the RBI turned negative, i e, the central bank had made a net purchase of foreign exchange to the

tuncars 1,401 crore between October 199 June 1996.

Tabl report treats the figure of net sale chases of foreign exchange by the centank not just as being an equivalent reserve money, whose impact on the bility of liquidity depends on some 'musier', but as indicative of the cun ve 'liquidity impact of RBI foreign excinitervention'. It then compares the loss in reserves consequent to central ban ervention in the foreign exchange magivith the liquidity injected into the systemrough a reduction in cash reserve requirents or the cash reserve ratio. Since CRaduction amounts to a 'release of pring liquidity', in the case of which most expansion once again depends on the plier, the comparison is justified.

such a comparison reveals is that "thou and liquidity impact of foreign exore transactions and CRR reduction dur the nine-month period between Occ. 1995 and June 1996 was an injection of litty of the order of Rs 14,126 crore". Aspained, this is in essence the increase in a reserve base which, assuming a matter of 3 and some reasonable lag, with have put liquidity amounting to Rs. 18 crore into the system. Since this such that there was no real monetary streety, the question arises as to why interacts in the economy ruled as high as that, with real interest rates at double-diabels.

Bl's answer is that the large fiscal de the government's budget tightened firmal markets and pushed up interest rar owever, this explanation is patently untractory, because even though the perance of a high fiscal deficit has been anied by some moderation in the itional deficit' (actually it was higher -96 than in 1994-95) or that financed vernment borrowing from the central ballrough the issue of ad hoc Treasury Bathere has been in fact a substantial in the monetised deficit of the ment. This is because a substantial of government securities put out at t-related' interest rates were not picked the financial markets so that they ed on the RBI which underwrites such As a result net RBI credit to the government or the monetised deficit 5-96 amounted to Rs 19,855 crore or ir 43 per cent of the central government's cal deficit of Rs 46,550 crore. Since pnetised deficit also contributes to an se in reserve money and money supply, cal deficit actually contributed to an ise in liquidity rather than to a tight w market and high interest rates.

as, any discussion of high interest rates a accommodate for the fact that in quate money supply expansion or even an 'excess demand' for credit cannot be the explanation. A satisfactory explanation must turn to the obvious links between the current high interest rate regime and liberalisation. First, given the crucial role of capital flows in forms varying from NRI deposits to portfolio equity inflows in sustaining the liberal import regime, interest rates and other financial returns linked to them have to be set high enough to attract such flows. Second, to ensure such high interest rates trade liberalisation has been accompanied by a 'stabilisation' policy which prevents the government from borrowing from the central bank at low interest rates through ad hoc Treasury Bills and forces it to borrow at 'market-related' rates even when it borrows from the central bank. Fiscal reform raises the 'official' floor to interest rates through policy. Finally, banking deregulation which sought to restore the attractiveness of bank deposits relative to other financial assets by liberalising interest rates, also sought to ensure that banks are able to maintain an adequate spread between interest paid on deposits and earned on lending by allowing them to diversify their activities into a range of areas, in particular personal finance. As a result, not only did interest rates on deposits rise significantly, but the portfolio of bank lending changed substantially. Personal financing, in particular high interest consumer loans, has come to account for a rising share of bank credit, pushing up interest rates overall. Factors such as these are missed in the RBI's analysis, which despite arguments to the contrary pins high interest rates on the government's fiscal deficit.

#### **MILITARY SPENDING**

#### Elusive 'Peace Dividend'

MILITARY spending worldwide dropped to a low of 2.4 per cent of world GDP in 1995 from 3.6 per cent in 1990, according to a study by IMF staff, based on data for 130member countries of the organisation and reported in a recent issue of IMF Survey. In nominal terms, the reduction in military spending during the period is estimated to have been of the order of \$ 120.7 bn. A stuly of worldwide military spending during the preceding five years, 1985-90, also indicated a decline. The decline then was of the order of 1.3 percentage points of GPD, ie, slightly higher than the decline by 1.2 percentage points during 1990-95. Aggregating the two five-year periods, military spending worldwide fell by almost three percentage points of GDP in the decade ending with 1995. Looked at differently, military spending as a percentage of GDP declined to less than half of what it was at the beginning of the last decade. There can thus be no doubt that the decade witnessed a "dramatic reduction in military spending".

Two questions arise: One, where did this reduction in military spending occur or who contributed to this decline in worldwide military spending and, two, how was the resultant saving or 'peace dividend' used?

The maximum reduction in military spending as a percentage of GDP occurred in the former USSR. Military expenditure in the so-called transition economics in 1995 was lower in absolute terms by \$ 125 bn than in 1990, with the countries of the former Soviet Union accounting for \$ 120.6 bn of the decline. While the military spending of the industrial countries declined during the five-year period by \$ 14.2 bn, that of the Asian developing countries including not only China but also the Indian subcontinent countries, increased by \$15.3 bn and that of the developing countries of West Asia and Europe, the group with still the highest level of military spending as a proportion of GDP, increased by \$ 6.4 bn.

As for the use of the so-called peace dividend, the aforementioned study rather interestingly observes that "countries that have made sharp cuts in military spending have also tended to reduce their non-military spending and their overall fiscal deficits while at the same time boosting social spending", suggesting thereby that "the peace dividend may have been used in part to finance social expenditures and in part returned to the private sector, potentially boosting private investment".

It is not clearly indicated what portion of the savings resulting from the reduction in military spending was used "to boost" social spending and in what proportion of the 90 countries that were found to have reduced their military spending in nominal terms. Also, the study fails to indicate whether or not the part of the saving that "returned to the private sector" actually translated itself in increased private investment. Nor is it indicated if such increased private investment was sufficient to compensate for the decline in public investment during the period in consequence of the relentless pursuit of IMFdecreed reduction in fiscal deficit. So the question that remains unanswered is whether the peace dividend promoted economic growth at all.

#### **PAKISTAN**

#### On the Boil

IT would not be far from the truth to say that a decade ago the sort of situation which today prevails in Pakistan would inevitably have led to the dissolution of the government and the military stepping in through one doorway or another. If there is a silver lining in the gloomy portents in that country today, it is that the last decade has seen a strengthening of democratic institutions such that forces inimical to them can be kept at bay. However, in the context of the current social turmoil and an economy rapidly careening towards the sort of dependency situation that perhaps was never there before, the question is for how long. The president's recent assurance to the opposition leader, Nawaz Sharif, during an unprecedented three-hour meeting, that the president has the discretionary powers under the constitution to dissolve parliament and constitute an interim caretaker government to conduct fresh elections "if the supreme national interest so demanded" is proof of two things: one, that democratic procedures and institutions have found their feet and must be given their due and, second, that the president is not averse to using his 'discretionary' and extraordinary powers under the controversial Eighth Amendment of Zia ul Haq, much condemned then by the two parties now in opposition and the ruling Pakistan People's Party, but never repealed.

It does not need a crystal-gazer to see what is in store on Pakistan's economic front. The rupee has been devalued 30 per cent since Benazir Bhutto assumed power, ostensibly to "boost exports, restrict imports and improve trade imbalance". And yet no comprehensive measures are being taken to stall the severe recession in manufacturing industry because of the high cost of production which in turn is pricing Pakistan's traditional exports out of world markets according to reports, 25 per cent of the important textiles sector and more than onehalf the engineering industry is at a standstill. This down-spiral is aided by galloping defence expenditure which the Bhutto government has found difficult to curtail because it has to keep the military quiescent. And while inducting her husband, once jailed on corruption charges, as minister for investment may have legitimised Zardari's involvement in state affairs, it has not silenced demands for an inquiry commission to investigate corruption in high places. In fact, the president has made a veiled reference to the public allegations about Zardari purchasing a 355-acre estate in Surrey. Moreover, the creation of a new ministry and its somewhat ambiguous description, it has been suggested during discussions in the National Assembly, may simply be a means of fattening personal pockets at the expense of further inflating state expenditure and stoking inflationary pressures.

On the political front, the opposition groups have recently launched the Save Pakistan Movement ('Pakistan Bachao Tehreek')

which has been having a series of successful public rallies. And although the movement comprises unlikely partners, such as the Jamaat i Islami, the Pakistan Muslim League(N) and the MOM(A) and may well have too short a life to make an impact, it still represents the emerging forces against Bhutto's patent mismanagement of the country's affairs. The fact that human rights and labour groups and fringe political formations have also raised their voice against it cannot be ignored, particularly because sections of these forces had in the past rallied around Benazir. This fact also shows that these 'progressive' forces are well aware that neither the army nor the Islamic forces are seen as being in a position to take charge of the country's affairs, or even wanting to do so, at the present juncture, which is why Benazir is no longer the lesser of the evils

Despite the fact that the army has been in Sindh now for over two years, the situation is not far from boiling over at any moment. While there is some calm – there have been highly optimistic and hopeful reports of Sindhi Hindus returning to Pakistan – Sindh is a scene of continuing tension. And the situation there has to be viewed as much in terms of the turmoil of decadent feudal forms as of ethnic violence. Without an emergent new economic structure, the conflicts are turning increasingly inwards.

It is against this background that the killing of Murtaza Bhutto should be viewed. He did not and never did represent any substantial threat to Benazir's political ambitions - but did, however, become a site for the crystallisation of feudal power struggles. As of now Benazir is unlikely to succeed in making political capital of it. The usual charges have been made of Murtaza supporters having been trained by RAW, while Murtaza loyalists have accused Zardari of conspiring to kill him. On the other hand, the president appears to have opted to pose challenges to the government during Benazir's period of mourning, by filing a reference to the Supreme Court on whether the president is bound by the prime minister's advice on the appointment of judges. Commentators point out that president Leghari could well have waited to seek the apex court's interpretation of article 48(1) of the constitution which has been a bone of contention between him and the prime minister for some time. In a sense Pakistan's problems are not unique but of a piece with the turmoil under way in the whole subcontinent. If it is taking a particular turn there, it is because of the specifics of the country which has as yet failed to produce a substantial middle class (as in Bangladesh) and/or a working class consolidation at any point in its history.

There has occurred a sharp downward revision of total foodgroup utput for 1995 96 by 5 mn tonnes to 185 mn tonnes implying a 3 2 per cent fall over 1994 95 Downward revisions are observed in kharif and rabi output or the rice and wheat. This is reflected in reduced public procurement, partly due to this and partly due to about 5 mn tonnes of exports, there has occurred a 10 mn to iduction in food stocks with public agencies over the past one year. The growth of infrastructure industries has slowed down this year. The number of persons a live registers of employment exchanges has edged up during 1995 96 from 36 6 mn to 36 8 mn likewise the number of placements moved up from 212 thousand, that is 3 6 per cent and 3 7 per cent of registrations in the respective years.

#### Macroeconomic Indicators

| Macroeconomic I                                          | ndicat          | ors                                            | •                                             | Ž                |                              |                        |                        |                         |                      |                              |                        |                        |
|----------------------------------------------------------|-----------------|------------------------------------------------|-----------------------------------------------|------------------|------------------------------|------------------------|------------------------|-------------------------|----------------------|------------------------------|------------------------|------------------------|
|                                                          |                 | eights S                                       | cpt 14                                        | -                |                              | V                      | ariation (             | Per Cent)               | Point to P           | oint                         |                        |                        |
| Index Numbers of Wholesal                                | e               |                                                | 199                                           | (Ove             |                              |                        |                        | ear So Far              | 1995 96              | 1994 95                      | 1993 94 1              | 992 93                 |
| <b>Prices</b> (1981-82 = 100)                            |                 |                                                |                                               | Monti            | n Latest                     | Previous               | 1996 97                | 1995 96                 |                      |                              |                        |                        |
| All Commodities                                          |                 | 100 0                                          | 316                                           |                  |                              | 89                     | 5 6                    |                         | 49                   | 101                          | 10.8                   | 70                     |
| Primary Articles Food Articles                           |                 | 32 3<br>17 4                                   | 330<br>373<br>340<br>324<br>306<br>305<br>348 | <b>全 ()</b>      |                              | 9 5<br>8 7             | 7 5<br>8 3             |                         | 57<br>97             | 127<br>119                   | 11 5<br>4 4            | 3 ()<br>5 4            |
| Non Food Articles                                        |                 | 10.1                                           | 34() y                                        | í                | 5 55                         | ıı ó                   | 7 4                    | 0.2                     | -í í                 | 15.5                         | 749                    | 14                     |
| Fuel Power, Light and Lubric                             | Lants           | 10.7                                           | 324                                           | 00               |                              | 16                     | 9 9<br>3 7             |                         | 0.1                  | 24                           | 13.1                   | 15.2                   |
| Manufactured Products Food Products                      |                 | <b>57 0</b><br>10 1                            | 305                                           | 1 3              |                              | 10 0<br>2 8            | 127                    |                         | 03                   |                              | 99<br>123              | 79<br>68               |
| Food Index (computed)                                    |                 | 27 5                                           | 348                                           | 7 10             |                              | 67                     | 97                     |                         | 66                   |                              | 70                     | 5.8                    |
| All Commodities (Average B<br>(April 6 September 11 1996 | asis)           | 100 0                                          | 308                                           | şı               | 5.8                          | 99                     | 5.2                    | 9 2                     | 7.8                  | 10 9                         | 8 3                    | 10 1                   |
| (April o September 11 1990                               | <u>''</u>       |                                                |                                               | <b>*</b>         |                              |                        |                        |                         |                      |                              |                        |                        |
| 47 - AT. 1 - T. 1                                        |                 |                                                | Lates                                         | _                | Our 12                       |                        |                        | Per Cent)<br>ear So Far |                      |                              | 002017                 | 002.02                 |
| Cost of Living Indices                                   |                 | 1                                              | Mont                                          | onth             | Latest                       | Miouni                 | 1996 97                | 1995 96                 | 199) 90              | 1994 91 1                    | 77174 1                | 992.91                 |
|                                                          |                 |                                                | -                                             | Ţ                |                              |                        |                        |                         |                      |                              |                        |                        |
| Industrial Workers (1982=10                              |                 |                                                | 73°                                           | 18               | 83                           | 11 4                   | 63                     |                         | 8 9                  | 97                           | 99                     | 61                     |
| Urban Non Man Emp (1984                                  | 87-1(XI)*       |                                                |                                               | 20               |                              | 10 t<br>14 t           | 7 8<br>6 3             | 8 1<br>6 3              | 7 2                  | 99<br>11 I                   | 83<br>112              | 68<br>06               |
| Agri Lab (1986-87=100) @<br>@ Based on linking fa        | ictor of 5      | 89 betwee                                      | nolddd∧                                       | Dew St           | nes (1986 8                  |                        |                        | or 1995 96              | , 4                  | •••                          |                        | WW                     |
|                                                          |                 |                                                |                                               | -                |                              |                        |                        |                         |                      |                              |                        | ~                      |
|                                                          |                 | Aug 30                                         | -                                             |                  | Fisc.                        | ıl Ycar Sc             |                        | Variation               |                      |                              |                        |                        |
| Money and Banking (Rs cro                                | (e)*            | 1996                                           | OW                                            | nth              | 1996 97                      |                        | 995 96                 | 1995                    | 96                   | 1994 95                      | 19                     | 93 94                  |
|                                                          |                 |                                                |                                               | <u> </u>         |                              |                        |                        |                         |                      |                              |                        | _                      |
| Money Supply (M <sub>3</sub> ) Currency with Public      |                 | 630742<br>120646                               |                                               | 0 6)<br>(1 4)    | 28906 '4<br>2485 (2          |                        | 03 (2 2)<br>52 (5 3)   | 71034 (<br>17372 (      |                      | 8617 (17 4<br>8806 (22 9     | •                      | 7 (19 3)<br>0 (20 9)   |
| Deposits with Banks                                      |                 | 504106                                         | 7                                             | (i 0)            | 23771 (4                     |                        | 63 (0 6)               | 53702 (                 |                      | 8956 (16 0                   |                        | 5 (187)                |
| Net Bank Credit to Govt                                  |                 | 2/3551                                         | 4.                                            | 41 8)            | 16141 (6                     | 3) 173                 | 23 (7.8)               | 14994 (                 |                      | 16325 (79                    |                        | 5 (16.3)               |
| Bank Credit to Comini Secto                              |                 | 3 49807                                        |                                               | n() 3)           | 1095 ( 0                     |                        | 79 (2 0)               | 51246 (                 |                      | 4991 (184                    |                        | 61 (7 5)<br>(110 9)    |
| Net Foreign Lxchange Assets Reserve Money                | •               | 82899<br>184195                                |                                               | (0 4)<br>-0 6)   | 5743 (7)<br>10142 (-5)       |                        | (3 (=1 4)<br>(08 (4 0) | 1233<br>25058 (         |                      | !3298*(44 +<br>!0608 (22   1 |                        | 2 (25 2)               |
| Net RBI Credit to Centre                                 |                 | 121286                                         | 6-6                                           | -> 2)            | 5518 (4)                     |                        | 1 (132)                | 19855 (                 |                      | 2130 (2.2                    | 2                      | 60 (0 3)               |
| Ad hoc Fic isury Bills                                   |                 | 32220                                          |                                               | <b>980</b> Ó     | 27                           | 75                     | 10280                  |                         | 5965                 | 1/5                          | 0                      | 6300                   |
| Scheduled Commercial Bank                                | .5              | 453096                                         | **                                            | (10)             | 20751 (4                     | e, 18                  | 1 ( 0 1)               | 45486 (                 | 118) 5               | 3630 (16-1                   | 1 5214                 | 4 (18 6)               |
| Deposits<br>Advances                                     |                 | 249311                                         |                                               | (0.5)            | 2789 ( 1                     |                        | 28 (0 4)               | 40540 (                 |                      | 10638 (23.8                  |                        | 66 (7-3)               |
| Non Food Advances                                        |                 | 239566                                         | O.                                            | (neg)            | 2743 ( 1                     | 1) 39                  | 9 (02)                 | 43024 (                 | 21 6) 3              | 17797 (234                   | ) 88                   | 75 (5.8)               |
| Investments * Based on March 31 figure                   |                 | 175940                                         | )4                                            | (07)             | 11799 (7                     | 2) 65<br>(ar 1005      | 44 (4 4)<br>06 (6)) v  | 14887 (                 | 100) 1<br>306.07 wł  | 4172 (10.5                   | ntinodit               | 1 (26.9)<br>Seelate to |
| March 29 1996                                            | anei cio        | sure or go                                     | VETDU                                         | accou            | ints except                  | 101 177 1              | 90 (Iuli y             | car, and r              | 77U 77 WI            | icic the na                  | iiking Gail            | i it iate to           |
| Index Numbers of Industria                               | JWeights        | April                                          |                                               |                  |                              |                        | Fiscal 3               | Year Avera              | vcs                  | -                            |                        | -                      |
| Production (1980 81 100)                                 | at w cigito     | 1996                                           | <b>*</b>                                      | 96               | 994 95                       | 1993 94                | 1992 9                 |                         |                      | 91 198                       | 9 90 1                 | 988 89                 |
|                                                          |                 |                                                | 224                                           |                  |                              | 11.175 7               | 210.00                 |                         |                      | 70 20 100                    | 40 2 10                | ñ ñ ñ ñ ñ              |
| General Indix                                            | 100 0           | 277 2(7 7)<br>227 1 (2 1)                      | 28(3)                                         | (0) 2            | 53 7(9 4) 2°<br>48 8(7 5) 2° | 11 1(7 0)<br>11 2(3 4) | 218 9(2                | 1) 2119(U<br>6) 2225(4  | 5) 2120              | (6.2) (90)<br>(6.3) 211      | 4(8 0) 18<br>6(7 9) 19 | 9 1(3.7)               |
| Mining and Quairying<br>Manufacturing                    | 77 1            | 277 ((2 1)<br>272 8(8 9)                       | つづむる                                          | 161 24           | 45 4(9 R) - 20               | 22 365 51              | 210 7(2 2              | 21 206 27 0             | 8) 2078              | (89) 190                     | 7(8 6) 17              | 5 6(8 7)               |
| Electricity                                              |                 | 346 9(4 9)                                     | 3                                             | i i) i           | 14 6(8 5) 29                 | 00 0(7 4)              | 269 9(5 (              | 0) 257 0(8              | 5) 236.8             | (78)2197                     | (10-9) - 19            | 8 2(9 5)               |
|                                                          |                 | Sept 2                                         | 7                                             | h 7              | ear 1996                     | 97 So Fa               | r 1999                 | 5 96                    |                      | End of Fisc                  | al Year                |                        |
| Capital Market                                           |                 | 1996                                           |                                               |                  | lgo Troi                     | igh Pea                | k Trough               | Peak                    | 1995 9               | 6 T 1991                     | 95 1                   | 99 ( 94                |
| BSE Sensitive Index (1978 7                              | 0-100           | 2)55/ 5                                        | <del></del>                                   | 3320             | (-24 9) 32                   | 55 406                 | 9 2826                 | 3584                    | 3367(3 3)            | 3261( 1                      | 71 -377                | 9(65 7)                |
| National Index (1983 84-10)                              |                 | 1459( 6                                        | 37 🌉                                          | 1536             |                              | 159 183                | 5 1304                 |                         | 549( 3 5)            | 1606(-13                     | 2.2) 193               | 0(74 2)                |
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| Skindia GDR Index (Apr 15                                |                 |                                                |                                               |                  | <u> </u>                     |                        |                        | 71                      |                      |                              |                        |                        |
| Foreign Trade                                            |                 | umulative                                      | fo a                                          | Year             | So Far                       | r 0.                   | 1004                   |                         | v02 04               | 1003.0                       | , 1414                 | 01.02                  |
|                                                          | 1996            |                                                | 97 I                                          |                  |                              | 5 96                   | 1994 9                 |                         | 993 94               | 1992 9                       |                        | 91 92                  |
| Exports Rs crore                                         | 9327            | 37860 (24                                      | 0) 5                                          | 37 (30           | 0) 106465                    | (29 3)                 | 32330 (18              | 4) 6954                 | 7 (30 4)             |                              | 9) 44() 4:             |                        |
| US \$ mn<br>Imports Rs crore                             | 2625<br>9856    | 10838 (11<br>41641 (17<br>11920 (6<br>8910 (-2 | 70 2                                          | ∠4 (29<br>29 (30 | 9) 31831<br>4) 121647        | (37.1)                 | 26233 (18<br>38705 (21 |                         | 3 (20 4)<br>6 (15 7) |                              | 3 8)                   |                        |
| US \$ mn                                                 | 2774            | 11920 (6                                       | 0 2                                           | 5ó (3ý           | 2) 36370                     | (287) :                | 28251 (21              | 7) 232                  | 12 (6 8)             | 21882 (1                     | 7) 19411               | ( 194)                 |
| Non POL US \$ mn                                         | 2048            | 8910 (-2                                       | 4                                             | 30 (44           | 1) 29214                     |                        | 22538 (29              |                         | 6 (10 6)             | 15782 (1                     | 2 3, 14047<br>687      | 7 (- 72 °)<br>- 3809   |
| Balance of Trade Rs crore                                | 529<br>149      | - 5                                            | 78 F<br>08:2                                  | -4/              | 92 -<br>26                   | 15182<br>4539          | -63<br>20              | 575<br>318              | 3259<br>1039         |                              | 345                    | 1545                   |
| ** , 4 1/41                                              |                 |                                                |                                               | •••••            |                              | ···                    |                        | ation Over              |                      |                              | -                      |                        |
| Foreign Exchange Reserve                                 | Sept,13<br>1996 | Sept 15<br>1995                                | N 1,<br>96                                    | M                | onth Yc.                     | r Fis                  | cal Year               |                         | 95 96 19             | 994 95 1                     | 993 94                 | 1992 93                |
| (excluding gold)                                         | ,,()            | 4,7,7                                          | ľ                                             |                  | go Ag                        | 4.11.41                |                        | 95 96                   |                      | - · ·                        | •                      |                        |
|                                                          | 66401           |                                                | -                                             |                  |                              |                        | 609                    | 5221                    | 7302                 | 18402                        | 27430                  | 5385                   |
| Rs crore<br>US \$ mn                                     | 65424<br>18298  | 60797<br>18968                                 | 26<br>26                                      |                  | 417 46<br>350 -6             |                        |                        | 5231<br>1848            | 7502<br>3690         | 5640 .                       | 8724                   | 731                    |
|                                                          | 111270          | 10700                                          |                                               |                  |                              |                        |                        | <del></del>             |                      |                              |                        |                        |

| Agriculture                                                         |             |             |               |                       |                |                    |                      |                  |          |                      |                     |                 |                      |                          |
|---------------------------------------------------------------------|-------------|-------------|---------------|-----------------------|----------------|--------------------|----------------------|------------------|----------|----------------------|---------------------|-----------------|----------------------|--------------------------|
| Rainfell                                                            | 1996        |             | 995           | (June 1               | to July 3      | 93                 | 1992                 | 199              | <br>31   | 1990                 | Ju<br>1989          | ine-Septei      | mber<br>1987         | 1986                     |
| 35 Meteorogical divisions                                           | 1770        | •           | 773           | 177                   | 4 17           | 7.5                | 1772                 | 17.              | -        | 1970                 | 1707                | 1700            | 1701                 | 1760                     |
| Excess/Normal Deficient/Scanty/Nil                                  | 30<br>5     |             | 30<br>5       | 2                     | 9<br>6         | 28<br>7            | 17<br>18             |                  | 21<br>14 | 32<br>3              | 29<br>6             | 32<br>3         | 14<br>21             | 21<br>14                 |
| Production<br>Agricultural Year)                                    |             | 199:        | 5-96          | 1994-9                | 5 1993-        | 94                 | 1992-93              | 1991-            | 2 1      | 990-91               | 1989-90             | 1988-89         | 1987-88              | 1986-87                  |
| Total Foodgrains (mn tonnes)                                        |             | 1           | 85.0          | 191.                  | 1 18           | 4.3                | 179.5                | 168              | .4       | 176.4                | 171.0               | 169.9           | 140.4                | 143.4                    |
| Kharif                                                              |             |             | 97.7          | 100.                  |                | 0.4                | 101.5                | 91               |          | 99.4                 | 101.0               | 95.6            | 74 6                 | 80.2                     |
| Rabi                                                                |             |             | 87.3          | 90.                   | -              | 3.9                | 78.0                 | 76               |          | 77.0                 | 70.0                | 74.3            | 65.8                 | 63.2                     |
| Total Rice (mn tonnes)                                              |             |             | 79.6          | 81.                   |                | 0.3                | 72.9                 | 74               |          | 74.3                 | 73 6                | 70.5            | 56.8                 | 60.6                     |
| Kharif                                                              |             |             | 69.7          | 71.                   |                | 0.7                | 65.3                 | 66               |          | 66.3                 | 65.9                | 63.4            | 49.0                 | 53.6                     |
| Rabi                                                                |             |             | 9.8           | 9.                    |                | 9.6                | 7.6                  |                  | .3       | 8.0                  | 7.7                 | 7.1             | 78                   | 7.0                      |
| Total wheat (mn tonnes)                                             |             |             | 62 6          | 65                    |                | 9.8                | 57.2                 | 55               |          | 55.1                 | 49.8                | 54.1            | 46.2                 | 44.3                     |
| Total coarse grains (mn tonnes                                      | )           |             | 30.0          | 30.                   |                | 8.0                | 36.6                 | 26               |          | 32.7                 | 34.8                | 31.5            | 26.4                 | 26.8                     |
| Total pulses (mn tonnes)                                            |             |             | 13.0          | 14.                   |                | 3.3                | 12.8                 |                  | .0       | 14.3                 | 12.8                | 13.8            | 11.0                 | 11.7                     |
| Kharif<br>Rabi                                                      |             |             | 4.9           | 4.                    |                | 5.4<br>7.9         | 5.6                  |                  | .4       | 5.4                  | 5.5                 | 5.6             | 4.4                  | 4.2                      |
|                                                                     |             |             | 8.1<br>22.0   | 9.<br>21.             |                | 7.9<br>1.5         | 7.2<br>20.1          |                  | .6<br>.6 | 8.9<br>18.6          | 7.3<br>16.9         | 8.2             | 6.6                  | 7.5                      |
| Oilseeds (mn tonnes) Sugarcane (mn tonnes)                          |             |             | 22.U<br>80 5  | 271.                  |                | 1.5<br>9.7         | 20.1                 | 254              |          | 18.0<br>241.0        | 16.9<br>225.6       | 18.0<br>203 0   | 12.7<br>196.7        | 11.3<br>186 1            |
| Sugarcane (mn tonnes)<br>Raw cotton (lakh bales of 170              | kar ee-     |             | 30.9          | 121                   |                | 9. <i>1</i><br>7.4 | 114.0                | 254<br>97        |          | 98.0                 | 114.0               | 203 U<br>87.0   | 196.7                | 69.0                     |
| Naw cotton (takh bales of 170)<br>Jute and mesta (lakh bales of 180 |             |             | .30.9<br>89.0 | 94.                   |                | 7.4<br>4.2         | 86.0                 | 103              |          | 98.0<br>92.0         | 83.0                | 79.0            | 67.8                 | 87.0                     |
|                                                                     |             |             |               |                       |                | 7.2                | 00.0                 |                  |          | 72.0                 | 0.5.V               |                 |                      |                          |
| Procurement of Foodgrains<br>mn tonnes) 199                         |             | 995-96      |               |                       | 95-96          | 994-               | 95 1993              | 3-94 1           | 992.9    | 3 1991-9             | 2 1990-9            | 1 1989-9        | 0 1988-8             | 9 1987-88                |
| Total (April-March)                                                 |             |             |               | •                     | 23.0           | 25                 | 5.3                  | 27.2             | 18.      | 9 18                 | .2 23.              | 9 20.           | .2 14.               | 1 14.9                   |
| Rice (October-September)                                            |             | 10.0        |               | 13.6                  | -              | 13                 | 3.4                  | 13.7             | 13       | 1 10                 | .2 12.              | 7 11.           | .8 7                 | 7 6.9                    |
| Wheat (April-March)                                                 | 8.2         | 12.3        |               |                       | -              | 11                 | .9                   | 12.8             | 6.       | 4 7                  | .8 7.               | 8 11.           | .1 9.                | 0 6.5                    |
| Offtake of Foodgrains (mn to (April-March)                          | onnes)      |             | Jur<br>199    |                       |                |                    | lative for<br>1995-9 |                  | 5-96     | 1994-95              | 1993-94             | 1992-93         | 3 1991-92            | 1990-91                  |
| Total (incl coarse grains)                                          |             |             | 1             | .5                    | 1.2            | 5.2                | 2 4                  | .4               | 258      | 18.7                 | 17.9                | 17              | 19.2                 | 161                      |
| Rice<br>Wheat                                                       |             |             | 0             | .9<br>6               | 0.8            | 2.8                | 3 2                  | .7<br>.7         | 13.5     | 8.6<br>10.1          |                     | 9 2             | 4 10 1               | 79                       |
| Food Stocks with Govt Agend<br>(April-March) as at the end of       |             |             | s) Jur<br>199 |                       | June<br>1995 1 | 995-9              | 6 1994               | -95 19           | 93-94    | 1 1992-9:            | 3 1991-92           | 1990-9          | 1 1989-90            | 1988-89                  |
| Total (incl coarse grains)                                          |             |             | 27            | 8                     | 36.5           | 23.3               | 3 27                 | 7.7              | 22 2     | 14.7                 | 12.2                | 17.3            | 3 11 6               | 7.4                      |
| Rice                                                                |             |             | 13            |                       | 17.1           | 14.6               |                      |                  | 14.7     | 11.0                 |                     | 11.3            |                      |                          |
| Wheat                                                               |             |             | 14            |                       | 19.4           | 8.7                |                      | 3.8              | 7.3      |                      |                     | 5.8             |                      |                          |
| Industrial Product                                                  | ion         | <del></del> |               |                       |                |                    |                      | ~~~~             |          |                      |                     |                 |                      |                          |
| Infrastructure Industries                                           |             | June        |               |                       | tion Ove       | -                  | Cu                   | mulativ          |          | - 10001              |                     | _               |                      |                          |
|                                                                     |             | 1996        |               | Month<br>Ago          |                | 'ear<br>Ago        | 199                  | Year 5<br>96-97  |          | 995-96               | 1995 90             | 5 19            | 994-95               | 1993-94                  |
| Coal (mn tns)                                                       |             | 19.93       | -1.6          | 9(-7.8)               | 1.0            | 5(5.6)             | 61.7                 | (10.4)           |          | 55.9(8.2)            | 270.1(6             | .4) 25          | 3.7(3.2)             | 246.0(3.4)               |
| Electricity Generation (mn kw                                       |             | 30313       |               | 8(-8.3)               |                | (6.7)              |                      | 5(2.1)           |          | 95(12.5)             | 379684(8            |                 |                      | 325323(7.4)              |
| Hydel                                                               | .,          | 5048        |               |                       |                |                    | 14877(-              |                  |          |                      | 72223(-12           |                 | 1(17.3)              | 70311(0.8                |
| Thermal (incl nuclear)                                              | :           |             | -2887         | (-10.3)               | 65             | l(2 6)             | 8112                 | 8(6.4)           | 726      |                      | 307461(14           | .5) 2685        | 14(6.1)              | 253012(9.4)              |
| Plant load factor                                                   |             | 61.5        |               | <b>.</b> <del>.</del> |                |                    |                      | 65.4             |          | 64.3                 |                     | 3.0             | 60.0                 | 61.0                     |
| Crude Petroleum (000 tns)                                           |             | 2562        |               | 4(-6.4)               | •              |                    |                      | (-9.4)           |          | 21(28.1)             | 34563(7             |                 | 19(19.2)             | 27015(0.3)               |
| Petroleum Products (000 tns)                                        | ۰ <b>۱</b>  | 4933        |               | 71(-5.2)              |                | 7(0.3)             |                      | 7(6.8)           |          | 288(9.0)             | 58578(3             |                 | 34(3.9)              | 54344(1.6)               |
| Saleable Steel (main plants) (Coment (OO) tas)                      | เหม เถร)    |             |               | 25(-2 2)<br>53(-2 5)  |                | 3(6.1)             |                      | 19(6.0)          |          | 161(8.2)             | 13982(8<br>69309(11 |                 | 39(8.3)<br>155(7.6)  | 11860(4.7)<br>57833(6.8) |
| Cement (000 tns) Fertiliser's (N) (000 tns)                         |             | 6292<br>618 | ~10           | 53(-2.5)<br>39(6.7)   |                | (13.8)<br>(-7.5)   |                      | (14.0)<br>-15.8) |          | 760(8.9)<br>006(9.6) | 8777(10             |                 | 155(7.6)<br>145(9.2) | 7230(-2.7)               |
| Fertiliser's (P,O <sub>c</sub> ) (000 tns)                          |             | 172         |               | 39(a.7)<br>8(4.9)     | -45(-          |                    |                      | -13.6)<br>-16.5) |          | 599(8.4)             | 2558(2              |                 |                      | 1816(-208                |
| Revenue Earning Goods Traff                                         | fic on      | .,.         |               | U(7.7)                | )              | 20.1)              |                      | .0 5)            |          | (0.7)                | 2000                | , 277           | 2401.01              | - 3 - 34 20 0            |
| Railways (mn tns)                                                   |             | 31          |               | 1(3.3)                | -20            | (-6.1)             | 9                    | 6(6.5)           |          | 90(5.2)              | 391(7               | '. <b>0</b> ) ? | 865(1.9)             | 351(0.3)                 |
| Employment                                                          | <del></del> |             |               |                       |                |                    |                      |                  |          | -                    |                     |                 |                      | -,                       |
| Employment Exchange Stati<br>(000)                                  | istics      |             | arch<br>996   | March<br>1995         | 1995           | 96                 | 1994-95              | 1993             | 3-94     | 1992-93              | 1991-92             | 1990-9          | 1 1989-9             | 00 1988-89               |
| Number on live registers (end                                       | -period     | 36          | 825           | 36635                 | 368            | 25                 | 36635                | 36               | 039      | 36306                | 36552               | 3489            | 0 3324               | 19 30305                 |
| Number of registrations                                             |             |             | 344           | 372                   |                | 83                 | 5931                 |                  | 667      | 5100                 | 6079                | 640             |                      |                          |
| Number of placements effecte                                        | ed          |             | 19            | 24                    |                | 19                 | 212                  |                  | 216      | 229                  |                     |                 |                      | 94 312                   |
| Placements as percentage to registrations                           |             |             |               |                       |                | · ~                |                      |                  | 2 0      |                      | 4 7                 | , .             | ^                    | 2 51                     |
| r=mermnose                                                          |             |             | 5.5           | 6.5                   | )              | 3.7                | 3.6                  | ì                | 3.8      | 4.5                  | 4.3                 | 4.              | .υ 4                 | .3 5.2                   |

**INDAL** 

#### **New Projects**

INDAL, the country's largest manufacturer of semi-fabricated aluminium, closed the year ended March 1996 with a sales turnover of Rs 1,053 crore, up by 17 per cent. Other income was up by Rs 11 crore. Interest costs moved up by 13 per cent. Provision for depreciation was up by 11 per cent. Tax provision moved up from Rs 2 crore to Rs 35 crore. Indal ended the year with a net profit of Rs 114 crore, up by 24 per cent. The company has declared a total dividend of 40 per cent for the year.

Exports rose by 19 per cent, to Rs 199 crore. South Africa and Vietnam were the new export markets acquired by the company.

A diversified company, Indal is into manufacturing sheets (including foil, extrusion, metal and carbon), chemicals and electronics. The sheets division contributed 50 per cent to the total turnover of the company with chemicals and foil and packaging contributing 18 per cent and 13 per cent, respectively.

Indal's smelters at Hirakud (Orissa), Alupuram(Kerala) and Belgaum (Karnataka) produce metal to meet the company's own requirement.

The company has entered into a joint venture agreement with Norsk Hydro of Norway, one of the world's largest players in the extrusions market, to manufacture and market aluminium extrusions and related systems in India. The new company is to be called Hydro Aluminium Extrusion where Indal would hold a 49.5 per cent stake, with the rest being held by Hydro Aluminium Extrusion, a division of Norsk Hydro. The total share capital of the new company would be Rs 25 crore. The company will manufacture aluminium extrusions mainly for the construction industry and also develop the market for such products by adapting designs for the Indian market.

The company is planning to set up a third aluminium toils plant. It has short-listed three sites, namely, Pondicherry, Hyderabad and Maharashtra. The company's two plants at Kalwa and Hyderabad produce pharmaceutical toil, household foil, cable wrap, foil board laminates and condenser foil.

Indal has also undertaken a feasibility study for a new business, viz, kaolin processing. Kaolin has worldwide application in the ceramic industry for the production of sanitaryware, tableware and tiles.

The company's 25,000 tpa aluminium scrap recycling facility at Taloja is expected to augment its captive metal base. Indal is

plans to set up a 100 mw naphtha based con ed cycle power plant in Belgaum in Karka

expansion of alumina capacity by 201 tonnes per annum and standard alumifrom 22,000 to 26,000 tonnes per annual Belgaum is nearing completion. The all alumina project has made progress.

BISTAR

#### Fay into New Areas

Bluar has a range of diversified activities in field of air-conditioning and regation, industrial process control, eldics, medical equipment and software. Majan 50 per cent of the turnover comes free AC and R division.

company closed the financial year entharch 1996 with net sales of Rs 373 crop by 25 per cent from Rs 297 crore acid in the previous year. Other income initial by 158 per cent. Interest cost came due by 22 per cent. Provision for detailing and tax rose by 31 per cent and 80 cent, respectively. Net profit moved up 54 per cent from Rs 16 crore to Rs 21 ce for the year under review. Dividend patt has been maintained at 35 per cent.

AC and R division recorded a growth other cent in new order bookings and stithened its leadership in the central airconing and packaged air-conditioner ms. In keeping with the demands of the Mail Protocol which calls for a halt to thinufacture of chlorofluorocarbons in deping countries by end 2005, a major meent is being made by the company feitch overto ozone-triendly refrigerants when help of a grant by the multilateral fing agency set up under the aegis of the Neal Protocol.

Star has a 45 per cent market share thral air-conditioning. It also operates areas of software and commercial ment. In air-conditioning it plans to foray into the window air-conditioning ant. The company has entered into a fical collaboration for product anufacturing technology for air ioners with Rheem Manufacturing any, USA.

company is considering entering n markets for air-conditioning projects. a presence in Malaysia, through its venture, Arab Malaysian Blue Star, the any plans to bid for projects in Europe, ica and Africa together with businessers in those areas. In Asian countries, Star plans to do the bidding alone, ring the year under review the company hed a joint venture named Stork

Comprimo Blue Star which is aggressively bidding for contracts in the petroleum, petrochemicals co-generation sector. Stork Comprimo is a world leader in sulphur recovery technology.

The company's AC and R division has ventured into industries like floriculture, aquaculture and mushroom farming. With large investments flowing into the fields of floriculture, horticulture and aquaculture, the demand for specialised refrigeration equipment will be on the rise.

SPIC

#### Rise in Turnover

A joint venture with the Tanul Nadu Industrial Development Corporation, Southern Petrochemical Industries Corporation (SPIC) is a Madras-based group. Though fertilisers is its mainstay, it has diversified interests in petrochemicals, infrastructure, electronics, pharmaceuticals, telecommunications and power.

The company closed the financial year ended March 1996 with a turnover of Rs. 1,782 crore, up by 45 per cent from Rs. 1,242 crore in the previous year. Interest costs rose by 47 per cent. Provision for depreciation increased by 59 per cent. The company paid zero tax, like in the previous year. Net profit moved up by 20 per cent from Rs. 68 crore to Rs. 81 crore. A dividend of 30 per cent on equity and of 12.5 per cent on preference capital has been recommended by the board of directors.

The fertiliser division accounted for about 70 per cent of the turnover. Total fertiliser sales touched a high of 2.5 mn tonnes. The shipping division earned Rs 38 crore in foreign exchange for the year under review. The company's vessels have mainly been used for ensuring continuous supply of imported raw material for the SPIC fertiliser complex. The division also chartered vessels. Spic's foray into LPG was made with the launch of SPIC Jothi.

The heavy chemicals division manufacturing caustic soda and chlorine achieved 100 per cent capacity utilisation. Modernisation of the plant to convert it to the technologically better 'membrane process' is in progress. The SMO division, the company's engineering unit, bagged a Rs 22 crore turnkey order from the ONGC. SMO would also bid for an electrification project in Syria, whose value is of the order of Rs 200 crore. Full capacity utilisation was achieved by the pharmaceutical division during the year under review. The company also commissioned its 1000 mu penicillin plant.

|     | ţ     |
|-----|-------|
| (Rs | lakh. |

|               |                                                            | IN             | DAL            | Blue          | Star          | SP            | IC                   |
|---------------|------------------------------------------------------------|----------------|----------------|---------------|---------------|---------------|----------------------|
| Financia      | al Indicators                                              | March<br>1996  | March<br>1995  | March<br>1996 | March<br>1995 | March<br>1996 | March<br>1995        |
| Income        | appropriations                                             |                |                |               |               |               |                      |
| I Net         |                                                            | 105343         | 89984          | 37253         | 29748         | 178192        | 124216               |
|               |                                                            | 107295         | 91082          | 37942         | 29734         | 198728        | 122956               |
|               | r Income                                                   | 1091           | 966            | 3535          | 1372          | 3133          | 1899                 |
| 4 Tota        | l income                                                   | 108386         | 92068          | 41477         | 31106         | 201861        | 124855               |
| 5 Ray         | w materials/Stores and                                     |                |                |               |               |               | 3                    |
| spa           | res consumed                                               | 37810          | 37486          | 27808         | 23092         | 49165         | 43640                |
|               | r manufacturing expenses                                   | 21112          | 16526          | 172           | 146           | 52870         | 35 46                |
|               | uncration to employees                                     | 9371           | 8562           | 3707          | 2766          | 5507          | 4343                 |
|               | er expenses                                                | 17616          | 12365          | 5562          | 2858          | 73237         | 26319                |
| •             | rating profit                                              | 22477          | 17129          | 4228          | 2244          | 21082         | 15407                |
| 10 Inter      |                                                            | 4490           | 3975           | 387           | 506           | 9376          | 5169                 |
|               | ss profit                                                  | 18804          | 12992          | 3921          | 2494          | 11720         | 9024                 |
| •             | reciation                                                  | 3800           | 3432           | 373           | 284           | 3609          | 2272                 |
| -             | it before tax                                              | 14924          | 9329           | 3545          | 2208          | 8111          | 67,53                |
|               | provision                                                  | 3500           | 150            | 1027          | 570           | 0             | (                    |
| -             | it after tax                                               | 11424          | 9179           | 2518          | 1638          | 8111          | 615                  |
| 16 Divi       |                                                            | 2844           | 948            | 812           | 351           | 2754          | 27/54                |
|               | ined profit                                                | 8580           | اد82           | 1706          | 1287          | 5357          | 399                  |
|               | ics/assets                                                 | 2111           | 4741           | 2710          | 1006          | 0705          | 070                  |
|               | -up capital                                                | 7111           | 4741           | 2710          | 1005          | 9705          | 970                  |
|               | rves and surplus                                           | 54203          | 48245          | 7127          | 5156          | 49090         | 4529                 |
|               | g term loans                                               | 27054          | 26188          | 959           | 1205          | 98018         | 5006                 |
|               | rt term loans                                              | 5677           | 2006           | 59            | 360           | 37527         | 2914                 |
|               | which bank borrowings                                      | 16             | 1562           | 59            | 160           | 31075         | 2198                 |
|               | s fixed assets                                             | 82967          | 72614          | 6403          | 5358          | 147313        | 12976                |
|               | umulated depreciation                                      | 25548          | 21945          | 2309          | 1938          | 64180         | 60[3                 |
| 25 Inve       |                                                            | 21739          | 23242          | 6927          | 4818          | 37740         | 2537                 |
|               | al assets/liabilities                                      | 113303         | 104581         | 22991         | 16663         | 231332        | 16349                |
|               | aneous items                                               | 12110          | 14470          | ^             | ^             | ^             | 140                  |
|               | ise duty                                                   | 13118          | 14479          | 7050          | 6343          | 0             | 168                  |
|               | ss value added                                             | 32916          | 24429          | 7858          | 6342          | 27268         | 1998                 |
|               | il foreign exchange income                                 | 19941<br>14735 | 14450<br>17101 | 3094<br>2945  | 2608<br>2712  | 5392<br>42895 | 512<br>34 <b>6</b> 9 |
|               | al foreign exchange outgo<br>ancial and performance ration |                | 17101          | 2743          | 2/12          | 44073         | 3407                 |
|               | anciai and periormance racios<br>10ver ratio               | •              |                |               |               |               | •                    |
|               | es to total assets) (%)                                    | 93.0           | 86.0           | 162.0         | 178.5         | 77.0          | 76.                  |
|               | s to total assets (%)                                      | 112.0          | 110.8          | 343.2         | 385.0         | 91.7          | 70.<br>92.           |
|               | ss value added to                                          | 112.0          | 110.0          | 343.2         | 0,00          | 71.7          | 72.                  |
|               | s fixed assets (%)                                         | 39.7           | 0.0            | 122.7         | 110 4         | 18.5          | 15                   |
|               | INCU ASSECT (70)                                           | 39.7           | 00             | 122.7         | 118.4         | 18.3          | 15                   |
|               |                                                            | 14.6           | 12.4           | 12.1          | 150           |               |                      |
|               | ss profit to total assets) (%)                             | 16.6           | 12.4           | 17.1          | 15.0          | 5.1           | 5.                   |
|               | ss profit to sales                                         | 17.0           | 14.4           | 10.5          | 0.4           |               | •                    |
| (gro          | ss margin) (%)                                             | 17.9           | 14.4           | 10.5          | 8.4           | 6.6           | 7                    |
|               | rating profit to sales (%)                                 | 21.3           | 19.0           | 11.3          |               | 11.8          | 12                   |
|               | it before tax to sales (%)                                 | 14.2           | 10.4           | 9.5           | 7.4           | 4.6           | 5.                   |
|               | provision to profit before tax (%)                         | 23.5           | 1.6            | 29.0          | 25.8          | 0.0           | 0.                   |
|               | it after tax to net worth                                  | 10.            | .~ ^           |               | • • •         |               |                      |
|               | ırn on equity) (%)                                         | 18.6           | 17.3           | 25.6          | 26.6          | 13.8          | 12.                  |
|               | idend (%)                                                  | 40.00          | 40 00          | 35.00         | 35.00         | 42.50         | 42.5                 |
|               | ning per share (Rs)                                        | 16.07          | 19.36          | 9.29          | 16.30         | 9.21          | 7.6                  |
|               | k value per share (Rs)                                     | 86.2           | 111.8          | 36.3          | 61.3          | 65.8          | 61.                  |
|               | ratio (based on latest and                                 |                |                |               |               |               |                      |
|               | esponding last year's price)                               | 9.7            | 16.5           | 5.0           | 3.8           | 43            | 6.                   |
|               | t-equity ratio                                             |                | 40.4           |               |               | 144.5         |                      |
|               | usted for revaluation) (%)                                 | 44.1           | 49.4           | 9.7           | 19.6          | 166.7         | 91.                  |
|               | rt term bank borrowings                                    |                | ,-             |               |               | 00.0          | ~~                   |
|               | ventories (%)                                              | 0.1            | 6.7            | 0.9           | 3.3           | 82.3          | 86.                  |
|               | dry creditors to                                           |                |                |               |               |               |                      |
|               | iry debtors (%)                                            | 82.6           | 125.5          | 55.2          | 56.1          | 169.3         | 228                  |
|               | al remuneration to employees                               | ***            |                | 40.0          | 40.           | 80.5          |                      |
|               | ross value added (%)                                       | 28.5           | -              | 47.2          | 43.6          | 20.2          | 21.                  |
|               | al remuneration to employees                               |                |                |               |               |               |                      |
| _             | alue of production (%)                                     | 8.7            | 9.4            | 9.8           | 9.3           | 2.8           | 3.                   |
| _             | ss fixed assets formation (%)                              | 14.3           | -              | 19.5          | -             | 13.5          |                      |
| - (1) ( ) - a | wth in inventories (%)                                     | -6.47          | _              | 43.77         | -             | 48.76         |                      |

SPIC Pharma, the drugs and pharmaceuticals division, has plans to invest about Rs 300 crore in its core areas of fermentation products, synthetic drugs and herbal products in the next two to three years. The company has identified cephalosporins as the next antibacterial to be manufactured. The company commissioned a world sized plant for Penicillin G in June 1995 at Cuddalore in South Arcot, with an initial investment of Rs 180 crore and technology from CIPAN, Portugal. The division has been experimenting with a few other antibacterials that could be viable for commercial production along with working on a number of synthetic bulk drugs which were in various stages of development. The division aimed to develop products with an ayurvedic base. More than half of the outlay of Rs 300 crore would be invested in the antibacterial segment, as the manufacture and production of fermentation (antibiotics) drugs was capital intensive. The remaining amount would go to synthetic drugs and herbal products. Plans are on to take over Amrutanjan, a household name among over the counter drugs. In this the company faces competition from Reckitt and Coleman and Procter and Gamble.

The company is setting up a Rs 16.5 crore fertiliser plant in UAE and has established a wholly owned subsidiary, SPIC Fertiliser Company, to manufacture 1,200 tonne a day of urea and its raw material ammonia in UAE's Jebel Ali Free Trade Zone. To save on costs the company has dismantled a second-hand ammonia and urea complex which it bought from Sri Lanka and has relocated it in the UAE. Prompted by a feedstock shortage the plant to be originally located in Rajasthan is to be set up in UAE. To fund the project the company in addition to a GDR issue plans to raise around Rs 10 crore through a consortium of banks in Europe and the US. The ammonia project at Dubai would go on stream in 18 months from June 1996. It would be a naphtha-cum-gas based unit though initially it would be based only on naphtha. Both the joint venture projects are highly capital intensive and subject to implementation delays and can be expected to contribute to the margins only after a period of two to three years.

The group's tissue culture production facility at Coimbatore has the technology to produce 140 varieties of ornamental plants, fruit crops, plantation crops and forest trees. SPIC has an ambitious project for its agri business division. The project involves setting up of agro-service centres to interact with farmers' clubs and sell inputs like improved seeds, and fertiliser to farmers through these clubs. The company has plans to do business up to Rs 200 crore a year.

## **Interest Rates Refused Behave**

The RBI's efforts, including the pumping of a large amount of liquidity through the foreign exchange met and release of banks' cash reserves, to bring down interest rates are ping ineffective, with damaging consequences for both the real and the fircial sectors of the economy.

## Financial System in a Maze

THE financial system is now caught in a labyrinthian maze. Though the Reserve Bank of India (RBI) has flogged the system with large releases of liquidity, the system itself has failed to respond and help the authorities in achieving a genuine downward shift in those elements of the interest rate structure which matter to the productive sectors. The rub lies in the authorities' persistent dependence on indirect instruments of monetary control rather than reimposing direct interest rate regulations which the situation demands. The free market policies have let loose unbridled competition among banks, financial institutions (FIs) and non-banking financial companies (NBFCs) to mobilise scarce financial assets of the community, which has spawned the most glaring mismatch between the yields offered on such assets and the rates of interest that are economical to the productive borrowers.

The freedom given to banks to fix domestic deposit rates for over one-year maturity combined with the reduction of the minimum period for term deposits and certificates of deposits (CDs) from 45 days to 30 days, the similar freedom offered to the registered and credit-rated NBFCs, and the persistence of bond issues by FIs at high rates of interest, have stimulated this competition, thus pushing up the average cost of funds for banks and Fls. Term deposits are ruling at 12.5 per cent to 14 per cent for above one year against 12 per cent a year ago and bond issues of public financial institutions by IDBI, IFCI and SCICI at coupon rates of 16 per cent or over had fuelled interest rate expectations. These have been further stirred up by the announcement of Reliance Capital to offer 20 per cent on five-year deposits following the deregulation by the RBI of NBFCs' deposit rates. This should come as no surprise as

alresome of the NBFCs have been offeringlictive yields of 20 per cent or above thrill various commissions and incentives. Withe NBFCs deploy such funds to ge a return of 24 to 28 per cent in finding car and other consumer goods es and generally supplying funds to publies and generally supplying tunds to indies and activities which are not financed by tanking industry, the banks themselves hadfused to reduce the general lending rate hich are, for a majority of the cases. stimeged at 20 per cent or above. With theing average cost of funds, the banks hadished up their prime lending rates (Piesteadily from 14 per cent in October 19 16.5 per cent by November 1995. The, following moral suasion from authies and borrower pressure, banks ef a 0.5 percentage point reduction in Pla 16 per cent, the spread over the PLR hamained high. In addition, the FIs again breed their implicit agreement to restrict there end of their lending rate structure west percentage points of their PLR at at and 22 per cent. In the most recent armitinued pressure from the RBI, the Stank of India (SBI) took the lead in refig the PLR to 15.5 per cent and Bank of odd and Corporation Bank have d its lead. The vast number of banks arks, however, have expressed their in to lower their PLR if their margin will be protected. This has happened denthe fact that call money rates and rates on short-term instruments as CDs have o more moderate levels. The whole pathenon reflects the market expectations of the and sticky interest rates in the man term.

a high interest rate structure has taken its toll of both real and financial First, the industrial and output ages have already begun to suffer. . First, the industrial and output

Second, the duality in terms of the top-rated companies getting their funds at low rates and the middle level, small and village industries having to cough up large interest payments has got further accentuated. Third, the high rates of interest have eroded the bottomline of many companies. As an indicator, CRISIL has downgraded 52 companies' offerings while 60 more are expected to be downgraded in this year. A major reason has been the mounting debt burden raised at exorbitant rates and the corporates' inability to service the debt payments. Fourth, the persistence of high interest rates and the consequential reports of relatively poor corporate performance, have tended to depress both the primary and secondary capital market segments. Finally, the banks and FIs are hard put to protect their own bottomline despite charging unusually high rates of interest on their lendings. Apart from the poor growth of lending business and the narrowing of the spread, banks in particular have suffered from depreciation of their investment portfolio following piercing of their yield rates far beyond the coupon rates and are therefore made to set aside larger provisions.

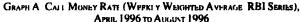
Curiously such stickiness in the interest rates relevant to productive borrowings is observed when the banks are flush with funds essentially as a result of the cumulative release of as much as Rs 14,126 crore between October 1995 and June 1996 by the RBI through its foreign exchange market intervention and release of cash reserve ratios. The depressed conditions in the capital market combined with high rates of interest offered on short-term deposits by banks may have helped the banks' deposit accruals. As a result, banks' aggregate deposits have expanded by Rs 16,793 crore (3.8 per cent) between March 31 and August 30, 1996 in contrast to an absolute fall of Rs 181 crore during the corresponding period of the previous year but at the same time, non-food bank credit fell by as much as Rs 5,537 crore 2.3 per cent as against a fall of Rs 400 crore during the comparable period last year. In this respect, the seasonal factors apart; there appears to be a stalemate in the system of bank credit delivery. A combination of banks' general reluctance to lend, slow down in industrial activity and the exorbitant loan rates has curbed non-food credit growth. Therefore, it does not appear surprising that

TABLE 1: CALL MONEY RATES

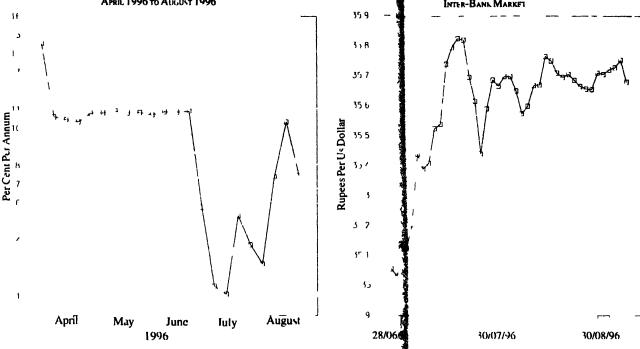
(Per cent per annum)

|                          |               |               | st 1996  |               |             | July 1996    |              |               |              |  |  |  |  |
|--------------------------|---------------|---------------|----------|---------------|-------------|--------------|--------------|---------------|--------------|--|--|--|--|
| Items                    | 30(RF)        | 23            | 6(RF)    | 9             | 2(RF)       | 26           | 19(RF)       | 12            | 5(RF)        |  |  |  |  |
| Weeklyrange              | 0.25-10.75    |               |          |               | 0.25-6.25   | 3.00-10.50   | 0.10-1.25    | 0.75-5.00     | 0.05-10.85   |  |  |  |  |
|                          | (0.50-11.25)  | (10.50-11.50) | 5-11.25) | (10.25-12.00) | (0.25-9.75) | (8.50-11.00) | (0 25-12.00) | (10.50-14.00) | (1.00-17.00) |  |  |  |  |
| Week-end (Friday)        | 0.25-0.50     | 9.25-10.00    | .10-0.50 | 3.50-5.00     | 0.25-0.50   | 5.75-7.00    | 0.25-0.10    | 1.00-1 25     |              |  |  |  |  |
| Weekly weighted average  |               | 10.36         | 7.42     | 2.84          | 3.78        | 5.34         | 1.13         | 1.57          | 5.80         |  |  |  |  |
| DFHI lending rates (rang | e) 0.50-10.75 | 10.00-11.00   | 30-11.00 | 2.25-5.00     | 0.40-6.50   | 1.15-9.10    | 0.10-2.25    | 0.75-5.60     |              |  |  |  |  |

<sup>\*</sup> Weighted average of borrowing rates reported to the by selected banks and DFHI, weights being proportional to amounts borrowed. Figures in the parentheses represent weekly range similar period last year.







banks should expand their investments in government and other approved securities by 11-158 crore this year so fai (between March 29 and August 30) against an additional investment of only Rs 6,544 crore during the comparable period last year and reduce their borrowings from RBI to such a low level as Rs 1-492 crore a fall of Rs 3-355 crore since March 29

#### GOVERN 11 NE BORROWING

Such an abundance of short-term liquidity become fortuitous for the government to complete up to end September about Rs 16 248 crore out of its net market borrow the programme of Rs 25 498 crore (Rs 1) 688 crore though conventional and other medium, and long term borrowings and Rs 2 560 crore of 364 day FBs), though the yield rates offered have shown only frictional declines not commensurate with the liquidity easiness. About 64 per cent of the year's market borrowings have already been effected. Another remarkable achieve ment on the fiscal side has been the dramatic improvement in the use of ad hoc IBs by the government which tell from the peak of Rs 22 095 cross as of July 5 to below the within the year limit to Rs 6 855 crore as on August 16 and finally to as low a figure as Rs 2 775 crore as on August 30 Such borrowings co drop in August each year on a count of the inflow of government revenues is also the RBI profits which are credited to the government around this time after closing of the central bank accounts. For the past three years the RBI has also been transferring the exchange loss reserves fund accumulated by it to meet the liabilities on account of the I CNR(A) scheme It may be recalled that the exchange loss liabilities on this scheme was being borne by he RBI. With the decision

to close the scheme in 1994, the ris vas taken over by the government. The R has been transferring the exchange risk to the government each year in proport to the liabilities falling due each year. Exciso the last election year had seen the use ad hoc levels going beyond Rs 10 000 pic even around this time.

## EMERGENCE OF BONDS MARKET IMPLICATION CORPORATE GOVERNANCE

While the government found it en to raise funds from the market because the banks avowed preferences for government paper the corporate sector has been ting a resource crunch both because of exortant rates of interest and the banks. lukomm attitude towards lending. Also as the d market showed no sign of revivacorporate sector decided to shift its atte to the debt market for its requirement of funds. Several prime companies were en to be tapping the debt market through bus thus directly competing with the fint institutions and public sector undertail According to one estimate, a total amou Rs 11 600 crore was raised by top final nstitutions and corporates during the st half of this year and it is expected that they would mop up another Rs 10 000 crore or more during the second half

As explained in a subsequent paragraph the emergence of the bonds market has raised a number of issues concerning their regulation transparency and information system depository and other facilities for secondary market trading and the extent of repo facility to be permitted so as to confer liquidity for the bonds. A wider issue arising from the emergence of bonds as an important source of funds for manufacturing companies which has not been generally raised relates to its implications for corporate governance This system will imply neither the model adopted by North America where the capital market dominates in supply of funds and the expectations of shareholders tend to occupy an important position in corporate governance, not the German and Japanese model wherein the banks and financial institutions supply the bulk of investible funds and thus exercise significant influence over corporate managements. With bonds having neither voting rights nor institutional influence they will have little control over how the corporates are managed except from the indirect

TABLE 2 DAILY QUOTATIONS OF HICKEY LOW OF CALL PATES IN PER CENT PER ANNUM
SIMILE STATE LALCHARACTERISTICS

|                             | All Five<br>Weeks<br>of the |        | Augus<br>Week! |   |    |       |       | All Fou<br>Weeks<br>of the | r     |        | uly 199<br>eck En |      |
|-----------------------------|-----------------------------|--------|----------------|---|----|-------|-------|----------------------------|-------|--------|-------------------|------|
|                             |                             | 30(RG) | 23 1           |   | E) | 9     | 2(RF) |                            | 26    | 19(RF) | 12                | 5(RF |
| Mcan<br>Standard            | 551                         | 560    | 10 55          |   | 1  | 295   | 2 53  | 3 31                       | s 79  | 0 84   | 1 75              | 4 86 |
| deviation<br>Coefficient of | 194                         | 4 ()8  | 041            |   | 2  | 099   | 2 36  | 3 20                       | 251   | 0 57   | 1 48              | 390  |
| variation<br>(percentages)  | 71 53                       | 72 72  | 391            | 1 | 7  | 33.61 | 93 47 | 96 66                      | 43 34 | 67 25  | 84 34             | 8021 |

influence based on the nature of credit-rating status conferred on borrowing companies. In this regard, it would be interesting to study as to what has motivated the FICCI to propose the introduction of as many as 21 new financial instruments - all in the debt and derivative categories - such as zero coupon bonds. floating rate notes, industrial revenue bonds, clip and strip bonds, dual convertible bonds, commodity bonds, notes with warrant for debt, indexed floating rate notes, bought out deal, factoring services, forfeiting, book building, forward contract, swaps, financial futures and caps. Apparently, the finance minister has gone on record to promise that by the end of this year the Companies Act would be amended to facilitate the introduction of such instruments.

#### OTHER DEVELOPMENTS

In another development, the RBI backtracked on the scheme of commission to the primary dealers as it was vitiating the yield curve and also because the value of commission was going beyond all reasonable calculations. The commission paid on 91-day T-bills was reduced by 50 per cent from 25 paise per Rs 100 to 12.5 paise, effective August 23. This was mainly because banks were routing their requirements through the PDs merely to share the commission. The SGL transactions of August 24 did not report any trade in this paper indicating that no trade was routed through PDs. Two other measures introduced by the RBI recently with bearing on the money market are: first, banks are free to invest in the CDs issued by other banks and financial institutions in the secondary market; and second, banks are banned from buying public sector bonds in the secondary market. The latter may affect investment for want of an exit route but it may also induce some banks anxious to hold PSU bonds to in the primary stage itself.

## Overnight Money and Foreign Exchange Markets

overnight call money rates have gently ruled at the unrealistically low levels of per cent since the one percent CRR cualuly I - a situation which has persisted formst part of August except for some sherm trigger points giving rise to the ratialing in the range of 8 to 10 per cent. aling in the range of 8 to 10 per cent. Trast trigger was provided by one holiday ambe day's strike call given by a trade uniforoup (NCBE) which dominates large basike State Bank of India and Bank of Ba in the reporting week ending August 10 lenders also took advantage of the comion created by a report in a leading findial daily which quoted the RBI Gamor as saying that the interest rates w likely to remain high in the remaining pat the financial year. A closer reading of interview, however, clarified that the Carnor was actually referring to the rates ine call market, which according to him, haden unusually low and were, therefore, exped to rise a little to come to realistic les. The sentiments were further affected befact that the strike call given by NCBE feet reporting Friday which followed the imindence day holiday, thus effectively being forward the reporting Friday by two fullys. Taking advantage of the market schent, nevertheless, the lenders rigged un rates which jumped from 3 per cent u August 10 to a range of 6.50 to 9.00 pant on August 12. Although unable to be the psychological barrier of 11 per cefinance rate, the rates then remained im range of 7.50-10.50 per cent for the ref the month, coming down to the chinary half to one per cent range only

on or around reporting Fridays. The period coincided with outgoes on account of state loans (Rs 2,526 crore) and also the government of India loans (Rs 2,174 crore), which consisted of the third tranche of the partly-paid security issued in June (Rs 1,250 crore) and the latest issue. Overall, the weekly weighted averages of call rates were higher in August than in July but remained below the two-digit levels in both the months unlike for a long period earlier. Also, the weekly movements of coefficients of variations (in percentages), turned out to be wider in August than in the preceding three-months period (Tables 1 and 2; see also Graph A).

#### Forex Market

The month witnessed a see-saw movement in the value of the rupee, though overall it remained weak against the dollar during the large part of the month. Although opening on a strong note, the RBI reference rate for the rupee which was in the range of 35.55/ 65 to the dollar, soon fell to around 35.75/ 76 on August 8/9. The RBI intervened intermittently to maintain the balance in demand and supply.

While fearing that the rupee will weaken even further, importers were busy booking their requirements and the large purchases by SBI were also responsible for the weakening of the rupee. Besides, Flls, the largest suppliers of foreign exchange in recent months, were holding back their investments. FIIs apparently reacted adversely to the Budget announcement of non-voting shares and the underlying political uncertainties. During August, Flls' net investments were only \$ 67 million (Rs 237 crore) as against \$ 302 million (Rs 1074 crore) in July. Though the rupee was not allowed to cross the barrier of 36 per US dollar, it generally stood lower with the RBI reference rate touching Rs 35.78

# 3: Auctions of 91-Day Treasury Bills

(Amount in rupees, crore)

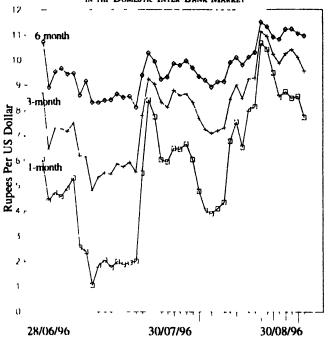
| Date of | Notified        | Bids        |                     | ds Accepted         | Subscription                  | Cut-off              | Cut-off                  | Ап      | nount Outsta | nding@      |
|---------|-----------------|-------------|---------------------|---------------------|-------------------------------|----------------------|--------------------------|---------|--------------|-------------|
| Auction | Amount (Rupees) | No          | Face Value (Amount) | Nov.                | e Devolved on<br>RBI (Amount) | Price<br>(Rupees)    | Yield Rate<br>(Per Cent) | Total   | With RBI     | Outside RBI |
| 1995    |                 |             |                     | Ÿ                   |                               |                      |                          |         |              |             |
| Aug 4   | 500.00          | 71          | 849.08              | 399.78<br>(100.225) | 0.00                          | 96.93                | 12.67                    | 6500.00 | 2003.00      | 4497.00     |
|         |                 | (3)<br>48   |                     |                     | •                             | •                    |                          |         |              |             |
| Augli   | 500.00          | 48          | 381.09              | 126.89              | 73.11                         | 96.93                | 12.67                    | 6500.00 | 2076 00      | 4424.00     |
|         |                 | (2)         | (300)               | (300)               |                               |                      |                          |         |              |             |
| Aug 18  | 500.00          | 44          |                     | £ 293.62            | 0.00                          | 96.94                | 12.63                    | 6500.00 | 1771.00      | 4729.00     |
|         |                 | (4)         | (440)               | (206.38)            |                               |                      |                          |         |              |             |
| Aug 25  | 500.00          | 50          | 414.15              | 106.96              | 0.00                          | 96.95                | 12 58                    | 6500.00 | 1771.00      | 4729.00     |
|         |                 | <i>f</i> 6) | (1190.0)            | § (393.05)          |                               |                      |                          |         |              |             |
| 1996    |                 |             | '                   | 1                   |                               |                      |                          |         |              |             |
| Aug 2   | 500.00          | 82          | 1899.10             | 416.62              | 0.00                          | <b>97.79</b>         | 9.04                     | 6500.00 | 56.00        | 6444.00     |
| _       |                 | (2)         | (630)               | (83.38)             |                               | [97.83]              | (8.87)                   |         |              |             |
| Aug9    | 500.00          | 100         | 2053.20             | 405.91              | 0.00                          | 97.93                | 8.46                     | 6500.00 | 56.00        | 6444.00     |
| -       |                 | (2)<br>39   | (700)               | (94.09)             |                               | [97.95]              | [8.37]                   |         |              |             |
| Aug 16  | 500.00          | 39          | 482.50              | 387.07              | 0.00                          | 97,69                | 9.46                     | 6500.00 | 56.00        | 6444,00     |
|         |                 | (2)         | (700)               | (112.93)            |                               | [97. <del>7</del> 7] | [9.12]                   |         |              |             |
| Aug 23  | 500.00          | 17          | 225.00              | 63.11               | 0.00                          | 97.57                | 9.96                     | 6500.00 | 56.00        | 6444 00     |
| _       |                 | (3)         | (1000)              | (436.89)            |                               | [97.63]              | [9.71]                   |         |              |             |
| Aug 30  | 500.00          | 35          | 638.26              | 434.40              | 0.00                          | 97.57                | 9.96                     | 6500.00 | 56.00        | 6444.00     |
| _       |                 | (2)         | (650)               | (65.6)              |                               | [97.61]              | [9.79]                   |         |              |             |

Figures in parentheses represent numbers and amout mon-competitive bids which are not included in the total. Figures in the square brackets represent weighted a price and respective yield.

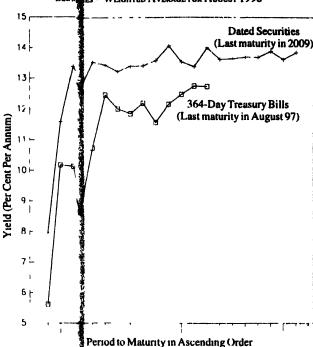
@ Outstanding amounts are estimated for last few velocities are price and respective yield.

@ Outstanding amounts are estimated for last few v

GRAPH C. ANNUALISED DAILY 1-MONTH, 3-MONTH, AND 6-MONTH
FORWARD PREMIA IN PERCENTAGE FOR THE US DOLLAR
IN THE DOMESTIC INTER-BANK MARKET



GRAPH D: YTE CURVES FOR 364-DAY TREASURY BILLS AND DATED SECURIES — WEIGHTED AVERAGE FOR AUGUST 1996



on August 29 (Graph B). The second half of the month also saw hardening of sixmonth premium which ranged from 181 paise to 208 paise or 10 1 per cent to 11.5 per cent annualised (Graph C). The rise in the call money market had led to the hardening of the premia.

## III Primary Market in Government Paper

State Loans

The Reserve Bank of India offered, on August 12, the 10-year state loans The second tranche of the state loans at a coupon rate of 13.85 per cent received an oversubscription of Rs 1,026.46 crore. For a notified amount of Rs 1,500 crore for 16 states, the Reserve Bank received an amount of Rs 2,526 46 crore. The Reserve Bank decided to retain the oversubscription. The Reserve Bank has been following the policy of getting the borrowing programme of the states out of the way in the first half of the financial year so that it might not clash with the centre's large borrowing schedule later in the year. The RBI has been adopting this strategy for the past two years as the liquidity position in the financial system remains uncertain. The first tranche of state loans in this financial year at 13.85 per cent coupon rate was issued in May which was also grossly oversubscribed thanks to the RBI's active intervention. The reduction in the yield rate was meagre compared with 14 per cent paid in the previous year.

#### Government of India Paper

After a spate of short-term paper, the government of India once again came up with

an issue of long-term paper in Augustlt notified the sale of 10-year paper havi fixed coupon rate of 13 85 per cent. Ear in June, the government had sought to i Rs 5,000 crore through the ten-year p at the same pre-announced rate of 13.85 cent. In order to attract investors, government had offered this in the formal a partly-paid security; the issue was subscribed. This time, the government of the a plain vanilla option and targetted to a modest Rs 2,000 crore. The market pan less than 50 per cent of the notified ame with a large portion coming from insura companies and provident funds. In applications, the RBI received Rs 9648 crore from the market which were all accept The RBI and the PDs took the balance ame with Rs 924.33 crore and Rs 107.29 cm respectively. Coming as it did on the day a the third tranche of the partly-paid second floated in June fell due on August 24, sale of 10-year paper was bound to lukewarm response from the market. outflow on account of partly-paid secu

was Rs 1,250 crore. Moreover, there was also an outflow of Rs 2,526 crore on account of state loans on August 12.

It was expected that this year, in view of the easy liquidity, the RBI would follow a conscious policy of bringing down the yield rates on government paper of various maturities but the reductions in rates has been fractional as compared with the pronounced increases effected while the coupon rates were kept on the upward trajectory. This was so whether for the short-term paper or longterm maturities. For instance, within the space of about a year, the yield rate on 10-year paper was allowed to be pushed from 12.35 per cent ir. May 1994 to 14.0 per cent in May 1995, but despite the availability of abundant liquidity, the coupon rate for a similar security in June 1996 was pre-announced at 13.85 per cent, when it was fully subscribed for to the extent of Rs 5,000 crore. It was again issued in August at the same coupon of 13.85 per cent which could not satisfy the market appetite for higher yields. For two-year paper, the coupon rate was fixed at 13.50 per cent last

TABLE 4. AUCTION 164-DAY TREASURY BILLS

(Amount in rupees, crore)

| Date of                        | Bids | Tendered | Bids                   | Accepted          | Cut-off                  | Cut-off |  |
|--------------------------------|------|----------|------------------------|-------------------|--------------------------|---------|--|
| Auction No Face Value (Amount) |      | No       | Face Value<br>(Amount) | Price<br>(Rupees) | Yield Rate<br>(Per Cent) |         |  |
| 1995                           |      | 1        |                        |                   |                          |         |  |
| Aug 2                          | 66   | 844 00   | 65                     | 834.00            | 88.37                    | 13 16   |  |
| Aug 16                         | 56   | 735.70   | 1                      | 24 00             | 88.60                    | 12 87   |  |
| Aug 30                         | 33   | 335 75   | 6                      | 105 25            | 88.60                    | 12.87   |  |
| 1996                           |      |          |                        |                   |                          |         |  |
| July 31                        | 28   | 375 16   | 6                      | 91 89             | 88.80                    | 12.61   |  |
| Aug 14                         | 30   | 537.00   | 14                     | 382 00            | 88 80                    | 12.61   |  |
| Aug 28                         | 18   | 269 50   | 9                      | 225.00            | 88.80                    | 12.61   |  |

year, but during the current year, it has in fact got raised to 13.62 per cent. As a result of fractional declines in individual coupon rates, the weighted average of coupon rates on government of India dated securities, which had worked out to 11.90 per cent for 1994-95, shot up to 13.75 per cent for 1995-96 and for 1996-97 so far, the rate works out to 13.71. Similarly, in the case of the state loans, the yield rate was perched up from 12.50 per cent in 1994-95 to 14 per cent in 1995-96 but this year it has been reduced rather in a niggardly fashion to 13.85 per cent. Thus, the central and state government budgets are invariably stuck with unduly high levels of interest burden because of the RBI's insistence on the so-called marketrelated rates of interest on government securities. A telling example of this inbuilt bias in favour of high interest burden on the government budget is to be seen in the latest rate of interest fixed on the five-year floating rate bonds, 1999 issued twice in September/ December 1995; it was set at 1.25 percentage points over the average cut-off yield for the six-month period in respect of 364-day TBs. Thus, the relevant rate of interest on FRBs for the half-year ending March 29, 1997 has now been fixed at 14.13 per cent (12.88 + 1.25). No attempt has been made to bring down the 364-day TB rates to more realistic levels.

#### - Treasury Bills

Primary yields on 91-day treasury bills showed considerable volatility during August. From a cut-off yield of 9.04 per cent in the

firmction of August, the yield fell by 98 baseoints to 8.46 per cent in the second au (Table 3). On August 16, the third n experienced a lukewarm response and a result, the cut-off yield had to be pure up rather sharply by 1 percentage page The auction received only 39 contitive bids - the lowest in two months munting to Rs 482.50 crore. Of these thes I accepted only 28 bids amounting to R: 7.07 crore at a yield of 9.46 per cent. It wonly on account of two non-competitive bi which were given a partial allotment of RI 2.93 crore that saved devolvement eiston the central bank or on the primary des. The high call rates and the drain on s. The high call rates and the drain on ble funds due to government loan sudriptions witnessed around this period wainly responsible for the sharp rise in theld on this paper. In the auction held oangust 23, although the RBI received high number of bids at 63, the amount reved was only Rs 225 crore which was sufficantly lower in comparison with the nket response to the TBs for the past cate of months. The paper, however, got ly subscribed thanks to the non-competitive blars, mainly states which were cash rich affreceiving funds from the borrowing pramme. The cut-off yield on this paper w maintained at 9.96 per cent in the last t ductions of the month, thus suggesting t the downtrend in this short-term yield r has been summarily arrested.

1364-day TB auctions, though improved imprarison with response during July, the met response was moderate in August.

However, the stubborn retention of this paper's cut-off yield at 12.61 per cent throughout since mid-July (Table 4) is inexplicable in the context of the need for sending signals of downward movements interest rates; this was so even against the background of the yield rate on this paper serving as a reference rate.

#### Bonds Market

The heavy competition in the bonds market, as referred to above, made the bond issuers to adopt new strategies for accessing investible funds. Offering high interest rates with special incentives and devising multi-option bonds for tapping the retail market have been the strategies tested by financial institutions, which of late the corporate sector has begun to emulate. Tata Steel and Larson and Toubro were the two significant players which entered the debt market towards the end of August. There were also some issues in the market which offered an 18-month bond with a put option after 15 days. A blue chip state-owned company was also reported to have raised Rs 50 crore by privately placing the issue with an overseas commercial bank which in turn securitised the issue with smaller portions to investors in Mauritius. The volume of honds in the primary market and the practices prevailing in the bonds market, bring to the fore several issues which need a closer look before the bonds market occupies the centrestage of the financial market activities in the next couple of years.

First, the most important issue raised by the recently issued bonds relates to the cost

TABLE 5: OPERAN OF NATIONAL STOCK EXCHANGE (NSE) DURING AUGUST 1996

| Descriptors               |        |         |        | -35                         | W      | eek endin | g August | : Amount     | in Crore | of Rupec | s       |         |          |          |
|---------------------------|--------|---------|--------|-----------------------------|--------|-----------|----------|--------------|----------|----------|---------|---------|----------|----------|
| Description               |        | 30      |        | 23 👼                        |        | 6         | (        |              |          | 2        |         | during  | Total    | during   |
|                           |        |         |        | 119                         |        |           |          |              |          |          |         | ngust   | <u>J</u> | uly      |
| ·                         | Order  | Actual  | Order  | , dept.                     | Order  | Actual    | Order    | Actual       | Order    | Actual   | Order   | Actual  | Order    | Actual   |
|                           | Value  | Traded  | Value  | <b>Head</b>                 | Value  | Traded    | Value    | Traded       | Value    | Traded   | Value   | Traded  | Value    | Traded   |
|                           |        | Amount  |        | Aunt                        |        | Amount    |          | Amount       |          | Amount   |         | Amount  |          | Amount   |
| 1 Treasury Bills          | 308.34 | 626.68  | 198.61 | 123                         | 105.91 | 223.82    | 323.81   | 647 63       | 216 17   | 442.34   | 1152.84 | 2337.70 | 1522.44  | 761.22   |
| 1) 91-day Bills           | 201.34 | 402.68  | 166.61 | 143                         | 75.91  | 151.82    | 234.81   | 469 63       | 159.87   | 329.74   | 838.54  | 1687.10 | 1324.44  | 662.22   |
| ii) 364-day Bills         | 107.00 | 224.00  | 17.00  | H <b>Q</b> O                | 20.00  | 52 00     | 89.00    | 178.00       | 56.30    | 112.60   | 289.30  | 600 60  | 198.00   | 99.00    |
| iii) Repo                 | -      | -       | 15.00  | )#O                         | 10.00  | 20.00     | -        |              | -        | -        | 25.00   | 50.00   | -        | •        |
| 2 Dated Securities        | 471.24 | 943.17  | 143.07 | 534                         | 185.72 | 466.64    | 514.10   | 1030.19      | 479.31   | 970.62   | 1793.44 | 3706.86 | 4470 34  | 2202 17  |
| A GOI Securities          | 470.70 | 942.10  | 143.07 | 524                         | 185.72 | 466.64    | 501.09   | 988.17       | 478.88   | 969.76   | 1779 46 | 3662.91 | 4453.26  | 2193.63  |
| i) Converted              | 106.00 | 212.00  | 20.00  | <b>)</b> (0                 | 15.00  | 40.00     | 102.00   | 204.00       | 10.00    | 20.00    | 253.00  | 526.00  | 1339.00  | 644 ()() |
| iı) Regular               | 319.00 | 638.00  | 85.57  | 144                         | 123.72 | 332.64    | 324.09   | 634.17       | 398.28   | 808.56   | 1250.66 | 2584 51 | 2517 96  | 1258.98  |
| iii) Zero Coupon          | 35.00  | 70.00   | 10.00  | 3,00                        | 40.00  | 80.00     | 75.00    | 150.00       | 70.60    | 141.20   | 230 60  | 461.20  | 546 10   | 265.55   |
| iv) Floating Rare         | ;      |         |        | (8)                         |        |           |          |              |          |          |         |         |          |          |
| Bonds                     | 10.00  | 20.00   | -      |                             | •      | ~         | -        | -            | -        | -        | 10.00   | 2().(X) | 30.00    | 15 00    |
| v) GCB                    | 0.70   | 2.10    | 2.50   | <b>530</b> 0<br><b>00</b> 0 | 2.00   | 4.00      | -        | -            | -        | -        | 5 20    | 11.20   | 20.20    | 10.10    |
| vi) Repo                  | -      | -       | 25.00  | 0,00                        | 5.00   | 10.00     | -        | -            |          |          | 30.00   | 60.00   | -        |          |
| B State Govts Stock       | s 0.54 | 1.07    | •      | <u> </u>                    | •      | •         | 13.01    | 42.02        | 0.43     | 0.86     | 13 98   | 43 95   | 17.08    | 8.54     |
| 3 PSU Bonds               | 3.54   | 7.07    | 10.37  | 0.74                        | 5.27   | 10.54     | 31.70    | 63.41        | 9.11     | 18.22    | 59.99   | 119.98  | 182.72   | 88.36    |
| i) Tax free               | 3.54   | 7.07    | 0.37   | <b>Q</b> 74                 | 2.27   | 4.54      | 3.55     | 7.11         | 9.11     | 18.22    | 18.84   | 37.68   | 82 98    | 41.49    |
| ii) Taxable               | -      | -       | 10.00  | <b>100</b> 00               | 3.00   | 6.00      | 28.15    | 56.30        | -        | -        | 41.15   | 82.30   | 99.74    | 46.87    |
| 4 Commercial Papers       | -      | -       | -      | <u> </u>                    | -      | -         |          | <del>-</del> |          |          | 0.00    | 0.00    | 82.20    | 41.10    |
| 5 Certificates of Deposit |        | -       | 0.75   | 50                          |        |           | 7.00     | 14.00        | 5.90     | 11 80    | 13.65   | 27.30   | 99.40    | 49.70    |
| 6 Debentures              | 0.23   | 0.46    | 3.50   | 200                         | 0.59   | 1.19      | 2.99     | 5.99         | 0.12     | 0.24     | 7.44    | 14.88   | 4.30     | 2 15     |
| 7 Floating Rate Bonds     |        | -       | 2.50   | 00                          |        | 0.25      | 0.05     | 0.10         | 0.12     | 0.24     | 2.67    | 5 59    | 1.10     | 0.55     |
| 8 ID+IB+BB+US             | 11.03  | 23.06   | 13.55  | <b>2</b> 10                 | 0.40   | 0.80      | 6.00     | 12.00        | 3 26     | 6.52     | 34 24   | 69.48   | 20.00    | 10 00    |
| Grand total(volume)       | 794.37 | 1600.45 | 372.35 | 81                          | 297.89 | 703.23    | 885.65   | 1773.32      | 713.99   | 1449.98  | 3064.26 | 6281.79 | 6382.50  | 3155.25  |

<sup>-</sup> No trading. ID: Non-SLR Institutional Bonds B: SLR Institutional Bonds. GCB: Government Compensation Bonds. BB: Bank Bonds US: UTI's Unit 64.

|                                              |                          |                |                |                 |                |                  |                |                |                 |                |                  | (A             | mount in          | rupees,              | crore)         |
|----------------------------------------------|--------------------------|----------------|----------------|-----------------|----------------|------------------|----------------|----------------|-----------------|----------------|------------------|----------------|-------------------|----------------------|----------------|
|                                              |                          | 30             | W              | eek End         | ling Au<br>23  | gust 199         |                | to Matu        | ritan A         | ctual Tra      | ding             | 2              |                   | for the r            |                |
| Descriptions                                 | Amt                      | YTM            | CY             | Amt             | YTM            | Amt              | YTM            | CY             | nt              | YTM            | Amt              | YTM            | Amt               | August 1<br>YTM      | CY             |
| 1 Treasury Bills                             |                          |                |                |                 |                |                  |                |                |                 |                |                  |                |                   |                      |                |
| A 91-Day Bills<br>i) Aug 3,1996              | -                        | _              |                | _               |                | _                |                |                | 3_              | _              | 35.96            | 3,59           | 35.96             | 3.59                 |                |
| ii) Aug 10,1996                              | -                        | -              |                | -               | -              | -                | -              |                | 200             | 3.33           | 38.47            | 5.05           | 61.97             | 4.40                 |                |
| iii) Aug 17,1996                             | -                        | •              |                | 1 60            | 10.97          | 5.00             | 2 72           |                | 620             | 4.25           | 15.00            | 6.25           | 78.20             | 4.64                 |                |
| iv) Aug 24, 1996<br>v) Aug 31, 1996          | 66.02                    | 6.42           |                | 1.60<br>25.00   | 7.98           | 10.00            | 7.73<br>9.73   |                | 1100            | 5.19           | 15.00            | 6.98           | 36.60<br>101.02   | 6. <b>52</b><br>7.13 |                |
| vi) Sept 7, 1996                             | 53.40                    | 6.04           |                | 29.00           | 9.92           | -                | -              |                | 7               | 7.15           | <u>.</u>         | -              | 90.57             | 7.38                 |                |
| vii) Sept 14,1996<br>viii) Sept 21,1996      | 141.11<br>36.39          | 7.87<br>7.91   |                | 44.11           | 9.91           | -                | -              |                | 5. 9            | 5.98           | 21.70<br>25.39   | 8.46           | 211.93            | 8.31                 |                |
| viii) Sept 21,1996<br>ix) Sept 30,1996       | 5.00                     | 9.97           |                | 5.57            | 9.28           | 0.25             | 9.97           |                | 432             | 7.58<br>7.71   | 30.00            | 8.93<br>9.20   | 113,57<br>83,74   | 7.99<br>8.49         |                |
| x) Oct 5, 1996                               | 14.20                    | 9.85           |                | 20.05           | 10.07          | 15.91            | 7.96           |                | 7 0             | 7.60           | 35.00            | 8.93           | 159.66            | 8.43                 |                |
| xi) Oct 12, 1996<br>xii) Oct 19, 1996        | 10.00                    | 9.35           |                | 13.00           | 10.31          | 5.00             | 8.73           |                | 120             | 7.27<br>7.43   | 1.00<br>10.00    | 8.98<br>9.22   | 44.00<br>11.25    | 8.85<br>9.03         |                |
| xiii) Oct 26,1996                            | •                        |                |                | -               |                | 15.00            | 8.76           |                | 130             | 8.72           | 179.40           | 9.59           | 209.40            | 9.47                 |                |
| xiv) Nov 2, 1996<br>xv) Nov 9, 1996          | 6.90                     | 9.47           |                | 8.00<br>0.45    | 8.78           | 227.45           | 8.41           |                | 48.2            | 8.90           | •                | -              | 495 82            | 8.90                 |                |
| xv) Nov 9,1996<br>xvi) Nov 16,1996           | 39.00                    | 9.91           |                | 187.41          | 9.85           | 421.43           | 0.41           |                | Ţ               | -              | -                |                | 234.80<br>226.41  | 8.45<br>9.86         |                |
| Sub-total                                    | 372.03                   | 7.74           |                | 334.19          | 9.73           | 278.61           | 8.45           |                | 80:             | 796            | 406.93           | 8.22           | 2194.90           | 8.30                 |                |
| B 364 Day Bills<br>i) Aug 2,1996             | _                        |                |                | _               | _              | _                |                |                | 1               |                | 30.00            | 5.62           | 30.00             | 5.62                 |                |
| ii) Oct 11,1996                              | 1.40                     | 9.97           |                | 4.10            | 10.26          | -                | -              |                | ŞŢ.             | -              |                  | J.U2<br>-      | 5.50              | 10 18                |                |
| iii) Oct25,1996                              | 4.60                     | 9 49           |                | 14.00           | 10.35          | 1000             | 0 60           |                |                 | 0.22           | -                | -              | 18 60             | 10.13                |                |
| iv) Nov 22, 1996<br>v) Jan 17, 1997          | -                        | -              |                | -               | -              | 10.00            | 8.58<br>10.12  |                | 1(4)            | 8.73           | 10.00            | 11.37          | 20.00<br>20.00    | 8.65<br>10.75        |                |
| vi) Jan 31,1997                              | 5.00                     | 12.47          |                | -               | -              | -                | -              |                | 2               | -              | -                | -              | 5.00              | 12.47                |                |
| vii) Apr I I, 1997<br>viii) May 9, 1997      | 5 00                     | 12.67          |                | -               | -              | -                | -              |                | 3               | 11 68          | 10.00            | 12.12          | 14.82             | 12.01                |                |
| ix) May 23, 1997                             | 7.00                     | 12.67          |                | -               | •              | -                | -              | •              | 35              | 11.32<br>11.47 | 1000             | 12.12          | 15.00<br>11.60    | 11.86<br>12.19       |                |
| x) June 6, 1997                              | -                        | -              |                | -               | -              |                  |                |                | 1(1             | 11.57          | -                | -              | 10.00             | 11.57                |                |
| xı) July 4, 1997<br>xii) July 18, 1997       | 15.00<br>64.83           | 12.57<br>12.75 |                | 25.25           | 12.71          | 5.00<br>25.00    | 11.77<br>11.99 |                | 14(3)           | 12.06<br>12.20 | 73 70            | 1287           | 66.00<br>335.08   | 12.16<br>12.48       |                |
| xiii) Aug 15,1997                            | 9.00                     | 1291           |                | 44.00           |                | 142.00           | 12.75          |                |                 | -              | 7.770            |                | 195.00            | 12.75                |                |
| xiv) Aug 29,1997                             | 87.00                    | 12.74          |                | 97 25           | 1224           | 192.00           | 12.27          |                | 231             | 11.94          | 122.70           | 10.02          | 87.00             | 12.74                |                |
| Sub-total * 2 GOI Dated Securities           | 198.83                   | 12.63          |                | 87.35           | 12.24          | 192.00           | 12.27          |                | 231             | 11.94          | 123.70           | 10.91          | 833.60            | 12.06                |                |
| A Converted (Per Cent: Ye                    |                          | 10.40          | 12.25          | 07.75           | 10.01          | 15.00            | 10.40          | 12.22          |                 | 10.66          | 0.04             | 10.45          | 205 10            | 10.7                 |                |
| i) 13 50,1998<br>ii) 12,00,1999              | 45.40<br>1000            | 12.68<br>13.29 | 13.35<br>12.35 | 27.75           | 12.81          | 15.00<br>5.00    | 12.62<br>13.19 | 13.33<br>12.32 | 113             | 12.65<br>13.17 | 0.04             | 12.47          | 205 19<br>20.50   | 12 67<br>13 23       | 13 34<br>12.33 |
| iii) 11.75,2001                              | 7.00                     | 14.07          | 12.79          | :               |                | -                | -              | -              | 1               | -              |                  | <del>.</del>   | 700               | 14 07                | 12.79          |
| iv) 12.50,2004<br>Sub-total                  | 0.27<br>62.67            | 13.67<br>12.93 | 13.22<br>13.12 | 14 18<br>41.93  | 13.66<br>13.10 | 20.00            | 12.76          | 13.08          | 155<br>138      | 13.65<br>12.78 | 12.04<br>12.08   | 13.66<br>13.66 | 42.04<br>274.73   | 13 66<br>12.90       | 13.21<br>13.23 |
| B Regular (Per Cent Year                     | ()                       | 12.73          | 13.12          | 41.73           | 13.10          | 20.00            | 12.70          | 13.00          | 130             | 12.70          | 12 06            | 1.5 00         | 214.13            | 12.90                | 13.23          |
| i) 10.30, 1996                               | •                        | -              | -              | 1.43            | 7.96           | 06.22            | 11.60          | 12.26          | 371             | 11.52          | 00 53            | 1100           | 1.43              | 7 96                 | 10.25          |
| ii) 13.50, 1997<br>iii) 13.70, 1997          | •                        |                |                | 97.00           | 11.62          | 95.22<br>5.00    | 11.50<br>13.38 | 13.25<br>13.61 | 3/12            | 11.53          | 88.52            | 11.89          | 652.34<br>5.00    | 11.59<br>13.38       | 13.25<br>13.61 |
| iv) 13.50, 1998                              |                          |                |                | 10.00           | 12.70          | 10.00            | 1243           | 13.30          | 20              | 1268           | 15 25            | 12.68          | 55.25             | 12.64                | 13 34          |
| v) 13.62,1998<br>vi) 13.65,1998              | 95.00<br>21.00           | 13.32<br>13.44 | 13.57<br>13.61 | 25 00           | 13.46          | 35.00            | 13.34          | 13.56          | 318             | 13.45          | 1311 08          | 13.58          | 1784.28<br>21.00  | 13.54<br>13.44       | 13 68<br>13 61 |
| vii) 13.70.1999                              | 4190                     | 13.39          | 13.61          | 25.00           | 13.43          | 4.00             | 13.32          | 13.59          | 90              | 13.40          | 57.02            | 13.45          | 218.07            | 1341                 | 13,61          |
| viii) 10.75,2000                             | -                        |                | -              | -               | -              | -                | -              | -              | <b>1</b>        | 12.50          | 0.25             | 13 42          | 0.25              | 13.42                | 11.67          |
| 1X) 13.85,2000<br>x) 13.75,2001              | -                        |                | -              | -               | •              | -                |                | -              | 5 <b>7</b>      | 13.58<br>13.54 | -                |                | 5.00<br>7.05      | 13.58<br>13.54       | 13 74<br>13 66 |
| xi) 13.85,2001                               | -                        | -              | -              |                 | <del>-</del>   |                  | •              | -              | 7               | -              | 10.00            | 13.39          | 10.00             | 13 39                | 13.65          |
| xii) 12.75,2002<br>xiii) 13.80,2002          | -                        | -              | -              | 0.24<br>10.00   |                | -                | -              | -              | 3               | -              | -                | -              | 0 24<br>10.00     | 14.01<br>13.63       | 13.42<br>13.71 |
| xiv) 14.00,2005                              | 6.08                     | 13.70          | 13.80          | 1.83            |                | 0.12             | 13.99          | 14.00          | 0               | 13.60          | 6.58             | 13.70          | 14.85             | 13.70                | 13.80          |
| xv) 11.50,2006                               | (20.11                   | 12.00          | 12.00          | 0.25            | 13.69          | -                | -              | -              | 3               | -              | -                | -              | 0.25              | 13.69                | 13.02          |
| xvi) 13 85,2006<br>xvii) 14.00,2006          | 632.11                   | 13.90          | 13.88          | -               | -              | -                | •              | -              | 4.              | 13.63          | -                | -              | 632.11<br>4.26    | 13.90<br>13.63       | 13.88<br>13.74 |
| xviii) 11.50, 2009                           | <b>:</b>                 |                | <b>.</b>       |                 |                |                  | :              |                | 3               | •              | 1.00             | 13.86          | 1.00              | 13.86                | 13.37          |
| Sub-total<br>C Zero coupon (Per Cent:        | 796.09                   | 13.79          | 13.82          | 170.75          | 12.33          | 149.34           | 12.11          | 13.34          | 816             | 12.55          | 1489.70          | 13.46          | 3422.38           | 13.21                | 13 63          |
| (i) 0.00, 1999                               | 40.00                    | 14.04          | 9.50           | 10.00           | 13.94          | -                |                | -              | 170             | 13.77          | 15 00            | 13.79          | 235.00            | 13.82                | 9.52           |
| (ii) 0.00,2000                               | -                        | -              | •              | -               | -              | -                |                |                | 3               | 13.93          | -                | -              | 3.00              | 13.93                | 11.34          |
| (iii) 0.00, 2000(III)<br>Sub-total           | 44.00<br>84.00           | 14 10<br>14 07 | 13.69<br>11.69 |                 |                | 20.00<br>20.00   | 14.01<br>14.01 |                | 135 <b>9</b>    | 13,95<br>13,85 | 119.00<br>134.00 |                | 413 00<br>651 00  | 13.69<br>13.74       | 13.71          |
| (A+B+C)*                                     | 942.76                   | 13.76          |                | 317.69          |                | 189 34           | 12.38          |                | 1262.           | 12.89          | 1635.77          |                | 4348.11           | 13.27                | 13.39          |
| D RBI's Open Market                          |                          |                |                | 0.02            | 1,57           | 000              | 12 25          | 13.40          | 151             | 12 24          |                  |                | 160.17            | 12 25                | 12 40          |
| Operations (Per Cent)<br>(A+B+C+D)           | 942.76                   | 13.76          | 13.59          | 0.03<br>317.71  |                | 9.00<br>198.34   | 13.35<br>12.42 |                | 151 ¥<br>1413.4 | 13 35<br>12,94 | 1635.77          |                | 160.17<br>4508.28 | 13.35<br>13.27       | 13.60<br>13.39 |
| 3 ŘEPO                                       |                          |                |                |                 |                |                  |                |                |                 |                |                  |                |                   |                      |                |
| (i) 91-Day T Bill                            | 106 00<br>63 25          | -              | -              | 15.00<br>20.00  |                | 118.00<br>192.00 | -              | •              | 1               |                | 35.00            | •              | 274.00<br>275.25  |                      |                |
| (ii) 364-Day T Bill<br>(iii) Govt Securities | 302.95                   | -              | -              | 250.00          |                | 1646.00          | -              | -              | 67.             | ]              | 289.00           |                | 2554.95           |                      |                |
| Sub-total                                    | 472.20                   | 12.00          | 12.74          | 285.00          |                | 1956.00          | 12.00          | 1274           | 67.9            | 12.40          | 324.00           |                | 310420            | 1271                 | 12 77          |
| 4 State Govt Securities Grand total          | 0.68<br>1 <b>98</b> 6.50 | 13.68          | 13.74          | 3.79<br>1028.04 |                | 1.01<br>2625.97  | 13.68          | 13.74          | 18.0<br>2533.2  | 13.69          | 2.14<br>2492.54  | 13.68          | 25.62<br>10666.60 | 13.71                | 13.75          |
|                                              |                          |                |                |                 |                |                  |                |                |                 |                |                  |                |                   |                      |                |

<sup>(-)</sup> means no trading YTM = Yield to maturity in per centage per annum CY = Current yield in per tent per annum \* Yield rates of these sub-groups of t-bills and dated securities have been used for the graphs.

Notes: 1) Yields are weighted yields, weighted by the amounts of each transaction. 2) Current eld has not been worked out for treasury bills.

of funds. When financial institutions themselves raise funds at over 16 per cent, they obviously cannot onlend those funds at lower rates. Given this benchmark, the corporate sector will have to offer stiffer competition and pay an even higher return on its own issues. Even though such corporate sector rates may still appear lower as compared with the banks' and FIs' loan rates, there is no doubt that the overall cost of funds has been pushed up to unduly high levels and that it has not been conductive to promoting productive activities.

Second, this market impinges on the jurisdiction of too many regulators but it is least regulated. The RBI, the SEBI, the Company Law Board and the Bureau of Public Enterprises, all come into the picture but each without comprehensive powers. An illustration of the unhealthy practices that the absence of any specific institution focusing on this market can give rise to, relates to the tenure of bonds. The instance given earlier where an issuer issues a bond with 18-month tenure with a put option after 15 days clearly shows that the issuer has adopted this route only to raise 15-day money which it is not otherwise allowed to raise; and hence the bond route. Another instance is that of circumventing SEBI regulation of requiring to obtain credit rating for certain borrowings. Many corporates raise funds through 18-month bonds Apart from getting such corporates out of the regulatory framework, this gets the corporates into a very short-term debt obligation. This may not be good for corporate projects having long gestation periods.

Third, a problem affecting the secondary market activity in bonds is the absence of depository facility and cumbersome procedure for trading. It is well known that most PSUs take a long time to issue the bond certificates. Since bonds do not have a scripless trading facility, bond certificate is imperative if one wants to trade. Absence of a certificate either generates the much maligned intermediate instrument like the bankers' receipt (BRs), which was the very basis of the securities scandal in 1992 or dissuades the trader from trading. In the past, the RBI had offered to extend its depository infrastructure created for government securities transactions also to fresh issues of PSU bonds. The offer, however, was not taken up by the government for reasons best known to it.

Fourth, besides giving a boost to the secondary market activity, having a depository for the bond market would help resolve several related issues. To begin with, such a depository will have all the information relating to fresh bond issues including privately placed ones, as also that relating to the nature and extent of the secondary trading in bonds. Screen-based trading will facilitate monitoring of this activity and at the same time give confidence to the trading parties. Having the facility of scripless trading and a delivery versus payment system in bonds trading will go a long way in nurturing this market. A very significant issue in the healthy

deviapment of the bond market is an active seculary market. As of now very little infratation is available either regarding new issue activity in the secondary market. The onlinformation at present available regarding therinary issues relates to an aggregate picture of SU bonds which the RBI puts out in its pulcations and that concerning the secondary maket relates to those trades which are done on eNSE(Table 5). The predominant investors in adds being banks, a large volume in this make is presumably transacted off-screen, outde the exchange, over-the-counter or as tellione deals. Lack of transparency surely presidetrimental to the promotion of a healthy de market.

nally, once transparency is achieved, repo fality could also be extended to the bonds mket. Currently, repos are not allowed to nc-bank players and in securities other than gremment securities specially notified for re, BSE brokers too are not allowed in the sondary bond market, which may have some rionale considering, apart from the it ficiencies of the BSE's trading system, the rapant speculation prevailing in the exchange. To question is who should take initiative in orthing scripless trading facility? In the wake othe multiplicity of issuing corporate cegories, as also regulatory interests in this nrket, this question may not have easy sution. The government of India has to take azeisive action in this respect and entrust the ta to an independent organisation such as, tlStock Holding Corporation of India Limited sthat, on the lines of depositories planned feauity shares, the debt instruments are also bught under scripless trading.

#### IV Secondary Market

hted Securities

There was a general lack of interest in trading government securities during August. As a sult, prices of government securities constantly il thus increasing the yields. The limited iding interest witnessed during the month asalso confined largely to short-dated paper. 18,13.62 per cent 1998 was the most traded per during August with trades totalling Rs 764 crore. Next in importance was 13.50 per int 1997 which witnessed total trades worth s \$52 crore. Zero coupon bonds maturing in ) and 2000 also witnessed some interest. owards the end of the month, the freshly syed 13.85 per cent 2006 was traded to the xint of Rs 632 crore essentially because of fouting of banks' investments through PDs; wscrip was sold at a small discount which abled the yield to 13.90 per cent from the 13.85 pon rate.

It is pertinent to note that the secondary surket activity in government paper has evorded a significant increase since the RBI levided to pay commission to primary dealers, worder to share the commission with the imary dealers the banks have started routing for bids through PDs. The PDs pass on the curities to banks through SGL transactions the next day. As a result, the SGL account

shows inflated turnover in government securities.

#### Treasury Bills

In an aberration to the trend, the secondary market for 91-day TBs witnessed an inverted yield curve during the second week of August. This was due to the high call rates during the week which resulted in a higher yield on paper of closer maturity. White yield on TBs maturing on August 31, 1996 touched 10.37 per cent levels, that on paper maturing on November 9, was 8.72 per cent. The call rates during this week had nearly doubled from 4.5 per cent to 8.5 per cent As investors preferred to disinvest 91-day TBs to invest in the call market which fetched higher yields, the prices of this paper fell boosting the yields.

#### **Open Market Operations**

The RBI was not very active in open market operations during August, especially during the first half. The changes in the price lists put out by it were more to keep its quotes in time with the market. Nevertheless, it sold Rs 169 577 crore worth of securities and bought Rs 10 crore worth.

#### Yield Curve

Though there has occurred a general rise in the YTMs for all types of government paper during August as compared with those during July, the increases have been steeper in respect of TBs and shortdated securities. As a result, the yield curve based on the average YTMs for the five weeks of August appears largely flat (Graph D). The monthly weighted average of the YTMs for 364-day TBs increased from 10.81 per cent in July to 12.06 per cent in August, whereas the similar average of YTMs for dated securities increased from 12.91 per cent to 13.27 per cent. Within the dated securities also, many shortdated ones experienced higher YTMs than the long-dated securities, suggestive of uncertainties in regard to the liquidity situation and the market preference in the circumstances for short-dated paper.

#### Bonds

Bonds trading on the NSE being limited it may at best be only indicative. Such bonds trading on the exchange continued to be dominated by blue chip PSUs such as, IRFC, MTNL, NHPC, NTPC, NPC with an occasional trade in bonds of REC. The amount traded of bonds aggregated Rs 120 crore during August (5 weeks) as against Rs 88 crore during July. Corporate debentures traded at around 20 per cent yields and for about Rs 15 crore during August as compared with Rs 2 crore in July (Table 5). There was no trading in CPs but CDs with Rs 27 crore were traded in August against Rs 50 crore in July. The background review and statistical compilations for this paper were undertaken by V P Prasanth and Paramita Debnath].

**NARMADA** 

## State and the People

## **Styles of Suppression and Resistance**

Krishna Kumar

For the Narmada Bachao Andolan and similar resistance movements, the August happenings – all of which involved the different levels of confrontation between the movement's leaders, the state's strong and and the bureaucracy – ought to prompt some reflection over their future course.

FOUR Narmada-related incidents which took place in August deserve a close look and interpretation. Even the broad details pertaining to these incidents were ignored in many quarters of the media, and therefore require some narration. A distinct sense of boredom has surfaced in the media in relation to Narmada affairs, and indeed to a certain extent, in relation to all resistance movements concerned with ecological problems. The boredom is undoubtedly an outcome of the emerging consensus among owners of industry and the media, that popular ecological awareness is detrimental to speedy industrial growth. Killing of news relating to people's opposition to destructive development projects or legal battles waged as part of such opposition has become routine. A third party to join this consensus among industry and media owners are political leaders. They were never too keen on supporting ecological struggles, except when an immediate political advantage was at stake. Even this variety of interest has dwindled in high-level political circles since the advent of World Bank-directed economic reforms.

This is why the prime minister's meeting with the 500 people from the Sardar Sarovar region and Narmada Bachao Andolan leaders on August 2 was a notable and pleasant surprise. Soon after the rise of United Front to power in the centre, environment magazine Down to Earth (June 30) had commented that prime minister Deve Gowda was no friend of ecological struggles. The Narmada issue, of course, does not relate to the environment alone; it also relates to the immediate destiny of whole communities. The PM's level of concern for them became somewhat apparent as soon as the meeting started. He addressed the NBA leader as 'Madam Madhukar Putkar' and then announced that he had called the meeting on the advice of his colleague Indrajit Gupta. As if these signs were not enough to indicate the significance he himself attached to the event, he added that he had a very busy schedule and that several delegations were waiting to meet him. Indeed, the men and women assembled to hear him on the Narmada issue could see other delegations on distant patches of the vast, lush laws. These men and women had travelled all the way to New Delhi from what is one of the most different and isolated terrains in inhabited India. No PM or senior politician has personally experienced what it means to commute in and from this region in the monsoon season.

The PM promised to minimise displacement and misery before making an unexpected and welcome announcement. He said he would convene a meeting lasting two to three hours where the four concerned chief ministers, NBA leader Medha Patkar (named as earlier) and 15 to 20 people from among the dam-affected population (five from each state) would be invited. On some insistence by Medha Patkar for an early and specific date, the social welfare minister announced even as the PM was leaving that the latter had decided to hold the meeting on August 16. This was by any standards an exciting development in the decade-long drama of state deafness over Narmada projects. The four CMs had met in July at the PM's own initiative, and no one had then even considered inviting the NBA, let alone the dam-affected people. Residents of the Sardar Sarovar region had come to Delhi precisely to protest against the so-called 'resolution' reached in the July meeting. However, the surprise and the satisfaction arising from the PM's new wisdom - 'I will be in a position to say what to do next' after the proposed meeting, he said - did not last long. Gujarat CM Suresh Mehta reacted to the PM's plan by saying that he would not attend any meeting where Medha Patkar was present. Soon thereafter, the PM's office conveyed postponement of the August 16 meeting to the NBA, without mentioning a new date. This is how the first incident concluded.

The second occurred in Ahmedabad on August 17. Medha Patkar had gone there to hold a press conference. She wanted to appraise the Gujarat press about the outcome of the most recent hearing of the Narmada case in the Supreme Court at which the court had refused to remove the stay on further construction of the Sardar Sarovar dam granted more than-one-and half years ago. Sections of the Gujarat press had carried false and occasionally vicious items on the NBA's stand. Medha Patkar's idea of holding a press conference to clear the air could not materialise. The house of Gujarati writer Ashwini Bhatt where she was staying was surrounded by slogan-shouting BJP activists and the police who said nothing to the crowd but arrested Medha Patkar. She was first taken to a police station outside the city. then to Godhra, and finally dropped, after the full-day confinement in the back of the police jeep, in Baroda at night. That ended the second incident.

The third and fourth incidents occurred near the site of the Bargi dam in Madhya Pradesh. In contrast to the Gujarat government, the MP government has maintained an NBA-friendly face over the last little while, despite its own terrible record in rehabilitation at Bargi. The government's media-management has so far helped Bargi evade the bad name it deserves in common knowledge about displacement misery. Disappearance of people, repeated deceit by the government, and a routine 'yes-but' attitude on the part of officials have been salient features of the Bargi story. As in previous years, a 'dharna' was organised at Bijasen village of Seoni district during this monsoon. The immediate demand was that the government should not fill the Bargi reservoir beyond 418 metres above sea level so that the submergence land could be used for cultivation. The government was determined to raise the water level to 422 metres. On August 18, talks between Sconi's administrators and the people suddenly broke down and a severe lathi-charge began. Neither women nor children were spared. A statement signed by 13 victims of the lathicharge notes that the district collector personally participated in it. The state's chief secretary's submission to the national human rights commission says that the police resorted to the lathi-charge when the people threw stones and sticks. How, and how many, stones and sticks could have been found in a piece of cultivable land with a strip of water already approaching is one of the many little details worth wondering about.

Next day, Medha Patkar joined the dharna demanding an inquiry into the lathi-charge

and release of the people arrested, in addition to the demand concerning water level. On the morning of August 20 she was arrested and taken to Rookhad for solitary confinement in a forest guest house which has no telephone link. Her statement about the mode of arrest and a photograph of the moment of arrest reveal the cold vulgarity with which the Seoni police dealt with her. When told that she was to be arrested, she expressed her wish to be heard first, but the police simply dragged her away through the slush even as her glasses broke and shoes got left behind. The photograph shows her being pushed towards a boat by four women constables, themselves surrounded by more than 20 policemen. The condition of her clothes and hair shows the amount of physical force applied on her. Even while she was seated on the boat, she was pressed hard from behind. In a telephone conversation, the chief secretary of MP. reputed to be a sympathiser of the NBA and an admirer of Medha Patkar, told me with certainty that she was arrested because she would have committed suicide by drowning. and furthermore that it was necessary to keep her under arrest as she would try the same thing if she were to be released. She was eventually released 10 days later following an order from the Jabalpur High Court which held her arrest on August 20 to be illegal. By then, the water level had reached the level of 422 metres. Following Medha Patkar's arrest, many more people were arrested, some at a point when they would not have survived the rising waters. Finally, after the high court's order of Patkar's release, negotiations were held between the NBA and the government. All those arrested were to be unconditionally released and an independent inquiry was to be made into the lathi-charge. As for the water level, December 15 was fixed as the date for bringing down the reservoir to 418 metres. The provincial media were supporting the government's stand all along. The only pressure the government was under was that of hundreds of individuals and environmental organisations both in India and abroad, including Greenpeace, who expressed outrage over the Bargi drama.

The four incidents outlined here offer us an opportunity to reflect on the functioning of the state and the problems of a people's movement. Political leadership and the bureaucracy have been working in cleverly designed distant ways which permit the former to look friendly towards people's resistance while the latter ensure the determined pursuit of the plans that people are opposing. This division of labour is, of course, not new, but its implications are getting harder for the political leadership to sustain. With a pro-people image to protect, the UF government must find it discomforing to have its PM look

assummodative to a BJP chief minister while the al reason for the PM's change of mind land bureaucratic advice. We can see in the miniature graphic of our times a solid chall of the claim frequently made that the braucracy is losing power or ground. If orders of industry and their friends in the contraction business ever needed help, its net trustworthy source would surely remain it be bureaucracy. Although its historical chacter and origins are well known, this follows, rule-quoting class has not even been to be understood by scholars of Indian say and society.

What happened in MP was another cample of the division of labour between thureaucracy and the political leadership. han the chief minister of MP was shown e photograph of Medha Patkar's arrest at oress conference in Delhi, all he said was at the chief secretary had great respect for r The Hindu, August 28), suggesting that SCM could not be blamed for what ppened at Bargi. The lathi-charge the ts and confinement, and the subsequent entiations notwithstanding, the state wirnment accomplished what it wanted to as filling of the reservoir was concerned. For the NBA and similar resistance owements, the August happenings ought bing a disturbing thought and an occasion reflect on it. The conversion of NBA's **known** leader into a symbol is a momenon which has been crystallising r some time now. Resistance being the niral theme of the movement, the thought certain life-span in its momentum cannot avoided, nor can one expect that the rable demands life has made on its fullin leadership would not cause depletion Inner resources. The NBA itself has me a symbol of rational scepticism wards the socio-political and economic mation that 'national development' has assumed. NBA's experience has become a consolidated resource for anyone interested in making a truly objective study of the ideology of developmentalism. The grounds on which the NBA has opposed the Sardar Sarovar project are supreme examples of substantive rationality which few in India, even among scholars, have learnt to distinguish from the instrumentalist rationality practised by the state in the name of development. And the Narmada struggle has opened up strikingly new points of enquiry into modernity, particularly into the structures of domination associated with modernisation in post-colonial conditions. It is a simplistic perception projected by many observers, that the Narmada movement represents preservationist traditionalism. The implications of the movement for many areas of civic life, particularly the areas that verge on basic needs and fundamental values, are deep and inviting. To have opened up an attractive vista for future course of social action and theorising is no small achievement. The conversion of NBA leader Medha Patkar into a symbolic entity forecloses precisely this course. For one thing, both she and the NBA become more vulnerable to state manipulation, and not just to state violence. The record of her August journey from one brute suppression to the next tells us that popular resistance becomes a lot easier to deal with when it congeals around a definite symbolic figure. Not a few people's movements and many more voluntary groupings have suffered on this kind of road. The NBA has had a distinct identity among India's ecological movements because it had a strong base among the masses, built over time with laboriously organised popular education. Just because the state has proved deaf and the intelligentsia callous, the programme does not need to turn on itself.

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## **Unrest in Junior Colleges**

J V Deshpande

The recent 19-day statewide strike of junior college teachers in Maharashtra was another instance of teachers having to resort to prolonged agitations merely to protect their existing working condition. The strike has also shown that the Shiv Sena-BJP government is as devoid of new ideas in education as all its Congress predecessors.

EVEN though the near-total strike of the junior college (higher secondary school) teachers in Maharashtra has been called off after 19 days, the concerned teachers are not a happy lot, nor is tranquillity expected to return to junior and degree colleges in Maharashtra. The settlement reached with the state government has not satisfactorily tackled either the short-term issues or the basic issues of teachers at the higher secondary level.

College teachers' agitations have been frequent in Maharashtra in the recent past. The teachers are often blamed for this, however genuine or justified their grievances may be - the line of reasoning being that teachers should not (1) stoop to agitational working class methods, and (2) hold students. an innocent party, to ransom. Of course, in any stoppage of work, a third innocent party always suffers (for example, commuters when transport workers stop work). As for nobility, it is not clear why teaching should be considered nobler than other vocations or, more pertinently, why other vocations should be considered less noble and also why persons in a noble profession should not adopt working class methods. The little that the college teachers in Maharashtra have gained has been mainly due to their use of agitational methods. In fact, on many an occasion teachers have had to resort to fresh agitations just to get earlier agreements implemented.

The latest strike and its withdrawal bear this out. Briefly, after a long struggle a few years back, the government of Maharashtra agreed to introduce a special scale in junior colleges for those with at least 12 years of service. When the actual orders were issued, the government inserted a rider that the senior scale will be given to the teachers only 12 years after they have taken a degree in education in addition to their subject qualification. After a strong protest from the teachers, the extra condition was dropped. Now, four years later, government has not only reintroduced the additional qualification but has also proposed that it would recover the extra pay given in the past four years running into thousands of rupees each from hundreds of teachers.

A degree in education was not a prerequisite when the junior colleges were

first formed. Many teachers employed in 1970s were already confirmed before BEd rule came into force. Because Bi colleges are so few, because of the rampa malpractices in admissions to them (me are controlled by local political heav weights) and because of difficulties in taki a year or two off to get the BEd degree working teachers find it very difficult acquire a qualification in education on they are holding a job. Thus the government decision effectively denied the senior sca virtually to all the older teachers in the juni colleges. As a part of the latest compromit the Maharashtra government has agreed withdraw the condition of a degree education for eligibility to the special scal

After a phenomenal growth in the 197 and 1980s, enrolment in junior colleges he shown a declining trend, particularly in the arts and commerce streams in rural Mahrashtra. The reasons behind this need to seriously investigated. A fall-out of this shriking enrolment is the closing down of extidivisions in many junior colleges in rural are rendering their teachers surplus. Till not managements could not terminate anyone services without the consent of the government. The latter had proposed to give up authority in this respect, leaving teachers the mercy of the managements. The agreement now entered into restores the status qui

A prolonged and statewide strike of days has thus enabled the junior collecteachers simply to hold on to their existing working conditions—a classic case of running hard just to stay where you are. Under standably, the teachers' jubilation is mute. They will be well advised to wait till the see the government notifications actually print. Further, the agreement now reached has not only left many pressing issue unattended, it has not even bothered to fad the basic problems faced by teachers of the plus-two stage of education.

Late payment of monthly salaries is major grievance of the majority of teacher Often the entire staff of an institute gowithout salary payments for months on end. The plight of teachers in government-ru colleges is often worse. Although the salar support came from the government, actually payments used to be made by colleges.

managements in the past. Because of many complaints of harassment and malpractices, salary payments were taken over by the government. Over the years, this has created its own avenues of malpractices, at least of bureaucratic indifference and delay. The procedure needs to be streamlined urgently, but the matter has not been touched at all in the settlement.

A factor which contributes significantly to delay in salary payments is the large proportion of unconfirmed teachers in many institutes. This leads to rapid turnover of the faculty and the attendant paperwork holds up salary payment. Hundreds of teachers appointed against reserved posts continue year after year without any job security. To their number are added those without a degree in education. A large body of temporary staff in an institute is not only academically deplorable but also gives a handy tool to unscrupulous managements to harass teachers. There seems to be a general reluctance even to face this real human problem because of its political implications.

The frustrations and the hardships which a teacher in a junior college faces are not easily grasped, even by others in the teaching profession. He (or, more likely in the urban areas, she) needs the same subject qualifications as his counterpart in a degree college. In addition, he needs to have qualifications in teaching methods. With only two years of jumor college to teach and a workload of 24 periods per week, it is inevitable that he has to repeat the same lesson three or four times a week. Nothing could be more deadening to a conscientious teacher than doing this year after year. On average, he will be teaching six different classes per term. This makes for a staggering number of 2,400 scripts (100 students per class, your examinations per year) to be graded in 10 months. Recause of the two-year span of the plus-two stage, the chances of professional advancement are very slim. Further, in Maharashtra, the majority of junior colleges are run as part of degree colleges of the same management. This effectively excludes teachers in junior colleges even from minor administrative advances such as a viceprincipalship or the headship of a department. Even with salary-scales comparing poorly with those of other white-collar office jobs or jobs of bank clerks, many persons who were academically inclined still used to prefer a teaching career for the intellectual satisfaction it brought. This is totally absent in today's environment and a career in an academic institution now attracts far less committed persons than before.

When the 10+2+3 scheme of education was first introduced 20 years ago, the reasons given were (1) to divert a large number of high school graduates into trade and technical courses at the plus two stage, and (2) to restrict degree and postgraduate education

to the meritorious few. Neither of these two objectives has been achieved, nor are they likely to be achieved. The only achievement has been to divide college teachers into two castes – those in degree colleges and those in junior colleges – with different emoluments and different working conditions even while working in the same premises. This has led to a steep deterioration in working conditions in colleges. Since the professed objectives of the 10+2+3 scheme are not being reached, surely the time has come for a serious reconsideration of the basic pattern itself. But of that there is no indication at all.

A couple of other lessons of the latest strike may also be noted. For one thing, the stud has shown that the present SS-BJP godinment in Maharashtra is as devoid of ne deas in education as all its Congress princessors. Like the earlier governments, thy also prefer to be led by the bureaucratic aparatus. The other noteworthy feature was th isolation of the junior college teacher's uras from other active trade unions. Even th unions of school and degree college techers took only token action in its support. Man like the textile workers in the last deade, the teachers of junior colleges are wing their struggle on their own. Solidarity ofhe working class movement has once aga been shown up to be so much wishful thicing.

## Part-Time Teachers in Karnataka

Ambarao T Uplaonkar

The indiscriminate granting of permissin to open colleges without satisfying primary requirements resulte in a spurt of part-time teachers in Karnataka. With the adoption of UC norms for the appointment of teachers by the state government, these art-time have been put at a disadvantage.

OF late, the practice of appointing part-time teachers has become almost a permanent feature of higher education in Karnataka. This practice is a result of the short-sighted policy measures pursued by the state government. It is the result of unplanned and indiscriminate granting of permission, under political pressures, to open colleges without any regard for even minimum and basic requirements such as infrastructure, teaching and non-teaching staff. Consequently, there is a mushrooming of colleges without teachers. Colleges are being opened both by the government and private bodies in small towns and taluk places even when there is no need for them. Due to technical and procedural snags and financial constraints, permanent and regular teachers are not appointed for years. There are a number of government degree colleges in mofussil areas where the principal is the only permanent staff member, while the rest are part-time teachers. There are instances of students of government colleges going on agitation for non-completion of syllabus due to shortage of teaching staff for the entire year. In other words, as permanent and regular teachers cannot be appointed due to various reasons, part-time teachers are taken on as a temporary measure until permanent appointments are made.

The problem of part-time teaching is also a consequence of the liberal concession extended to private managements to open colleges. For example, SC managements are allowed to open new colleges on condition that they are free to appoint teaching staff but bear their salary for a period of seven

yes (earlier it was only two years). In such ciences part-time teachers are appointed uil the college becomes eligible for grantinidafter seven years. A similar concession islap given to non-SC managements to on any number of colleges on condition th hey manage their expenses, including stigalary, on their own without ever seeking a from the government. It is reported that the are about 50 such colleges functioning ing state. It goes without saying that such magements too, can appoint part-time tchers. Further, clear vacancies which arise oaccount of death and retirement are not feel up for years because of financial curraints. In short, part-time teachers have beine an inevitable necessity of higher ention in Karnataka.

problem of part-time teachers acquired

problem of part-time teachers acquired resultance after the Karnataka prinment abolished the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the practice of the p

e UGC has been constantly making ts to contain the deteriorating standards

of higher education. It is the considered opinion among educationists and scholars that the standard of university and college teachers has gone down as higher percentages and degrees are recklessly awarded to students on considerations of caste. community and influence. Of late, high marks and degrees are even given under pressure of intimidation and corruption. In order to raise the standard and quality of college teachers, the UGC, according to the recommendations of the Mehrotra committee (1986) on revision of pay scales of teachers in universities and colleges, made it obligatory for them to qualify at the national education test (NET) conducted for the purpose by the UGC or any other agency approved by the UGC and have at least 55 per cent marks at the master's degree level. However, the Karnataka government accepted the recommendations of the UGC in principle but gave exemption of clearing NET for those who had MPhil or PhD by 1992.

The adoption of UGC rules gave a severe blow to the prospects of regularisation of part-time teachers who had just 50 per cent marks at their master's degree level. For others, the new rule of qualifying at the NET was an insurmountable block. Thus, the part-time teachers in service felt that the application of UGC norms for them was an act of grave injustice for, when they had joined the service these rules were not in operation. Therefore, they argued that those already in service before the adoption of UGC scales should be exempted from the UGC norms and the state government should regularise their services.

However, the state government did not concede their demand, as the UGC would not agree to such modifications. It was the state government's mistake not to have stopped further appointment of part-time teachers when it accepted the new UGC rules in principle in 1986, and it should have made honest effort to convince the UGC to exempt all those working as part-time teachers prior to 1986. It appears that neither the state government nor the UGC is serious about the problems of college teachers as there is no rapport between the two. But efforts were being made by the state government to resolve the issue of the parttime teachers through alternative means.

#### PROBLEMS OF PART-TIMERS

There are about 2,500 part-time teachers in the whole state most between 25 and 35 years of age. More than half are said to have put in a minimum of 10 years service. It may be observed that candidates who have crossed 30 years and completed 10 years of teaching service, have few opportunities of alternative employment in future.

Generally, the part-time teachers are appointed, as temporary candidates from the

organising of the academic year July I and terminated at the end of March. The appointment is renewed every year subject to the candidate's performance. The objective behind such a policy of the government is that part-time service should not be considered as a legal basis for claiming full-time or permanent appointment nor for the continuity of service, in case of recruitment through the duly constituted bodies by the state. It is unfortunate that the part-time teachers are thus discriminated against and used as sacrificial goats by the state government.

It may be observed that the employment situation of part-time teachers has been worse than that of daily-wage earners in the state. For example, part-time teachers were previously being given a consolidated amount of Rs 400 a month for eight months. After repeated appeals the wages were raised from Rs 400 to Rs 600 and from Rs 600 to Rs 1,200 a month recently. But in private colleges even this meagre amount is not paid every month and delayed for two to three years for reasons of not receiving funds from the government. Well-to-do private managements, however, do pay a meagre amount to part-time teachers on humanitarian grounds. But there are reports that some private societies pay only half of the actual wages and force the teachers to sign on the acquittance roll or collect cheques for salarycuts in advance. Any protest or resistance from the teachers may cost them their job at the time of renewal of appointment in the next academic year.

The effects of part-time teaching should be viewed with seriousness by the state and central governments and all those concerned with the status of teachers and the standard of higher education. Part-time teaching should be viewed as a form of unemployment among educated youth. The immediate concern of the part-time teachers is about the regularisation of their service. Even after regularisation of service if their previous service is not considered, it will adversely affect their service in respect of seniority, scale of pay and pension, besides other benefits. In case their services are not regularised, the Damoclean sword of unemployment hangs on their head. Sociologically, the employment status of youth, especially educated youth, has several effects on the personal, familial and social life in particular and on the larger society in general.

A major effect of unemployment is that it produces in the person a sense of insecurity and tension which in turn, weakens his social esteem and self-image. It creates a loss of status. Unsteady employment undermines health, weakens ambition and unsettles his life. Viewed in the context of part-time teachers, unemployment (or underemploy-

in constant state of disappointment and frustration. A number of studies carried out on the social effects of unemployment have shown that the incidence of unemployment among educated youth tends to postpine their marriage, as stable and secued employment has become a prerequisite or marriage in modern society.

The practice of part-time teaching has significant repercussions on higher education. Part-time teachers are an aliented and isolated lot in higher education as they do not constitute an integral part of the institution in which they happen to be working. For example, college authorizes do not assign them any responsible job sch as advisors to student activities, or as members of admission committees, etc. They are almost treated as outsiders to the college.

The part-time teachers, due to their mea wages and an uncertain future, do not motivated to identify themselves with the institution, staff and students. Uncernin employment tends to prevent them fam identifying themselves with the role of teacher and the cause of students d education. As part-time teachers, they do ot receive their due respect, honour ad recognition from students, staff and princip They constantly feel a sense of deprivation, injustice and degradation, as they are made to complete half the syllabus with a mealre and insecure wage of Rs 1,200 a moth whereas the full-timers get four times dat salary.

The attitude of the state government towards the issue of part-time teachers hs been one of indifference from the beginning. Although the practice of appointing pattime teachers has been in existence in he form of stop-gap arrangements and contract teachers, for a long time no thought has ben given to formulating a sound policy. For example, the part-time teachers association submitted a memorandum of appeal to be then Congress government headed by Veerendra Patil to redress their grievands. But the government turned a deaf etc. Considering the lukewarm attitude of the government the association staged a dhada in front of the vidhana soudha at Bangalok. Even that did not work. Realising the gover ment's apathy, the association sought intervention of the Karnataka Administrati Tribunal for a speedy solution. The tribund. too, could not be of help. As a result, the problem of part-time teachers worsened with the government made it a rule that two pa timers be appointed in place of one stopgaper or a clear vacancy.

The situation became worse when de state government suddenly adopted the UC norms of a 55 per cent minimum at postgraduate level and clearance of NIT without giving any thought to the plight of

those who had been working for five to seven years as part-timers. However, considering the complexity of the issue, in 1993-94 the Deve Gowda cabinet took a favourable step by constituting a committee headed by Sharma to go into the different aspects of the issue and suggest suitable remedial measures.

After considering the seriousness of the problem in the light of the recommendations of the Sharma Committee the cabinet decided on November 8, 1995 to regularise the services of all part-time lecturers in junior colleges who have put in more than two years in phases until 1997, although the actual norms of appointment were not spelt out. Of course, the step taken by the government is a welcome gesture. However, the step is an ad hoc measure and not a longterm policy, and it has defects. For example, the number of part-time teachers in subjects like physics, chemistry, etc, working in science (degree) colleges is likely to be more than the vacancies in junior colleges. Obviously a good proportion of such teachers will have to remain in the same college as part-timers. Absorption of such teachers may go beyond 1997. The cut-off date will adversely affect such teachers. Again, subjects like statistics, education, fine arts, commercial painting are generally not taught in junior colleges.

Although the state government has solved the problem of part-time teachers at present, as yet there is no definite policy. For example, the state government has declared its intention to stop the appointment of part-time teachers from 1995 and fresh vacancies will be filled in through a state level recruitment committee.1 But this is not so easy as bureaucratic procedures take time and appointments will be delayed for years. Even if the procedural snags are cleared, there will not be enough candidates who have cleared the NET. The results of NET examinations have shown that hardly 2 per cent of the candidates pass the exam. As a result, parttime teachers will become an inevitable necessity. It should be realised that unless radical changes are introduced in the policy of expansion, affiliation, system of examination and teacher training, the problem of part-time teachers will continue to vex all concerned.

#### Note

In a sudden development the directorate of collegiate education, Karnataka, has asked (vide circular June 27, 1996) all degree colleges in the state to abolish the post of part-time lecturers and re-appoint retired lecturers on contract basis. But this is not a wise policy. It is not easy for the government to appoint lecturers as and when posts become vacant due to constraints and procedures. Colleges cannot be run without part-time teachers.

## 'Backwards' and 'Dalit' Take a Back Seat

Amaresh Mishra

While the electoral behaviour of the dist and backward castes will certainly be a key factor in the outcom of the coming assembly elections, there is a perceptible shift in political focus of all political forces which is likely to benefit the upper castes.

FOR an election which appears all set, once again, to decide the contours of national politics, the build up to the latest electoral round in UP is pathetically devoid of lustre. All political parties have hyped their importance for their respective camps - the United Front (UF) has gone as far as to hinge the fate of its government at the centre on its outcome, the BJP knows that after developments in Gujarat and the court summons to Advani in the hawala case it is left to UP to conduct salvaging operations, and the Congress is waiting for its resurrection. The BSP is finally making a bid for power and the chief of the Samajwadi Party is fighting for his political survival. But the crucial bind in which the parties find themselves is not being translated into raising of the political pitch. The party which is seen to be the front runner, the BJP, is not even frontally attacking its main rival the UF led by the SP and all other parties are somehow failing to record any level of enthusiasm amongst their workers. Even the type of issues that were dominant till a few years ago, like Mandal and mandir are conspicuous by their absence and the familiar invocation of populist issues is also missing.

This is, in a sense, an election sans issues; yet, for this very reason, it marks a decisive phase in the state. At an immediate level, it will repeat the political pattern seen in the last parliamentary elections, with the upper castes rooting for the BJP and the backwards and dalits for the SP and the BSP. But there is a saying current in UP villages - 'is baar sab jaat ka vote sab men pade ga' (this time all castes will vote for all the parties). It seems that the days when UP politics used to revolve exclusively around the assertion of the backward castes and dalits are over. There is a perceptible shift in the political focus. During the last parliamentary elections, dalits had emerged as an electoral force in their own right. Instead of a straight contest between the BJP and the SP, seen in social terms as one between upper and backward castes led by their power groups, the fight is now deeined to be a three-way one, with Mayavati as the new contender against Mulayam and Kalyan Singh.

But this configuration has benefited, quite unexpectedly, the upper castes. Indeed, in the campaigns of the major parties, including

th SP and the SP, the crucial aspect which ismissing is the now almost customary and all to the backwards and dalits. The UF is encentrating exclusively on 'farmers'. 'nuths' and Muslims with prime minister Lve Gowda, instead of the 'tainted' Mulayam Sigh, at the head, while the BSP is gunning ngle-mindedly for the former chief minister. Ven the customary exhortations to dalits to oture political power have vanished from te appeals of the BSP which seems to have slefined basic dalit issues with political exterity by positing the anti-Mulayam 'aimesh Chandra report' as the main poll unk. The BSP is now actively soliciting e support of the upper castes, both the ulturs and the brahmins. It has advised its y, the Congress, to field as many brahmin andidates as possible and is poised to offer tkets to a large number of thakurs in east P. especially those with criminal records tainst the yadays in the countryside. ukurs, brahmins and other forward castes calso being wooed by the UF which has ready scored a point in west UP by enlisting e support of Ajit Singh and his jat constiency. Among the Left forces, there has and a substantial erosion in the identity and fluence of the CPI and the CPI(M) within •UF, while the CPI(ML) is contesting 46 : ats. At the same time, the prime minister's dependence day declaration of a separate ttarakhand has increased the importance ithe UF of this overwhelmingly upper aute region, which was considered unmortant by Mulayam Singh in the Mandal ays because of its caste composition.

is this situation which is causing jitters 1: the BJP camp. The party otherwise is vell-placed as its opponents are split but the hange in balance in favour of the upper aites, which should have worked to its divantage, is also exposing its vulnerability. Uttarakhand declaration has enhanced the position of N D Tiwari's Congress(T), IF constituent, in the hills at the expense the BJP. In the plains, the thakurs and a can no longer be taken for granted and the brahmins too are playing a waiting game—hey are very much with the BJP but their is are also set on which way the Muslim with will move.

The Muslims are themselves in a fix – the appoints of their poor and lower middle

classes, very much like their vadav counterparts, still regard Mulayam Singh as their leader. But a section of their elite leadership is inclining towards the Congress-BSP combine which is playing up the prime minister's meeting with Bal Thackeray in order to garner more support. Imam Bukhari of the Jama Masjid has also lent his support to the BSP. In his joint meetings with Kanshiram he is projecting the plank of dalit-Muslim unity which is sounding, at least ideologically, more advanced than anything being offered by Mulayam Singh. There are prospects of tactical voting by the Muslims against the BJP and if that happens even in a few constituencies, brahmins may move towards the BSP-Congress combine, especially in places where the Congress has fielded good brahmin candidates. The changed situation in the state is objectively geared to favour the Congress, though it remains to be seen if the party is able to make a comeback in terms of the actual results.

At the same time, there is no clear sign yet of the political inclinations of the most backward castes (MBCs). Their role is going to be crucial, after that the Muslims, in deciding whether or not the BJP gets a majority. It is crucial for the BJP that it breaks into the MBC and also, if possible, the kurmi vote. That is why it is imperative for the party to continue projecting Kalyan Singh as the future chief minister despite the bitter factional fight in the state unit and the pressure of the upper castes to effect a change in the leadership. Thus, while on paper BJP, Mulayam-UF and BSP-Congress occupy, respectively, the first three positions. dramatic changes can also upset the political balance. If the BJP tally fails to touch the 213 mark and there is a hung assembly, it can also support Mayavatı as chief minister to keep Mulayam Singh out. Conversely, the UF can also inch closer to the BSP to keep the BJP out.

But though it appears that in any eventuality the BSP will be the gainer, the party is actually vulnerable at the ground level. In east UP, for instance, the tickets given to the thakurs are in an area where the dalits have a history of violent conflict with the upper castes. In fact, the rise of the BSP in the region was due in large measure to the rise of dalit outlaws who waged a running battle against the upper castes and their criminal gangs, largely thakur in origin, at that time owing allegiance to the BJP. Most of these outlaws were shot in encounters or gang wars so that dalits are without the kind of protection that was available before. On top of it, the BSP has given tickets to thakurs. All this will weaken the position of the dalits at a time when their party is bidding for power in the state. In east UP, which will decide the future of the BSP and where the class situation is precarious, the balance is tilting against the dalits. The dalits will, of

course, vote for the BSP and the Congress in these elections, but a new process has begun with very interesting implications.

Mulayam Singh reflected both the class position and the short-sightedness of the socio-economic forces represented by him. perched between an attempt to gain access to the upper echelons of power and the desire to keep the lower classes at bay. His position remained midway between the BJP and the dalits - a kulak leadership could have taken the dalits under its wings for a fight against, or an adjustment with, the upper classes. But this did not happen because of Mulayam Singh's short-sightedness and vacillations. But Mulayam Singh's vacillations, his antidemocratic acts and his anti-leftism and, at the same time, his failure to get accepted by the ruling classes reflect the failure of the kulaks to emerge as the ruling class, in political terms, in UP.

The class nature of the BSP has often been debated, but now the answer is becoming clearer. Kanshiram represents the interests of the big landlords and the big bourgeoisie. He, much more than Mulayam Singh, is the real representative of the ruling classes in the state. He is cool-headed and calculating, a person with a long-term view of things. It is no coincidence that he's becoming the vehicle for the revival of the Congress and the ruling class equations of the past.

The UF is also moving towards n equations. At present it may be the main pi Muslim party, but subtle shifts are taki place in its position. Deve Gowda's meet with Bal Thackeray and its defence Mulayam was part of a design to forge a n equation with the dissidents of the BJP with the Shiv Sena and the Congress min Narasimha Rao. The UF is slowly retreate from the backward-dalit-Muslim plank a this will become clearer in the post-electi scenario. Disillusionment and confusion i only in the centrist but the rightist camp w also grow and observers are talking about an emerging political vacuum in the sta The Left will gain from this situation a already dissidents from the Samaiwadi Pal are finding an alternative in the CPI(M which, unlike the CPI and the CPI(M), h kept intact its distinction from the centil camp. This counter-flow, from the centre the Left, even though only a trickle still taking place only towards the CPI(MI which expects to increase its votes in t elections.

RUSSIA

## Winter Woes of Yeltsin

Dev Murarka

The history of Yeltsin's sickness and the way it has been handled at the political level is creating a tragic legacy for the country. Because Yeltsin has ignored so many inconvenient democratic procedures and because the people have been again and again deceived about his physical condition and by his extravagant and false promises, democracy as a political institution has been thoroughly discredited in the people's eyes.

EVEN as a bright, sunny autumn dances before the eyes in Moscow, a winter fog is descending upon the Kremlin, the political citadel of Russia. It is caused by the alarming physical condition of president Boris Yeltsin. Gone is the summer glow of the election victory and the dazzling inauguration. An extraordinary state of apprehension and confusion has gripped the Russian polity because of it. Through the fog other figures can be discerned executing manoeuvres in a not-so-discreet power struggle.

This power struggle has been going on for months while the president has gone from one clinic to another in search of a cure. But when he himself announced on television on September 5 that he had a heart ailment requiring an operation, a note of urgency was added. His health acquired a new political dimension because it unavoidably placed the question of his successor on the agenda.

This question will not go away till he physically fit again, and that may not be to soon.

The paradoxical situation is that while Yeltsin needs a coronary bypass operation badly, it cannot be done at this stage because of his poor physical condition. This is the verdict of a council of medical experts hel on September 25 in which the well know American cardiac expert, 88-year-of Michael DeBakey also took part. As a resu it was agreed that while a bypass surger will restore Yeltsin to a normal condition as far as the functioning of the heart goe other complications and his weak physic condition dictate that a period of 8-10 week is required to build up his strength ar prepare him for the operation. Otherwise th risk is too great.

It is now becoming obvious to the Russia public that it was deceived on a grand scal by the Yeltsin establishment which hid from it the really serious state of his health and the fact that he suffered, something approaching a heart attack just before the second round of voting on July 3 and persuaded it to vote for him. For political reasons, even the doctors designated to look after him are not very clear on this and his own entourage still refuses to accept that this happened. However, it is incontrovertible that since then Yeltsin has appeared only once in public, on his inauguration day on August 9. As a result, the country has been without a fully functioning president for nearly three months. Even more because he was already taken to a clinic a few days after June 16 when the first round of the presidential elections had ended.

The illness of the president is not exactly a surprise to anyone (see 'Yeltsin's Last Hurrah', EPW, June 8, 1996 and 'The Sixteenth Mcssidor of Boris Yeltsin', EPW. July 6, 1996). Despite all the reassurances of his acolytes to the contrary, it has been evident for a long, long time that he is a very sick person. Only the Herculean efforts of medical experts and his own addiction to power and a determination to hang on to it at any cost to the nation, keep him going. He is utterly indifferent to and oblivious of the highly negative consequences for the country, in the short as well as the long run, of his continuation in power in a debilitated state. Poor Russian people! Having been brainwashed to re-elect him so recently, they have no alternative except to suffer him as best as they can.

Yeltsin has a long history of alcohol addiction and illnesses during the last decade. He became seriously ill with nervous exhaustion in November 1987, after being sacked from the post of the first secretary of Moscow City Communist Party. In 1990 he suffered spinal injuries during a flight to Spain when the plane made a very bumpy landing. In October 1991 he disappeared from public view for two weeks due to a minor heart problem. In July 1995 he suffered a heart attack and was away for treatment for a month. In October 1995 there was another heart attack from which he took almost three months to recover. In June 1996, after winning the first round of the presidential election on the 16th, he cancelled all tours and practically ceased to appear in public. He was taken to a clinic for top leaders. It is widely assumed that he suffered his third heart attack towards the end of June or the first days of July. As the crucial second round of voting was only a couple of days ahead, it was kept a complete secret from the electorate.

According to *Izvestia* (September 7, 1996), this actually happened on June 30, on a day when Yeltsin's scheduled meeting with the young democratic leader Grigory Yavlinsky, after a long wait during the day by him, was

cancelled without explanation. Who knows, if the meeting had taken place some political accommodation between Yavlinsky and Yeltsin might have been arrived at. It underlines how the physical incapacity of the president is affecting the political situation in the country. Izvestia also contends that he simultaneously suffered a light stroke at the time, though none of the medics have mentioned this.

According to academician Andrei Vorobivoy, who chaired the medical council, Yeltsin has ischemia, angina pectoris, cardiosclerosis, posthaemorrhagic anaemia and dysfunction of thyroid gland. His heavy drinking habits, mostly vodka and cognac, are well known. According to newspapers he also suffers insomnia and deafness in one ear. Yet others claim that he also has liver and kidney problems. The cumulative effect of all these physical disabilities makes a successful heart bypass operation highly risky because they react with each other and in the course of operation can cause fatal complications, endangering a successful outcome of the surgery.

However, it is symptomatic of the false patriotism projected about his treatment by Yeltsin that after all the unseemly noise about distinction between Russian and non-Russian doctors, even the Russian specialists are citing the American DeBakey as the authority for their final decision. Their usual remarks are that DeBakey approved the public about his "firm handshake as earlier, prognosis and the decision to postpone the even strong", his "energetic voice", his operation for a few weeks. The American specialist is also offering public testimonial to the otherwise excellent physical condition of the president and his "energetic" conduct.

In a subtle way this is thrusting responsibility upon the shoulders of DeBakey. It the Game'), and so on in a similar vein. All is also becoming clear that now a massive media campaign is starting to convince the to visit his wife in hospital, after she had people that all is well with Yeltsin, except undergone a serious operation, more than the minor matter of the timing of the operation twice in two weeks. and that he is still running the country. The doctors appear willing to play this game. nastiest sycophants ever to hang around

agreement with the decision to delay the years his press secretary. He considered it operation. Some Russian as well as Euro- amoral even to hint about any shadow on pean experts claim that it increases the risk the health of his boss. Once, when Ruslan and that in his present precarious condition Khasbulatov, then the speaker of Russian Yeltsin may not survive long enough to Supreme Soviet, made some justifiable benefit from an operation.

his actual physical condition that any precise or sober assessment of it was not possible. He himself contributed to the mystification. For instance, while disclosing that he had a heart ailment requiring operation, he also claimed that the doctors had found it out only recently in the course of medical examination. Moreover, that no help of any kind from foreign doctors was necessary.

as if the Almighty had suddenly revealed all PeBakey's participation in consultations has His secrets. One ecstatic Russian television but paid to it. Nothing wrong with it of

amouncer reacted to the limited frankness of the president so ecstatically as if the apple Newton had fallen on his head. But then his kind of servile journalism has inreasingly become the norm in Moscow. 'eltsin himself, in a snide manner, had hinted hat he was breaking a tradition of secrecy bout personal health practised by former oviet leaders.

But he was telling the truth in his own ay, ie, by telling only a small part of it, iding much more, and pretending to be nore democratic and more patriotic than his mamed predecessors by claiming to trust rdy Russian doctors. All this was clearly lesigned to impress a gullible public. Contrary to Yeltsin, the doctors did not liscover the heart ailment in the course of recent examination. They, and he too, have snown about it for more than a year. For nstance, one brilliant cardiac surgeon, Wikhail Alshibaya, had publicly declared in Pebruary this year that Yeltsin needed an peration (Segodnya, September 25, 1996). But his advice was ignored for political easons. Yeltsin was determined to run for residency again and such an operation might we reduced his re-election chances. Alshibaya bluntly stated that such a patient could die any moment and added "Boris Yeltsin is a high operation risk".

Instead, the public was sought to be fooled by all kinds of inventive reassurances to the prowess in the present weak physical condition in shooting 40 ducks and a wild boar, somehow conjuring up the scene of the rabbit shoot carnage in Jean Renoir's masterpiece La Regle du Jeu ('The Rules of this, while he was not in a fit condition even

 One of the most publicly aggressive and Not all cardiologists, however, are in Yeltsin was Vyacheslav Kostikov, for some comment about it, Kostikov burst out: "The So much disinformation had surrounded insinuation by the speaker about the health of the president testifies to great immorality A Only an outsider [for Russian chauvinists, nationalists and racists, all non-Russian tizens of the country are permanent autsiders - DM], an antipode of the Lussian national idea, could have said this" October 9, 1993). The Kostikov tradition strong very much alive and kicking even now. As for Yeltsin's proud boast that he will This announcement was hailed by some use the services only of Russian doctors,

course. All sick persons are entitled to seek the best medical help they can afford or get and the Russian president should not be denied this. Hundreds and thousands of people from all over the world travel to different countries for treatment and operations, including Russians. The wearisomely false note in all this is the pompous pretence in a nationalist vein that for Yeltsin only things Russian are good enough, while in reality he dresses from head to foot in foreign clothes. One has only to look at his exclusive 'van Laack' German shirts, his ties. his footwear.

Moreover, his admission that an operation was necessary was not purely because of his concern to inform the Russian public. Far more important was the looming visit of the German Chancellor Helmut Kohl, due on September 7. It was no secret that he was partly coming with a mission from the American president Bill Clinton to find out the exact physical condition of Yeltsin in view of all the secrecy surrounding the matter. It would have been rather awkward in the presence of Kohl to pretend that all was really well. The disclosure by Yeltsin was a pre-emptive move before the visit so that the chancellor was not too startled with his poor condition. That the motive and politics of the visit centred around Yeltsin's ill health, came out in the open when a Russian television correspondent asked Kohl point-blank whether upon his return to Germany the chancellor was going to telephone Clinton about his impressions of Yeltsin and was answered in the affirmative. This question and answer was projected in one of the Russian television news bulletins, to establish the real purpose of the visit for Russian viewers.

This concern for Yeltsin's health on the part of the western leaders is rather novel. Indeed, since the beginning of the Chechnya genocide in December 1994, Yeltsin and the American president and vice-president have time and again acted out a grotesque scene from some Gilbert and Sullivan operetta. Prior to the American VIPs' arrival in Moscow, calculated grunting noises are made by their spokespersons in Washington that their bosses will raise the question of Chechnya since the faraway sound of bombing, shelling and screams from inflicted pain and death, even though an internal matter, disturbs their beauty sleep.

But when these same bosses, who normally prate so deafeningly about human rights, are actually in Moscow, they praise the quintessential democrat Yeltsin for everything, his sparkling health, his conducting, dancing and singing and, gratefully licking him all over, go back home unconcernedly wagging their tongues. For instance, after his last visit and meeting with Yeltsin on July 16 at the Barvikha sanatorium on the outskirts of Moscow, vice-president Al Gore stated on

the CBS 'Face the Nation' show that during the meeting Yeltsin "displayed sharpness, quick thinking and concentration. I am not qualified to characterise his physical condition. However, during our conversation he appeared very energetic" (retranslated from Russian). Note the word 'energetic' used by the apologists of Yeltsin. Thus, the visiting VIPs too have been a party to the deception practised about Yeltsin's health. Sickening.

Bill and Helmut, thank heaven, do not constitute the world, not even the whole 'civilised' world. Rather, the world at large is beginning to sense that Russia is a society sick in its very soul. The sickness of Yeltsin, the way it has come about, the way it is being dealt with, all this is also representative of that profound malady.

Politics at the Kremlin level, of course, is nearly paralysed and totally focused on who or what after Yeltsin. It is not at all clear who really runs the country. Everybody speaks or acts in the name of Yeltsin, of course. However, many observers have grave doubts it in fact the attention span of the president is more than 15-30 minutes every day, if that. Again, the Russian authorities dispute this, claiming he is still the decision-maker and that he works long hours.

The concern over his health is felt differently by various streams of the establishment. There are those whose fate is tied to Yeltsin, who dragged him across the length and breadth of the country like a performing bear in the course of the election campaign, regardless of the consequences to his fragile health, to keep him in power for their sake. They are afraid about their own future without him. Of course, it could not have been done without an equal degree of willingness on the part of Yeltsin.

Then there are those who already have some of the levers of power in their hands and hope to use these to acquire political power during his disability or subsequent disappearance from the political arena. Lastly, there are those opposed to him who also hope that his exit from the scene will be to their advantage and they might manage to gain power pushing aside those who at present consider themselves to be his heirapparent. This particularly applies to the communists and their allies. These divisions are not always clear-cut and shade into each other. Neither is the behaviour of various factions consistent. All politics has become a hotchpotch of tear and expectant opportunism.

Incapacity of a ruling leader always creates problems. But in 'civilised' states, according to the Russian definition of the term, there are constitutional provisions, conventions and rules to cope with such situations. The ailing leader resigns and an election is held to choose a new leader, in some cases by the ruling party, in others by

the country. If they are unwilling they ca be compelled by the society. However, i Russia, the present constitution is just a sor of fig-leaf to cover up the naked autocracy of Yeltsin.

Therefore, none of these options are ever being thought of. At any rate not while Yeltsin has a breath left. Instead, there has been prolonged and agonised discussion of a Russian kind about transferring power to prime minister Viktor Chernomyrdin for a few hours, not a spare minute more before the great president is administered anaes thetic on the operation table and not a single minute later than he regains consciousness after the operation is over. It is not at all clear from this who will decide that the patient is fully conscious, the doctors or the patient himself? Such are the slender threads by which the fate of Russia is being made to hang. The whole procedure seems to be designed as if the power was being entrusted to the keeping of an enemy, not to a trusted loyalist.

It was finally decided that this important business will be done in three stages by means of Yeltsin's favourite device, presidential decrees. The first decree has already been signed, to entrust Chernomyrdin with some of the powers of the president now, and all in principle at a later stage when the operation starts. This will require a second decree to be issued just before anaesthetisation. Then will come the third and final decree taking it all back so that Russia can remain extra safe in the immortal hands of Yeltsin. Since the operation has been now put off for a couple of months, all this has become purely theoretical for the time being.

The procedure is fair enough, since it is stipulated in the Russian constitution that the prime minister inherits the presidency if it falls vacant before the end of the term, then within three months fresh elections have to be held for the post. But does it go far enough? For one thing, it shows a ridiculously paranoic and pathetic distrust of Chernomyrdin.

A temporary transfer of power, whether for a few hours, a few days or few weeks is a totally inadequate response to the current grave situation. It is made graver by the pretence on the part of practically everybody in the Yeltsin establishment that he is mentally fully alert and fit and that he will completely recover within a short period of time and be able to deal with the multiple problems facing the country. Only the gullible believe such assertions which are very foolish and dangerous.

Foolish, because it is obvious that the health of Yeltsin has been on the slide and after every recovery the time gaps between slide-backs have tended to be shorter, deterioration faster and steeper. To believe or claim otherwise is a delusion. Aware of

this tendency and fearful of the blame which might be placed on his shoulders if the operation, in case it is done, fails, the surgeon in charge of Yeltsin, Renat Akchurin, has publicly discouraged easy optimism about his quick recovery.

Dangerous, because Yeltsin is not some private person but the head of state, and propagating such a notion is to purposely deceive the public. This will only aggravate the crisis of confidence not only in his capability to rule but also further devalue all the political institutions of the country. The longer this situation continues, the greater will be the damage to the political health of the country, its stability. It is a purely nominal and ultimately rather meaningless style.

It is obvious now that Yeltsin will not recover fully, even if all goes well according to plan, for another 4-5 months at least. Four questions arise from this situation. One, will he ever emerge from his present physical condition to carry out his political duties in full measure? Two, if the president is not cured completely, will the country continue to be ruled by an incapacitated person for another four years? Three, if not, when and how will a changeover take place? Four, eventually who will replace and succeed Yeltsin? There are no answers to be found. Or rather, the answers are there but cannot be implemented.

One supreme solution is self-evident. It is for Yeltsin to resign and hand over power to Chernomyrdin while preparations are made for the election of a new president within three months as stipulated in the constitution. It is equally obvious he will not do so. He does not have the grace of Gorbachov in such matters. Consequently, it is almost certain that during the prolonged indisposition of Yeltsin for months ahead, at least till February next year, there will be political uncertainty and instability.

A few political personalities are hopeful that ultimately his wife Naina and daughter Tatyana, who can sometimes soften his stubbornness, will persuade him to resign voluntarily. If the two ladies could achieve this they will be doing a great service to the country. However, there is little chance that this will happen. Too many factors are against such a development.

The whole history of Yeltsin's sickness, the way it has been handled at a political level, is creating a tragic legacy for the country. Because Yeltsin has ignored many inconvenient democratic procedures during his reign so far, because the people have been again and again misled and deceived about his physical condition, and repeatedly by his extravagant and false promises, democracy as a political institution is thoroughly discredited in their eyes. It has been a peculiarly Yeltsin achievement, and whether he remains or goes, bodes ill for Russia.

## **Understanding Deve Gowda**

**James Manor** 

Deve Gowda's past may turn out to be a poor guide to his premiership, but this account of a number of events tendencies and recurring themes in his career may offer a somewhat clarer notion of what India can expect of the man from Hardanahalli.

DESPITE much comment in the Indian and international press about the background and career of prime minister H D Deve Gowda, our understanding of these things is still rather sketchy. This paper provides a little more detail and substance than has been available so far. It examines a number of events, tendencies and recurring themes in the prime minister's career which may have some bearing on his approach to his current job.

Deve Gowda received a diploma in civil engineering after a year of post-secondary study in the district headquarters town of Hassan in 1952, at the age of 19. He then spent several years farming and working as a highly competent engineering contractor, mainly in and near Holenarsipur taluk, in partnership with a Muslim friend. His involvement in construction projects earned him a reputation within a limited circle as a man who got things done. It also equipped him with analytical skills which would later enable him — both in opposition and in government — to be a formidable analyst of public works project.

During those years, he actively supported the work of the first Congress MLA from Holenarsipur and a minister in the Hanumanthaiya government, the brahmin AG Ramachandra Rao – an impressive and enlightened man whom Deve Gowda came to see as his political guru. His links to Rao and others were occasionally useful in obtaining contracts, but he did not seek office until 1959 or 1960 when he was elected – with AGR Rao's backing and on the Congress ticket – to one of the 14 or so seats on the Holenarsipur Taluk Board.

He was elected from a two-member constituency, and the other successful candidate-like Deve Gowda, a congressman and a member of the locally dominant Vokkaliga community - was one HD Dodde Gowda. He was an advocate who came (importantly, as we shall see) not from Holenarsipur but from Krishnarajanagar taluk in Mysore district. Despite the similarity of names (in Karnataka, the first

wo initials are important), he was no relation of Deve Gowda.

As the 1962 state assembly election pproached, three men sought the Congress icket to challenge Y Veerappa, the Praja ocialist Party (PSP) MLA who had defeated I G R Rao in Holenarsipur in 1957. The tree were Deve Gowda, his colleague on the Taluk Board Dodde Gowda, and one fudde Gowda. Dodde Gowda was uccessful, apparently because his brothern-law was a close associate of Sijalingappa, the once and future chief ainister of the state.

Deve Gowda decided to stand as an independent against Dodde Gowda, and set bout campaigning in the energetic, ainstakingly thorough manner that has lways characterised his political work. He cent to the former MLA, A G R Rao, to sk for his support. Rao said that as a ongressman his hands were tied, but the lea from Deve Gowda appears to have one some way towards neutralising Rao in ne ensuing campaign.

He also went to the PSP leader in Hassan hatrict and asked him to award the ticket or Holenarsipur to the incumbent Veerappa a Lingayat) rather than a promising young /okkaliga, so that the Vokkaliga vote would not be fragmented. Deve Gowda reckoned hat if he could compete only with Dodde Jowda for the support of Vokkaligas who usunumbered Lingayats in the constituency, lestood a good chance of ousting the sitting VLA who had become somewhat unpopular.

When Veerappa was renominated, Deve Jawda went systematically about cultivating figures (especially but not only Vekkaligas) in the constituency, including he young man who had been denied the PP ticket. He went to the extent of mustering 200 Vokkaliga supporters from Holenarsipur in the small hours of the morning outside the Vokkaliga hostel in Hassan where the young man was staying, cappeal for his support. It was duly granted. Deve Gowda then lined up several other fluential supporters for his campaign. This was necessary because, at the time, he was

largely unknown outside a circle of about 10 villages round his home base in Haradanahalli. Vital help came from an ayurvedic doctor who travelled widely by bicycle to treat people and who was much loved across most of the constituency. Deve Gowda and his campaign team concentrated on winning over village headmen who in those days exercised great influence among villagers. A sizeable number of them were at least distantly related to Deve Gowda or one of his close associates.

Deve Gowda and his aides would typically arrange for the leaders of most communities in a village to meet at the local temple. He would then appeal for their support, on two grounds. Despite the fact that most headmen were Vokkalıgas, caste was not an explicit part of his message. He stressed, first, that although he was nominally an independent, he was very much a congressman, so that a vote for him was not an anti-Congress vote. Second, he reminded them that the official Congress candidate, Dodde Gowda, was not from Holenarsipur. (The constituency of the three 'hoblis' or sub-taluk which make-up Holenarsipur taluk, plus Dundaganahalli 'hoblı' in neighbouring Chennarayapatna taluk, but in the latter where the charge against Dodde Gowda as an outsider carried less force - he gained solid support then and subsequently, thanks to the heavy predominance of Vokkaligas there and his assiduous cultivation of them.)

After extensive discussions, he and his associates would then withdraw for 10 minutes or so, to let the village elders reach a decision – which was usually favourable. Then, before the temple, they would pledge their support.

This sort of attention to detail – which has marked his entire career – plus a mere Rs 16,000, mainly contributed by Deve Gowda's relatives, won him a seat in the assembly in the 1962 election.<sup>2</sup> He gained 42 5 per cent of the vote, as against 24.7 per cent for Dodde Gowda and 20.4 per cent for the incumbent Veerappa.<sup>3</sup> He was 29 years old.

Once in the assembly, Deve Gowda nursed his constituency carefully. For opposing a Congress candidate in 1962, he was expelled from the party for six years. But despite this, he developed good personal relations with several leading congressmen – particularly with the Lingayat leader Veerendra Patil who was then public works minister and later chief minister, but also with Patil's patron, S Nijalingappa. This enabled him to succeed as a 'transferring MLA' who got people loyal to him inserted into key

positions in the constituency, it also helped him to obtain numerous tangible benefits from the government for Holenarsipur.

As an MLA and later as an opposition leader and a minister, he proved highly effective. Civil servants who have worked with him consistently say that although he is not well read, he has an uncanny ability to understand the key points in any document or discussion, and to spot the difference between real and imagined problems. He is also adept at anticipating potential difficulties, and at devising approaches that defuse them. His clever management of the Idgah Maidan controversy in Hubli, when he was chief minister, is a well known example.

These skills and his careful development of good political connections enabled him to gain victories - although seldom by large margins - at a succession of subsequent elections. His expulsion from Congress forced him to stand as an independent again in 1967. He won the seat for the Congress(O) in 1972, and for the Janata Party from 1978 onward.4 His successes in 1972 and 1978 were achieved in the teeth of strong statewide support for Indira Gandhi's Congress, then led by Devaraj Urs. Deve Gowda served as leader of the opposition during that period, but despite this and a brief incarceration during the emergency, his personal relations with both Urs and his successor Gundu Rao (as with most political adversaries throughout his career) were always quite cordial.

Deve Gowda's close ties to Lingayat leaders like Veerendra Patil were crucial to his growing importance during the first decade after his election in 1962. This was true partly because Lingayats dominated state-level politics between state's reorganisation in 1956 and the election of Devaraj Urs as chief minister in 1972, but there was more to it than that.

Deve Gowda was a member of the largest and most influential 'jati' within the Vokkalıga jati-cluster, the Gangadıkaras, who account for roughly one-half of all Vokkaligas 5 But he did not come from what is usually seen as the Vokkaliga 'heartland', Mandya district. Because Mandya has prospered economically (thanks in large measure to irrigation and sugar production, and proximity to Bangalore) in ways that Deve Gowda's Hassan district could not. and because Vokkaligas represent a largerproportion of the population in Mandya than in other districts (including Hassan), Vokkaliga politicians from Mandya find it difficult to acknowledge the claims to political pre-eminence within their community of Vokkaliga leaders from other districts. (Deve Gowda's problem was compounded by the hostility that developed between him and the most influential vokkanga pontician during ins early years in politics, K Hanumanthaiya, who came from Bangalore district.)

The attitudes of Vokkaligas in Mandy present Vokkaliga leaders from othe districts with both a problem and a advantage. The problem is that to make the way in state politics, they must forge tie with leaders from other communities—difficult task. Deve Gowda did just this, an by that means, he eventually became the most important Vokkaliga leader is Karnataka. But he was forced to do it, a it were, the hard way.

The advantage is that because they come from districts where Vokkaligas do not predominate to the extent they do in Mandyathey do not acquire the uncompromising approach to non-Vokkaligas that politician from Mandya often exhibit. This was certainly true of Deve Gowda, and requipped him far better than his Mandya counterparts for success in the pluralistic atmosphere of state-wide politics. (It is not accident that the state's four Vokkaliga chief ministers have come not from Mandya, but from Kolar, Bangalore, Shimoga and Hassandistricts.

Consider the diversity of the close relationships that Deve Gowda had developed during his career – with a Muslim business partner, a brahmin political gurd and Lingayat leaders like Veerendra Path (whom some see as a second political gurd

ance A O K Kao, and regaringappa. Consider also the alliances with other caste groups that he had to make, election after election. in his own constituency. Four groups are present in strength in Holenarsipur: Vokkaligas, Lingayats, Kurubas (traditionally, shepherds) and scheduled castes. To win the seat, support from at least two of these groups is essential. The scheduled castes have consistently backed the Congress associated with Indira Gandhi, so Deve Gowda was always compelled to build bridges from his Vokkaliga community to Lingayats or Kurubas or both. He has been building and maintaining mixed social coalitions for over 30 years.

These cosmopolitan experiences prepared him well to adjust to the changing rules of Karnataka politics after 1972, when Devaraj Urs made it necessary for Lingayats and Vokkaligas to share substantial power with other groups, in order to win elections and to remain in power. They may also help him to cope with the greater diversity of people and groups that he inevitably encounters as prime minister.

He is seen to be far more open to coalitions of diverse interests today than he was in 1989 when he broke with the main body of the Janata Dal in Karnataka and tried to gain power as the leader of a party which he could thoroughly dominate. That experiment proved disastrous - he suffered his only defeats in a state assembly election, both in

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Holenarsipur and in Kanakapura in Bangalore district - and it shook Deve Gowda deeply. It gave him a vivid appreciation of the utility of accommodation within broad coalitions of the kind which eventually carried him to power in Bangalore. Having now reached the pinnacle of national politics by similar means, he is unlikely to risk being excessively assertive again.

The abrupt ouster of Ramakrishna Hegde from the Janata Dal might appear to contradict that last statement. But those who know him well believe that this is unlikely to be followed by many similar actions. They attribute it instead to a tendency to remember past slights and, on occasion, to exact retribution against those responsible for them. This sometimes extends to those who have written critically of him in the press, to which he is said to be rather too sensitive.

However, most observers think that the need to maintain a diverse coalition will force him to concentrate more on co-opting adversaries than on confronting them. It should also be noted that this one tough, precipitate action against Hegde may prove useful in intimidating others from becoming too troublesome. This writer's discussions with politicians in Delhi and Bihar in mid-1996 suggested that this was the message which most leaders in the Hindi belt took from that incident.

By all accounts, press reports depicting Deve Gowda as a workaholic, thoroughly preoccupied with politics, are accurate indeed he has always been that way. He has no known recreations. He has never had much interest in sport, drama, dance, music, television or reading. Associates can only recall one occasion when he went to the cinema. He attends social functions as a duty, not for pleasure. Politics consumes nearly all of his waking hours, but it is generally agreed that he enjoys this. As one senior civil servant a ho has seen him at close quarters put it, "he can relax only when he is working, and does not know what to do with himself when he has free time, which is seldom".7 But because he enjoys work, no one who knows him expects his health to suffer under the burden of work as prime minister.

He frequently goes short of sleep, but takes naps on journeys. When he was chief minister, a lieutenant who had an urgent matter to discuss with him was invited to join him as he travelled by car from central Karnataka to Bangalore, but Deve Gowda slept the entire way. He was then asked to accompany him on a further journey down to Mysore, but the same thing happened on that trip, and again on the return leg to Bangalore. The poor man spent the better

part of 24 hours touring the state at Deve Gowda's side without getting a hearing.

Observers also stress the strong reinforcement that he receives from his wife, a quiet woman who is said to have a good understanding of politics, on which she sometimes advises him. This may be important in what can be a lonely job—especially for a prime minister who has few if any political advisors, according even to senior colleagues who are sometimes said to be his advisors. His isolation worries those who saw him construct an exceedingly effective network of informants in every corner of the Karnataka government. They tear that he may be 'flying blind' in Delhi.9

He is also sustained by a healthy lifestyle. He does not drink and gave up smoking years ago. He once ate meat, but when his tather died, he travelled to Kashi where the pandits urged him to give up something he loved as an act of devotion, whereupon he became a vegetarian.

When he first stood for the assembly, Deve Gowda was not an effective speaker - he learned this art later. But he impressed people early on with his willingness to listen, and conveyed the impression that he was a god-fearing man who would keep his word. He subsequently became skilled at using what one close associate describes as "his very melodious voice, a dangerous voice which kindles emotions of people". He also learned "how to weep", and how to use his "beautiful cunning smile" to appear to open his heart to villagers with "devastating effect"10 - especially in small groups where he excels far more than at large public meetings.

What one current associate describes as his "lack of style" before large crowds may actually turn out to have some advantages. It enables him to present himself as a plain man, a leader without frills. 'Plain men' sometimes flourish as leaders of great democracies. Witness the examples of Harry Truman and Helmut Kohl. Critics of the latter claim that he has a vocabulary of only 500 words, but he has been the leading figure in Europe for some time now.

Over the last 15 years or so, as Deve Gowda has been drawn increasingly into high politics at the state and then the national level, his old friends and constituents have seen less of him and found him less responsive than during his early years. They see that this is partly inevitable, but they also express resentment.

One long-standing associate said that "in the old days, he was very accessible to ordinary people. He would sit on the floor and talk with them, but no longer". Others complain that he has increasingly maintained his ties to his base through paid political fixers, some of whom are seen as unsavoury

- one man described them as "political goondas". His (again inevitable) preoccupation with obtaining and distributing political funds has also caused dismay, as has the involvement in this business of a toddy contractor who comes from Holenarsipur but spends most of his time in Bangalore. Some constituents resent his efforts in 1994 to install his son as his successor in Holenarsipur, while Deve Gowda moved to a safe seat in Ramanagaram in the Vokkaliga belt of Bangalore district.

They also complain that his experiences in state politics have made him unable to trust anyone, even though they concede that he has good reason for his suspicions. One particularly searing experience occurred when he was irrigation and public works minister in the Hegde government. The chief minister systematically enticed most of his key lieutenants away from him. As one Deve Gowda supporter put it, "Hegde pruned him beautifully".<sup>11</sup>

Thereafter, Deve Gowda – an indefatigable optimist who looks for opportunities even in extreme misfortune – threw himself more energetically than ever into cultivating backers. But he is seen (rightly or wrongly) to have done so in a more manipulative manner, discarding people who had helped him when they became inconvenient. Some seasoned observers also believe that there are fewer limits than there used to be or ought to be on what he will do to gain relatively modest political advantages.

Even his backers wonder whether his emphasis on frequent one-on-one discussions is appropriate to his new role as prime minister, especially if it is he who constantly calls on others rather than the other way round.

What sort of vision can we expect from this prime minister? The views of those in Karnataka who know him well suggest two answers. They sit incongruously alongside one another, but there may be some truth in both of them. On the one hand, there are critics who say that Deve Gowda tends to focus too much on minutiae, on seeking short-term advantages by forging ties with people in face-to-face dealings. They complain that he therefore "can get lost in pe lestrian concerns". He tends to see the trees rather than the wood, and he focuses on tactical problems at the expense of larger strategic thinking

They allege that this deprives him of vision, and they point to occasions where this has cost him dearly. One instance was the contest for the leadership of the government which was formed in Karnataka in the aftermath of the defeat of Congress in the 1983 state election. Deve Gowda concentrated on lining up MLAs one by one, while his rivals S R Bommai and

especially the ultimate victor Ramakrishna Hegde dwelt more productively on larger strategic approaches. It is unkindly said that Deve Gowda continued to operate too much as he had done when constructing his base in his constituency of Holenarsipur and in Hassan district. It must be stressed, however, that he was probably not in a position to win that contest.

It might also be argued that his focus on matters of detail is precisely what is needed now, when he heads a coalition that is perhaps too diverse to produce much in the way of over-arching themes or vision. It may also be useful in a coalition in which power is more widely dispersed than in any previous national government - among cabinet representatives of regional barons, and among the prime minister's office, the cabinet and the coalition's steering committee.

And while this prime minister has no grand plan informed by ideology - as one ally put it, "he is a doer, not a theoriser or a proclaimer" 13 - he has at least one major preoccupation which may provide his government with an adequate vision. He is intensely committed to helping small farmers, owner-cultivators. Indeed, he hopes to make this and a commitment to agriculture more generally into an issue which cuts across regional, religious and other divisions in India.

It is crucial to recognise that a concern for small farmers means one thing in Karnataka and something else in India more generally. In southern Karnataka from where he comes we find an extremely low incidence of landlessness and a very large number of owner-cultivators. Favouring small farmers there mainly means helping the land-owning groups who are still the dominant upper stratum of village society. In much of India, however, help to small farmers means assistance to non-dominant groups - it implies at least modestly redistributive change rather than the avoidance of it

We also need to understand, despite illinformed claims to the contrary, that the Janata governments in Karnataka in which Deve Gowda served clearly understood the necessity of providing the leaders of disadvantaged groups - the backward classes, Muslims and scheduled castes with positions of real substance. They knew that there was no going back to the Lingayat-Vokkaliga dominance of state politics which had prevailed before the election of Devaraj Urs in 1972.

Deve Gowda clearly internalised this understanding. Note, for example, that when formidable powers and resources were devolved on to zilla parishads in Karnataka in 1987, he saw to it that his district, -

Hassan, was the only one in the state of which the parishad was chaired by a member of the scheduled castes. It also has to be said that he retained great influence over the work of that zilla parishad because his son was a key member of it. But this was not an exercise in mere tokenism. Deve Gowda understands the need to take meaningful action to build broad support among disadvantaged groups, at the same time as he looks after the interests of elites.

All of this adds up to an ambiguous picture, with its fair share of potential problems and promise. Deve Gowda's past may turn out to be a poor guide to his premiership. But this brief account may offer a somewhat clearer notion of what India can expect of the man from Haradanahalli.

#### Notes

[This paper is based on this writer's studies, since 1970, of Karnataka politics, and on interviews with numerous persons in Karnataka who have worked with or closely observed Deve Gowda throughout much or all of his career.]

I it is not clear whether scheduled castes leaders were included. That would not have been unthinkable in Hassan district in that period, given the very low incidence of landlessness and the fact that the scheduled castes formed a large minority of the electorate. On the other hand, a typical Vokkaliga headman at that time would still have expected the scheduled castes to follow

- his advice on how to vote.
- 2 This account is based on an interview with a member of Deve Gowda's 1962 campaign team, Mysore, August 10, 1996.
- 3 V B Singh and Shankar Bose, State Elections in India: Data Handbook on Vidhan Sabha Elections, 1952-1985. (Sage, New Delhi, Newbury Pary and London, 1988) p 313.
- 4 Ibid, pp 284-410.
- 5 The cluster and the various 'jatis' (endogamous groups) within it are discussed in more detail in chapter two of J Manor, Political Change in an Indian State: Mysore, 1917-1955 (New Delhi and Canberra, 1977). The endogamous divisions have been eroded somewhat over the years by intermarriage between elite families in different 'jatis'. One of Deve Gowda's own children has married a morasu Vokkaliga, and he has accepted this quite cheerfully.
- 6 They were, respectively, K C Reddy (1947-52), K Hanumanthaiya (1952-56), Kadidal Manjappa (1956) and Deve Gowda (1994-96).
- 7 Interview, Bangalore, August 7, 1996.
- 8 Interview with Jaipal Reddy, New Delhi, July 26, 1996.
- 9 Interview with two leading journalists, Bangalore, August 7, 1996.
- 10 Interview with the man in question, Mysore, August 10, 1996.
- 11 Interview with a Janata Dal leader, Bangalore, August 8, 1996.
- 12 Interview with a senior civil servant, Bangalore, August 8, 1996.
- 13 Interview with Jaipal Reddy, New Delhi, July 26, 1996.

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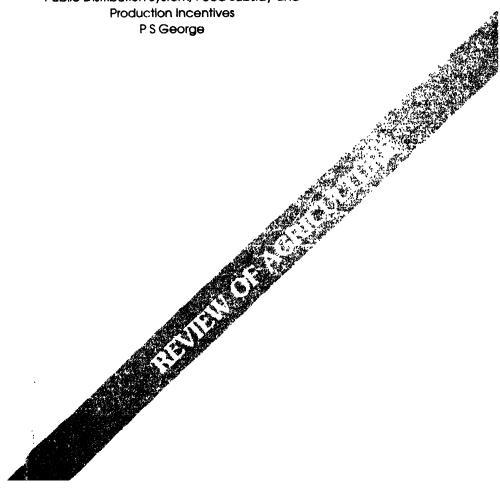
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## Land Market Transactions in Rural Haryana

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This paper analyses the functioning of the land market as it operates in the rural areas of Haryana on the basis of field survey data. More specifically, the author discusses (a) the inactive nature of the land sale market, (b) the background of sellers and buyers and the sellers' motives for selling land and (c) variation in price per unit of land and the factors affecting it. The discussion, it is hoped, will throw light on the nature and extent of distress sale by farm households and the linkage, if any, of land transactions with the credit market.

LAND market transactions play an important role in the process of economic transformation and especially in the evolution of land ownership structure. Given that land is the basic factor of production in less developed countries, households try to enlarge their size of holding through buying or at least cling to their existing piece of land. In view of this the market for the sale of land in a labour surplus economy may have a tendency to be inactive. This will be more so in a situation where land is the dominant source of livelihood for a majority of the population and there is no alternative and reliable source of employment. The inactive nature of the market for land has drawn the attention of economists and other social scientists (see Raj 1970, Bardhan 1973, 1984, Basu 1986, 1990, Bhaduri 1983, Hill 1986, to mention only a few]. Even with full property rights in land, transactions of cultivable land tend to be rare. Unless forced by extreme circumstances a resident villager does not sell his land [Bardhan 1984]. Rural families evaluate returns from investment in land differently as compared to commercial profit calculation because of their personal valuation of such land [Bhaduri 1983]. In view of this, it is instructive to investigate who sells land to whom and for what reasons and at what price?

The level and changes in land price have a significant bearing on the structure of market competition for farm land. A host of factors including the classes of buyers and sellers, their socio-economic background and motive for selling and buying land will influence the structure and nature of competition on the land market and its role in price formation in this market.

The main objective of this paper is to analyse the functioning of the land market as it operates in rural areas of Haryana based on original field survey data. More specifically the study will discuss: (a) the inactive nature of the land sale market; and (b) the background of sellers and buyers and their motives for selling land. This will help us to know the nature and extent of distress sale by farm households. It will also help us understand the linkage, if any, of land transactions with the credit market. Lastly, the variation in price per unit of land and the factors affecting it will be discussed.

The structure of the paper is as follows: The first section discusses some analytical issues relating to the land market. It will focus on the considerations that explain why land sales are in frequent even if the price of it completely flexible. The second section analyses the empirical evidence, as to who sells to whom; the extent and nature of sale and purchase. The third section will discuss the price variation per unit of land and factors affecting the variation. The last section highlights the major findings of the study.

## Analytical Issues

Several explanations have been put forward as to why land sales are uncommon in less developed countries. One of the explanations is based on the belief that the possession of land enhances the power and prestige of the household [see Raj 1970]. In view of this, farm households would like to hold on to their land and part with it only in conditions of extreme distress.

Others argue that in backward agrarian economies there are few alternative investment opportunities outside of land and the capital markets are underdeveloped [Binswanger and Rosenzweig 1986, Platteau 1990]. Hence there is strong preference for land by the landowners. Many will like to buy land because it is a relatively secure and marketable form of wealth in a highly uncertain environment [Platteau 1990, Hill 1986]. In such a situation farm land becomes a reliable store of wealth and the reluctance on the part of the households to sell is understandable. Further, it ensures that the probability of loss in such assets does not exceed certain special limits [Sen 1981]. Similarly, given the presence of considerable risks - production and price risks - as well as risk of loss or damage to non-land productive assets [Ellis 1988:199] farm households will try to keep their saving in the form of land rather than in that of other assets/risky ventures [Bardhan 1973:1385]. As a result it is alleged that the turnover of the sale of land will be lower. This also suggests that there may be excess demand for land. However, the demand for land cannot be satisfied through borrowing given the credit market imperfections.

In the credit market loan is usually advanced on the basis of collateral that the borrower possesses. In such a situation it would be difficult for a collateral poor household to acquire land by borrowing funds.<sup>3</sup> As such land purchase will be largely out of self-generated saving [Binswanger and Rosenzweig 1986, Platteau 1990]. Of course, a farm household can supplement the funds through other income and/or from borrowing in the informal credit market.

On the supply side sellers of land would only be better oft if they could earn a bigger return from the proceeds of the land sale than from self-cultivation or land rental. The supply of land or sale will be small or inactive where non-agricultural investment opportunities for rural residents are limited and credit markets are underdeveloped [Binswanger and Rosenzweig 1986].

On the demand side the number of bidders for land will be influenced by the level of self-generated savings. In such a situation only farm households with own surplus would succeed in bidding for land. Moreover, households which can manage a part of the amount from their friends and relatives on easy terms and conditions and in time [Sarap 1991b] are more likely to succeed in purchasing land. For such households, land is a luxury good that provides social prestige and political influence [Platteau 1990].

The poor are concerned more than the rich with land holding as a relatively secure form of wealth and of retaining their traditional source of livelihood [Bhaduri 1983:71]. A poor farmer does not want ins means of Invelided to become a part of the exchange economy because of his high personal valuation of land he owns 5 As a consequence, the poor are strongly reluctant to part with their land unless they are forced to do so under distress conditions [Bharadwaj 1985]. In such a situation, the land prices do not teflect fully the risk in parting with land as valuated by the farmer on the margin of subsistence, even though buyers may offer 'good' price. Small owners are not willing o take the plunge and to invest the proceeds n some alternative risky venture [Bardhan 1973:1385].

Similarly, the poor are not in a position of purchase land or to buy it again once they

have lost it because of credit market imperfections [Platteau 1990]. Thus, it appears that the demand for land would be confined to those households with own surplus or with access to credit market [Binswanger and Rosenzweig 1986]. As a result there would be a tendency for land to accumulate in the hands of persons with greater production endowments including managerial skill, family labour, farm assets and other sources of income.

Since from the supplier's point of view the ownership of land enhances the power and prestige of the households, it would further reduce the tendency for sale of land [Hill 1986:53]. As a result land will always be in excess of supply in the normal situation, and there will be low turnover in the land market. But as Basu (1986, 1990) has pointed out all these above arguments suggest why price of a unit of land will be high but do not provide any explanation for the low turnover in the land market.

Basu has given an alternative explanation for the mactive market for land sale. According to him an owner of a piece of land will hesitate to sell his land because he is not sure of the fact that he will be in a position to buy back the same price of land [Basu 1990:32]. From the sellers' point of view, it is an important consideration because usually when a seller parts with a piece of land, he intends it to be an "interim" sale. An interim sale<sup>6</sup> is one where the seller intends to buy back the same commodity in the near future. For instance, a household may sell a piece of land to buy another piece of land or to mortgage it for mobilising fund quickly in the informal credit market to buy a piece of land. A situation in which the mortgager may transfer the temporary ownership of land a second or third time to different persons without selling it may reinforce the intention of interim sale.7

In general one would expect two types of supply of land These are: (i) regular supply; and (ii) interim supply. A regular supply is that in which the seller sells a piece of land once and for all. This is the case in which the seller does so because he has no interest in cultivation any more<sup>8</sup> or has discovered some alternative source of investment which is more lucrative than the possession of the land. One explanation put forward in such case is that of childless housenolds. A farm household, without any child may like to sell his land gradually during his lifetime thinking that there is no one to inherit his owned land In case of household with daughters only, the daughter after her marriage may sell the land in case it is not near to her husband's village. This is because the transaction cost of enforcement of her right on the land, after the death of her parents, will be very high

The regular supply of land may be low ir a situation where the migration to urban are:

is low. Similarly, given the uncertainty of information and imperfections in the capital market, the alternative channel of investment is either low or risky [Binswanger and Rosenzweig 1986]. In such a situation one would expect the regular supply of land to be low.

Given the fact that land is the most stable torm of asset and has collateral value [Binswanger and Rosenzweig 1986, Sarap 1987, 1991b, Hill 1986:153] households may utilise the piece of land for obtaining credit by mortgaging it with the creditor. In such a case they have to transfer the ownership right temporarily to the creditor. The intention of the mortgager is to get back the piece of land as soon as possible by repaying the loan.

#### COMPONENTS OF SUPPLY AND LAND

It is instructive to know the components of regular supply of land. Three situations have been visualised by Basu [Basu 1990:35]. These are:

- (a) if the probability of being able to buy back land is high,
- (b) if the preference of the household for holding wealth as land is low,
- (c) if the need for liquidity is very high and there is no alternative source of funds including borrowing. Then a person may be forced to sell his land. Even in the case of (C) he may try to manage liquidity by resorting to mortgage with the hope of recovering the piece of land.

Another explanation put forward for the infrequency of sale of land is in terms of property rights in land [Guha 1987]. Ownership means the possession of a bundle of rights. This means that the nature of property right could vary across societies and time depending on what constitutes the relevant bundle of rights [Basu 1990]. Certain kinds of property rights institutions

could create obstacles for the rapid exchange and transaction in land. For instance, Guha (1987) has found that in Maharashtra there was a greater sense of community ownership in land. Land sale required consent of the community. In such a situation there would be a tendency towards the status quo and low frequency of sale of land is natural.

In rural community where the caste and community bonds are very high [Hayami and Kikuchi 1981, Rudra 1982] such factors may enhance the reluctance for the sale of land. Further, for instance, the relative or friend of a seller may challenge the act of selling by claiming that he is a co-sharer of the piece of land. Otherwise he may persuade the seller not to do so as it may lead to legal complications. 10 Such factors may work as a deterrent for the potential buyer of the land. Similarly, some other form of property right restrictions could affect the turnover of the land. One has to probe the impact of different types of property right institutions on the land market.

Asymmetry of information in the rural community may be yet another explanation for the low turnover in the land market. This may also affect the price to be paid by the buyers. For instance, an outside buyer may pay a higher price for a piece of land because of lack of information about the land and the nature of competition among the local buyers.11 But as Bardhan has pointed out the rural residents accumulate all sorts of information concerning the villagers [Bardhan 1979, 1983] so that any delinquent behaviour on the part of a household vis-a-vis others relating to any transaction is quickly transmitted to the relevant parties [Platteau and Abraham 1987]. As such a local resident may not find it difficult to obtain information. But if the transaction between a seller and buyer is secret then the price in such transaction may be different

Table 1: Characteristics of Sellers According to Size of Holdings

| Size Group<br>(in acres) | No of<br>Sellers<br>in the<br>Group | Average<br>Area Owned<br>before the<br>Sale (in acres) | Average Amount of Land Sold Per Household (in acres) | Percentage<br>of Land Sold<br>to Total Area<br>Owned | Average Area of Land Left after the Sole (in acres) |  |
|--------------------------|-------------------------------------|--------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|--|
| 1                        | 2                                   | 3                                                      | 4                                                    | 5                                                    | 6                                                   |  |
| 01-2.50                  | (5.88)                              | 1 5                                                    | 0.66                                                 | 43.83                                                | 0 84                                                |  |
| 2 51-5.0                 | (30 88)                             | 4.10                                                   | 1 44                                                 | 34 93                                                | 2.66                                                |  |
| 5.01-10.0                | (30.88)                             | 7.71                                                   | 2 40                                                 | 31 06                                                | 5 31                                                |  |
| 10 1-20.0                | 15<br>(22 06)                       | 15 67                                                  | 3.91                                                 | 24 95                                                | 11 76                                               |  |
| 20.01 and<br>above       | 7<br>(10.29)<br>68                  | 56.86                                                  | 16.28                                                | 28 64                                                | 40 57                                               |  |
| Total                    | 100                                 |                                                        |                                                      |                                                      |                                                     |  |

Note: Figures in brackets represent percentage of the group to the total sellers Source: Field Survey.

as compared to a normal situation. In such a case an outside buyer may have to pay a higher price. The seller may try to have a secret dealing with a buyer outside his caste community/outside the village in case he feels that the price he will realise by selling a piece of land to his relative/caste fellow may be low.

On the whole it appears that the low turnover in the land sale market may be due to a variety of factors, including the perception of the household that the possibility of buying back a piece of land is low and the higher personal valuation on the piece of land, since land is the dominant source of livelihood. With the above theoretical background the empirical situation in the land market is discussed in the next section. Before that the nature of data and the study area are discussed briefly.

#### II Empirical Evidence

The study is based on primary data collected personally by me with the help of three of my postgraduate students who were also residents of the selected villages. The data relate to the sale, purchase and mortgage of agricultural land in three different villages; one village each in the district of Rewari, Rohtak and Sonepat. For getting authentic information on land sale we relied mainly on the sellers, for they had little reason for concealing the amount of money actually received by selling the land. For other information including the quality, location and use of land it has been cross checked from the respective buyers. Whenever the actual sellers could not be contacted, having either died or left the village, we interviewed the respective buyers and/or witnesses in the transactions wherever possible, and cross checked the information from other knowledgeable persons in the villages. From the mutation registers of the villages and informal discussion with elderly knowledgeable persons, the names of the sellers and buyers who have transacted land during

Repeated visits were made to the villages to contact the buyers and sellers. In each village the major portion of the information was collected by the person who had resided in the village and was well known to the villagers.

The data consist of information on sale and purchase of land made by families in the villages over the period 1960-61 to 1990-91. Information on the number of sales, area sold in each transaction, price received per unit of land, quality and location of the plots, status of families involved in buying and selling and the reason thereof, occupation, castes, source of finance for buying land and other related aspects were collected during the year 1991-92. In certain transactions the settlers have migrated to nearby towns or other places. In such cases we could contact some such households in nearby towns. In case of others, who migrated to distant places but have connection with their caste groups or friends inside the village, we contacted such households and collected related information from them. This information was supplemented with that provided by the

There were 68 households who had sold land during the study period. The number of buyers were 90. In case of mortgage it related to the land which are already with the landlords to whom the mortgagers have temporarily transferred the land. There were 52 households with 58 transactions who have resorted to mortgage during the period of study. <sup>12</sup>

#### CHARACTERISTICS OF LAND TRANSACTIONS

The transactions in the land market were few in the study area during the entire period. About 68 resident households, <sup>13</sup> forming 8.55 per cent of the total farm households in the sample villages, reported sale transactions. The amount of land sold by the households was 255.62 acres, forming 8.19 per cent of the total area sown in the sample villages in 1990-91. In all 162 plots were sold during

per cent were marginal farmers, <sup>14</sup> 30.88 per cent were small farmers, 30.88 per cent were medium farmers. On the other hand, 10.92 sellers were very large farmers. The land involved in such sale transactions as a proportion of the total land owned in each group of farmers were 43.83 per cent, 34.93 per cent, 31.06 per cent, 24.95 per cent and 28.64 per cent among the marginal, small, medium, large and very large farmers, respectively. About 32.35 per cent of the sellers had sold land more than once in the entire period. On an average 5.23 plots were sold per year.

Clearly land sale transactions were indeed in the nature of less frequent events at the level of farm households in the study area supporting the argument that the turnover of the sale of land is very low [Bardhan 1984, Basu 1986, 1990, Bhaduri 1983, Platteau 1990, Raj 1990, Rao 1972].

Ninety local residents forming 11.32 per cent of total farm households in the sample villages have reported purchase transactions over the entire period. Of the total buyers, 30 per cent had land holdings up to 2.50 acre; 32.22 per cent had up to 5.00 acres. By contrast it was hardly 2.22 per cent of the buyers who had land above 20 acres. Only six households (6.67 per cent of the total buyers) have purchased land more than once. The amount of land purchased by the total buyers was 310.69 acres during the entire period<sup>15</sup> forming 9.96 per cent of the total sown area.

Clearly the buying of land is also infrequent and is a rare event on the part of the farm households.

Hardly five households were both buyers and sellers during the entire period. Thus, the group of households selling land was different from that of buying land. In view of this, it is desirable to know the characteristics of sellers and the reasons for sale; the background of buyers and the sources of finance for the purchase of land. An analysis of sellers will help us to know the

| TABLE   | ว. | PURPOSE | ۸F | CALE   | N 1/381/2 | Ser I coe | 16.1 | THE | CHRVEY | ABEA |
|---------|----|---------|----|--------|-----------|-----------|------|-----|--------|------|
| I VRIT. | Z. | LOKENSE | (H | JALL / | MONG      | OFFIFER2  | 1N   | IHE | SUKAFA | AKEA |

| Size<br>Group<br>(in acres) | Total<br>No of<br>Transa-<br>ctions | Area<br>Involved<br>(in acres) |         | Repayment<br>of Formal<br>Loan | Repayment<br>of Informal<br>Loan | Migration | Marriage<br>of Daughter | Non-<br>Agricultural<br>Activity | Conspicuous<br>Consumption | Disposing<br>Surplus<br>Land | Others* |
|-----------------------------|-------------------------------------|--------------------------------|---------|--------------------------------|----------------------------------|-----------|-------------------------|----------------------------------|----------------------------|------------------------------|---------|
| 0.1-                        | 6                                   | 2 12                           | A=3     | -                              | A=2                              |           | A=I                     |                                  | _                          | -                            |         |
| 2.50                        |                                     | (100.0)                        | B=23 35 |                                | B=47.17                          |           | B=29 48                 |                                  |                            |                              |         |
| 2.51-                       | 38                                  | 38 94                          | _       | A=9                            | <b>A</b> =3                      | A=7       | A=2                     | A=2                              | A=9                        | _                            | _       |
| 5.00                        |                                     | (100.0)                        |         | B=26.01                        | B=20.71                          | B=30.82   | B=6.42                  | B=12 84                          | B=3.20                     |                              |         |
| 5 01                        | 20                                  | 44 50                          | _       | A=4                            | A=3                              | A=3       | A=3                     | A=3                              | A=3                        |                              | A=I     |
| 10 00                       |                                     | (100.0)                        |         | B=13.74                        | B=11.50                          | B=24 73   | B=11.77                 | B=24 66                          | B=1.14                     |                              | B-12.46 |
| 10.01-                      | 20                                  | 62.13                          | -       | A=3                            | A=2                              | A=3       | A=2                     | A=2                              | A=2                        | _                            | A=6     |
| 20 00                       |                                     | (100 0)                        |         | B=16 10                        | B=1.81                           | B=14.49   | B=14.49                 | B=20.93                          | B=9.66                     |                              | B=22.52 |
| 20.01 and                   | 24                                  | 116 00                         | -       | A=2                            | -                                | _         | A=4                     | A=2                              | A=4                        | A=10                         | A=2     |
| above                       |                                     | (100.0)                        |         | B=6.89                         | _                                | -         | B=18.96                 | <b>B=7</b> .76                   | B-12.93                    | B=40.53                      | B=12.93 |

Note: A = No of Transactions, B = Percentage of area sold for a particular purpose of total area sold.

Source: Field survey.

Include purchase of another piece of land.

components of sellers and the nature of distress sale. On the other hand, an analysis of buyers will help us to probe the connection between credit and land purchase. We begin with the characteristics of sellers and the nature of sale, both, regular and interim (mortgage) are analysed below.

#### CHARACTERISTICS OF SELLERS

A person, who cannot manage his expenditure from his current income and has no alternative source of borrowing, may resort to interim sale (mortgage) of a piece of land. If it is not possible or if the amount that can be obtained from this is inadequate he may have to sell a piece of land. 17 Besides, a household who has no interest in agriculture any more, because of his intention to migrate to town and to start nonagricultural activities, may also like to sell his land. Some households, with large landholdings that is unmanageable given their human resources, or surplus land as per the law of the state, may like to sell a part of their land. Further, a person without children may have less interest in retaining land. In such a situation he may dispose of a part of land during his old age as it is difficult to manage large landholding through hired labour. 18 In case of a man with daughters only, the inheritance of the property goes to the daughters. After the marriage. the daughter may like to sell her land if it is not near to her husband's land/village. Lastly, some persons who cannot repay the debt out of their current income may have to sell a piece of land to obtain fund for the purposes. In such cases the person has no choice but to sell land and the phenomenon may be described as forced selling. The reasons mentioned for selling of land by different households in the sample are given below. They are as follows.

- migration to town.
- to satisfy bare consumption needs.
- to repay the debt, formal or informal
- to meet the marriage expenditure of a daughter.
- to mobilise fund for (new) non-agricultual activity.
- to meet conscpicuous consumption.
- to dispose off surplus land (in case of those households with very large holding).
- the household head has no children or only a daughter and the daughter after her marriage disposes of her land inherited from her father.
- to mobilise funds to buy another piece of land which may be better/near to he household's plot/near the village.

The area owned after the sale transact on by each group can be seen in Table 1. Clearly the marginal and small farmers had to part with a substantial amount of land due to sale;

and are left with small landholding. The amount of crops that can be produced from the piece of land will be very inadequate, affecting the livelihood pattern of these households. In fact, these households have become poorer after the sale and in most cases the selling of the land was involuntary. As such these sales are distress sale [Bharadwaj 1985, Binswanger and Rosenzweig 1986]. By contrast the reduction of average size of landownership for medium, large and very large farmers may not affect adversely their livelihood patterns. Most of these transactions are voluntary in the sense that the households have sold the land for mobilising fund for purposes where the demand is not inelastic. This is analysed below in detail.

#### REASONS FOR SALE

The reason for sale of each plot and the area involved in each case by different categories of farmers are given in Table 2. The marginal and small farmers have disposed of the land mostly for mobilising fund for purposes where the demand for fund is inelastic and urgent. It may be for bare consumption needs, or repayment of informal debt or marriage of a daughter. On the other hand, the large and very large farmers have sold the land for mobilising fund where the demand is not inelastic. and the choice was in an important sense voluntary. The reasons for sale varied from disposing surplus land, diversification of production, activity by starting nonagricultural business, house construction to payment of dowry to their daughters and conspicuous consumption [Cain 1981].

Clearly the poorer farmers had no choice but to sell their tiny pieces of land to satisfy the demand for fund which was lump sum as compared to their total income from the land or other sources. It was also time bound so that they could not postpone the decision to sell. As such these are mostly distress sales [as argued by Basu 1986, Binswanger and Rosenzweig 1986, Bharadwaj 1985, and Platteau 1990].

The evidence provided in Table 2 also supported another proposition, as has been

stressed by Basu (1986), that distress sale is an amorphous category. Even if the purpose of sale of land is the same (for instance, marriage of a daughter in our study area, for two households) each household will be affected differently depending on the initial endowment of resources. The land ownership and the livelihood pattern of large and very large farmers will not be affected much after the sale of land which was due to marriage/ expenses or the payment of dowry for daughters. Moreover the sale of land in such cases is voluntary and it is some sort of luxurious consumption. As such a sale transaction can be categorised as a distress sale only if the livelihood pattern of the household is affected adversely after the sale [Basu 1986].

#### MORTGAGE

As mentioned earlier, many households resort to mortgage of land in order to mobilise fund for a variety of purposes. The intention of the seller in such transaction is to recover the piece of land. Land mortgaged by different groups of households and which are still pending with the lenders are shown in Table 3. It is evident that mortgage of land is more among the small and medium farmers, followed by marginal farmers. It was negligible among the large and very large farmers as these households have no problem to mobilise funds besides their own surplus [Sarap 1990b].

The percentage of area mortgaged to total area owned was substantial in the case of marginal and small farmers. It decreases with the increase in the status of farmers. The purposes of mortgage in different categories of farm households are shown in Table 4. It is clear that marriage of daughter and repayment of informal debt are two most important reasons for mortgage in the case of marginal farmers. The proportion of mortgage for these purposes decreased with the increase in the status of farmers; it was nil in the case of very large farmers. Clearly the poorer farmers have resorted to mortgage in order to avoid selling their land once and for all.

TABLE 3. SOME ASPECTS OF INTERIM SALES ACCORDING TO SIZE OF HOLDING

| Size Group<br>(in acres) | No of<br>Farmers<br>in the<br>Group | No of<br>Transactions | Average<br>Area Owned<br>(in acres) | Average<br>Area<br>Mortgaged<br>(in acres) | Percentage of<br>Area<br>Mortgaged<br>to Total Area<br>Owned |
|--------------------------|-------------------------------------|-----------------------|-------------------------------------|--------------------------------------------|--------------------------------------------------------------|
| 1                        | 2                                   | 3                     | 4                                   | 5                                          | 6                                                            |
| 0.1-2.50                 | 7                                   | 7                     | 1.79                                | 0 93                                       | 51.96                                                        |
| 2 51-5,0                 | 20                                  | 23                    | 4.20                                | 1.60                                       | 38.00                                                        |
| 5 01-10 0                | 18                                  | 19                    | 8 00                                | 2 00                                       | 25.00                                                        |
| 10.01-20.0               | 5                                   | 7                     | 13.40                               | 2.00                                       | 14.93                                                        |
| 20.01 and above          | 2                                   | 2                     | 42 50                               | 7.00                                       | 16.47                                                        |
| Total                    | 52                                  | 58                    |                                     |                                            |                                                              |

Source: Field survey.

#### COMPONENTS OF LAND SUPPLY

The evidence presented in Tables 2 and 4 together provide the components of regular sale and mortgage resorted to by farm households. Given that land is the dominating source of livelihood for household, he will try to resort to mortgage for mobilising fund in case the demand for it is inflexible and there is no other collateral for getting loan. He does so to save the piece of land from selling it once and for all. For instance, of the total number of plots mortgaged (58) and temporarily transferred to the landlords, hardly 5 (8.62 per cent of the total) plots were sold either to the creditor or others. Of these four belonged to marginal and small farmers. These households had to sell those plots because of heavy burden of informal debt. As such this is a distress category and cannot be a regular supply. The components of regular supply were the sale of land due to migration. The sale of land for mobilising fund to start new non-agricultural activity is a recent phenomenon and may also constitute a regular component of supply. Of course, the latter is small and uncertain. Sale of land by childless household becomes another small component of regular supply. Thus, the amount of regular supply of land will undergo changes depending on the diversification of activities of the household. In that situation he can manage with lower size of landholding in lieu of other income generating activity. Of course it is uncertain and failure of business may force the household to go back to cultivation. Farmers have resorted to sale for a variety of reasons (Table 2). But these are infrequent and irregular and as such do not constitute as regular supply of land.

#### CHARACTERISTICS OF BUYERS

In the study area there were 90 buyers who have purchased and during the entire period of our study (Table 5). Of these the marginal and small farmers constitute 62.22 per cent of the total buyers. On the contrary, the large and very large farmers form about 13.33 per cent of the buyers. The proportion of area purchased as compared to total land owned has increased substantially in the case of marginal and small farmers followed by medium, large and very large farmers. The proportion of area purchased to area owned \* decreases systematically with the increase in the size of holding. The average size of land owned has gone up after the purchase in all the groups, even though the proportion is more in the case of marginal and small I farmers. Apparently this evidence is contrary to the theoretical expectations that land purchase is more among the richer households as compared to the poorer ones. But this apparent contradiction of empirical evidence will be clear once the source to

finance and the status of buyers in the sample is taken into consideration.

#### Sources of Funds for Land Purchase

Sources of fund utilised for the purchase of land have been given in Table 6. Farming<sup>19</sup> as the single source of fund is found only in the case of few households, especially among the large farmers. Only one small

farmer has purchased land exclusively fron own saving from cultivation.

Six farm households (6.67 per cent) have sold land to arrange fund to purchase land. There are households that had land in othe villages inherited by virtue of their marriage to the girls who have no brothers. Of these two households were medium farmers and three belonged to large farmer households.

TABLE 4: PURPOSE OF MORTGAGE OF LAND IN THE SURVEY AREA

| Size                | Total                 |                            | Purpos                              | e Out of Total (                  | in Per Cent)                | *                      |        |
|---------------------|-----------------------|----------------------------|-------------------------------------|-----------------------------------|-----------------------------|------------------------|--------|
| Group<br>(in Acres) | No of<br>Transactions | Marriage<br>of<br>Daughter | Repayment<br>of<br>Informal<br>Loan | Repayment<br>of<br>Formal<br>Loan | Starting<br>New<br>Business | Purchase<br>of<br>Land | Others |
| 1                   | 2                     | 3                          | 4                                   | 5                                 | 6                           | 7                      | 8      |
| 0.1-2.50            | 7                     | 57.14                      | 28.57                               | _                                 |                             | 14.29                  |        |
| 2.51-5.00           | 23                    | 34.78                      | 52.17                               | 8.70                              | 4.35                        | -                      | _      |
| 5 01-10 00          | 19                    | 31.58                      | 15.79                               | 15.79                             | 21.05                       | 10.53                  | 5.26   |
| 10.01-200           | 0 7                   | 28.57                      | -                                   | 14.29                             | 28.57                       | 28.57                  |        |
| 20.01 and<br>above  | 2                     | -                          | -                                   |                                   | -                           | -                      | 100.00 |
| Total               | 58                    |                            |                                     |                                   |                             |                        |        |

Note: \* Columns 3 to 8 = 100.00 per cent

Source: Field survey.

TABLE 5: CHARACTERISTICS OF BUYERS ACCORDING TO SIZE OF HOLDING

| Size<br>Group<br>(in Acres) | No of<br>Buyers<br>in the<br>Group | Average<br>Amount of<br>Land Owned<br>before Buying | Average<br>Size of Land<br>Purchased<br>(in acres) | Average<br>Size of Land<br>Holding after<br>the Purchase | Percentage of<br>Land<br>Purchased to<br>Total Land |
|-----------------------------|------------------------------------|-----------------------------------------------------|----------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------|
| 1                           | 2                                  | (in acres)                                          | 4                                                  | (in acres) 5                                             | Owned<br>6                                          |
| 0 1-2.50                    | (30 00)                            | 1.12                                                | 2.52                                               | 3.64                                                     | 225.00                                              |
| 2.51-5.00                   | 29<br>(32.22)                      | 4.07                                                | 3.61                                               | 7.68                                                     | 88.70                                               |
| 5 01-10.0                   | 22<br>(24 44)                      | 8.68                                                | 3.55                                               | 12.23                                                    | 40 90                                               |
| 10.01 to<br>20.0            | 10<br>(11.11)                      | 17.90                                               | 4.50                                               | 22.40                                                    | 25 14                                               |
| 20.01 and<br>above          | 2<br>(2.22)<br>90                  | 57.50                                               | 7.50                                               | 65 00                                                    | 13.04                                               |
| Total                       | (100)                              |                                                     |                                                    |                                                          |                                                     |

Note: Figures in the brackets represent the percentage of buyers in each group to total buyers. Source: Field survey.

TABLE 6: Sources of Funds Utilised for Land Purchase by Households

| Size       | No of      |       | Sources | of Funds | Utilised | for Land | d Purchas | e (in Per Cen | t)    |       |
|------------|------------|-------|---------|----------|----------|----------|-----------|---------------|-------|-------|
| Group      | Plots Pur- | C     | "S"     | C+O      | C+B      | SL       | C+S       | C+B+Mg        | C+S+B | C+L   |
| (in Acres) | ) chased   |       |         |          |          |          |           | _             |       |       |
| i          | 2          | 3     | 4       | 5        | 6        | 7        | 8         | 9             | 10    | 11    |
| 0.1-2.50   | 28         | -     | 67 86   | 7.14     | 10.71    | 3.57     | 7.14      | 3.57          |       |       |
|            | (100)      |       |         |          |          |          |           |               |       |       |
| 2 51-5.0   | 29         | 3.45  | 10.35   | 17.24    | 20.69    | _        | 24.14     | -             | 24.14 | -     |
|            | (100)      |       |         |          |          |          |           |               |       |       |
| 5.01-10.0  | 22         | -     | -       | 18.18    | 9.09     | -        | 40 91     | 9.09          | 4.55  | 18.18 |
|            | (100)      |       |         |          |          |          |           |               |       |       |
| 10 01-20.  | 0 10       | 30.00 |         | 10.0     | 20.0     |          |           | 20.00         | _     | 20.00 |
|            | (100)      |       |         |          |          |          |           |               |       |       |
| 20 01 and  |            | 100.0 | _       | _        | -        | _        | _         | -             | _     | _     |
| ahove      | (100)      |       |         |          |          |          |           |               |       |       |

Note: C= Farming, S = Service, B = Informal borrowing; SL = Selling land, Mg = Mortgage of land O = Other income.

Source: Field survey.

Two households had sole plots which were situated in a distant place and purchased land near to their own plots. On the whole the financing of land purchase through land sale is limited. It is a sort of consolidation of plots for the households. Further, the inheritace of land by daughters and selling it after their marriage to purchase new plots is also limited in the sample.

Income from service is an important source of fund for many households especially among the small and medium farmers. 75 per cent of the total (28) transactions relating to marginal farm buyers and 58.62 per cent of the total (29) transactions in the case of small farmers have utilised service income for financing land purchase. It was 45.45 per cent of total land transactions (22) in the case of medium farmers. The income from service has originated from those households who have retired from military, police or the buyers themselves or their children are working in the service sector.<sup>20</sup> Converting income from service source into landed property is not only a hedge against inflation as argued by Platteau (1990) and Hills (1986), it is also converting unstable income into a stable form of property in the rural area [Sen 1981].

Borrowing in the informal credit market especially from friends and relatives is another important source of fund utilised for land purchase. For instance, about 29.82 per cent of land transactions of households with landholdings up to 5 acres have utilised informal borrowing as a source for land purchase. It was 22.72 per cent in the case of medium farmers. On the whole in about 28.88 per cent of the total plots purchased by households informal borrowing was used for financing land purchase in the study area during the entire periods.<sup>21</sup>

Clearly informal loan is an important source of finance for those households who can get it for land purchase. Since obtaining credit in the informal market is dependent on the amount of capital a household can provide, it is those households who are more creditworthy that can get more loan. In such a situation households without collateral will have less access to this source [Eswaran and Kotwal 1986, Sarap 1991a]. It is evident from Table 6 that marginal farmers have utilised least this source for financing land purchase possibly because of their lack of access to informal credit.

It is noteworthy that no household has utilised formal source of credit to finance land purchase even if there is provision for it. It is due to lack of syncrhonisation of the time for getting long-term loan which takes lot of time for the sanction of loan [Sarap 1991a] and the time for negotiation of the seller and buyer. Thus the formal creat market has not played any role in lard purchase even in an agriculturally developed area like the study area.

Clearly the credit market imperfection is a constraint for many farm households to finance land purchase in the rural area [Binswanger and Rosenzweig 1986, Platteau 1990]. In such imperfect credit market, households with collateral and/or creditworthiness can manage credit at easy terms and conditions and in time so that they can utilise it for land purchase whenever a seller offers a piece of land for sale. On the other hand, poorer households who have no access to such credit have been excluded from utilising this source. As such households which can easily manage a credit quickly will have an advantage in purchasing land when it is offered for sale.

Lastly our evidence revealed that the purchase of land by traders and moneylenders were negligible in the study area in recent years.<sup>22</sup> Hardly five buyers (5.56 per cent of the total) had background of trader/money lenders.

Clearly households with higher resource endowment (both educational and material), and access to informal credit had advantage in the purchase of land in the study area [Binswanger and Rosenzweig 1986].

On the whole it is clear that the turnover of land sale in the study area is very low. Farm households, whose main source of livelihood are cultivation sparingly resort to sale of land either once for all or mortgage temporarily, unless the demand for fund is inelastic and the amount required is lump sum.

Though the aggregate volume of sales has been low, households have sold land due to a variety of reasons. In the case of marginal and small farmers the sale was mostly involuntary and as such these sale transactions were distress sale. After the sale transaction the average land size of such households has been reduced substantially which would affect their livelihood pattern. On the other hand, the sale transactions of medium and large farmers were mostly voluntary and the average size of landholding has not been reduced significantly. Moreover the reasons for sale of land in such households were not for bare consumption or such urgent purpose where the demand for fund was inelastic. Since these households could manage to finance even lump sum expenditure from their own surplus fund or through borrowing in the credit market, both, formal and informal, on easy terms [Sarap 1987, 1991a], they could sell the land with higher bargaining power and in their own terms and conditions. Clearly land sale for these households were mostly to dispose of the surplus alnd or for luxurious consumption [Basu 1986, Cain 1981] including giving dowry for their daughters and to diversify their economic activities. Our findings showed that even if the purpose of sale was same for different households it was only the marginal and small farmers who were adversely affected in such land sale. And such cases were distress sale because it would reduce the amount of income for them substantially. On the other hand, the landholding size of large farmers even though reduced, their livelihood pattern has not been affected much.

The evidence relating to the purpose of sale and mortgage of land revealed, both, the regular and temporary components of land supply. Households in short of fund and where the demand for it was inelastic, first resorted to interim sale in order to save their tiny pieces of land from selling once for all. In case it was not possible to obtain fund, they had to sell it. Such behaviour was found among the poorer farmers. The sale of land in such cases cannot constitute regular supply. Househods who had no interest in agriculture had migrated to town by disposing of their land. It was one of the components of regular supply of land. Further, in the study area, some households have started diversifying their productive activities besides the agriculture. In such cases they mobilised fund by selling land. Of late it has become a component of regular supply even though it is an uncertain one and its contribution to regular supply is low.

The findings on the characteristics of buyers revealed that there is a distinct group of households who have been in a position to buy land in the study area. These are the households who have non-agricultural income and could borrow in the informal credit market. Households with higher resources endowment both material and

TABLE 7: LAND PRICES IN THE STUDY AREA DURING THE YEARS 1960-1991 (Dependent variable in log P)

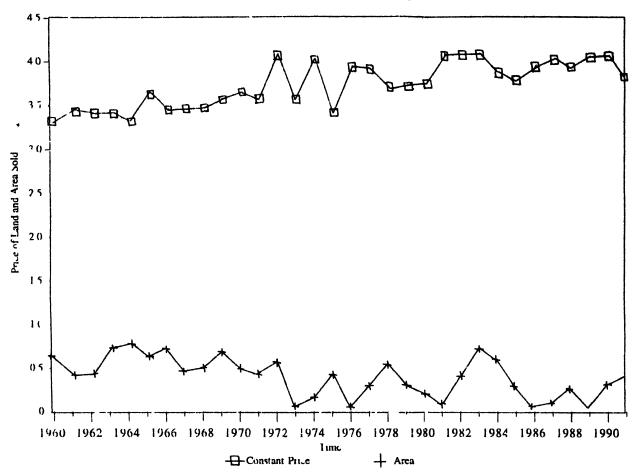
| Explanatory<br>Variables | Regression<br>Coefficient | T Values  |
|--------------------------|---------------------------|-----------|
| v ariancs                | Cocincient                |           |
| Land size                | -0 1173                   | 1 8423*** |
| (in log)                 | (0.0637)                  |           |
| Irrigation               | 0 1661                    | 2.4910**  |
|                          | (0.0661)                  |           |
| Land fertility           | 0.0977                    | 1 5467    |
|                          | (0.0631)                  |           |
| !lon-crop use            | -0 1810                   | 2.5566**  |
| -                        | (0.0708)                  |           |
| Near to village          | 0.1273                    | 1.8524**  |
| •                        | (0.0687)                  |           |
| N-ar to buyer            | -0 0435                   | 0.7301    |
| -                        | (0.0596)                  |           |
| Time of Purchase         | 0.0383                    | 13.3181*  |
| 1960-1991                | (0.0029)                  |           |
| Constant                 | 3.3944                    |           |
|                          | (0.3199)                  |           |
| R2                       | 0.7075                    |           |
| F Value                  | 40.6305                   |           |
| No of observations       | 162                       |           |
| Degree of Freedom        | 154                       |           |

Notes: \* Significant at 1 per cent or more.

\*\* Significant at 5 per cent or more

\*\*\* Significant at 10 per cent or more

Source: Field survey



educational and with higher creditworthiness could manage fund for financing land purchase [Binswanger and Rosenzweig 1986] Clearly the imperfection of the credit market could have helped the collateral rich households to manage finance for land purchase. On the other hand, the collateral poor housel bits who were also poor could not be in a position to mobilise fund for such activity. Thus the credit market imperfection prevented them from getting opportunity in the purchase of land. Clearly the credit market imperfection is reflected in the land market as argued by Platteau (1990).

## III Land Price and Variation in It

Inc price of a unit of land is influenced by a number of factors including site characteristics location time potentiality of laid use and he competition among the buyer and seller. There may be considerable variation in the price of land. This has been discussed in detail later. Let us first examine the average price paid per acre of land and its variations.

The iverage current price per acre varied from Rs 2 017 in the year 1960 to Rs 1 25 lakh during the year 1989. In 1960-61 price the minimum price was Rs 1 963 in the Jean

1964 and the maximum price was Rs 10,770 in the year 1972. Similarly the area sold wa minimum (1.08 acres) in the year 1986, and maximum (6.34 acres) in the year 1964. The variation in price and area has been shown in the Graph. Price per unit was low and stable during 1960s. Then it rose at a moderately high rate up to late 1970s with sharp fluctuation. There was rise in price again after mid-1980s. Contrarily the area sold per year has been falling systematically over the entire period of our study with wide fluctuations after early 1970s.

The rising price of land during the 1970s was possibly due to the impact of green revolution (Shergil 1986) Further, the diversification of village economy had also its impact on land price. The rise in the income. from agriculture and non agriculture sectors has rused the attendant demand on the land market Moreover the intervention of the state through the provision of infrastructure and public utilities including hospital roads, bus stops etc. have generated demand for land located near suitable location. As such the price of land has been rising at a more steeper rate during the 1980s as compared to 1970s and 1960s (Graph 1) The wide dispersion of price per acre of land and the reasons contributing for it is discussed below

THEOPHICAL CONSIDERATION OF LAND PRICE

This section tries to draw out the quantitative and qualitative insights into the determinants of land value which emerges from this empirical study

The agricultural land market is not a perfect one but neither is it a capricious one. The market is imperfect because some of the conditions necessary for perfect competition are not always present. For instance, parcels of land are not always the same. They are differentiated in terms of location, size, shape and other characteristics Secondly, the number of buyers and sellers are not always large Third, there may be incomplete information about the land market since transactions are infrequent and transaction costs can be substantial. Although the land market in the study area is not perfect it is assumed that it is fairly a rationale one [Rao 19721

Theoretical literature on the price of land identifies three sets of factors which influence the geographic and temporal variance of land prices. These factors are (a) factors linked to the nature of the site, (b) factors associated with the relative location and accessibility of each plot, and (c) external factors, for instance, the time of sale and

purchase which serves as a proxy for series of variables that influence the dynamic of land price [Ricardo 1921, Alonso 1964, Clark 1973, to mention a few]. These factors are discussed below.

Site

Site characteristics include the quality of land and its topography, the size of plot offered for sale. The quality of land and its physical characteristics influence the type of crops to be grown and their yields and thus determine a dimension of the value of land. The plots which were deemed to be the best quality, and hence the most expensive, were those which were fertile, irrigated and suited to irrigated and high valued crops. On the contrary, the least desirable plots were sandy and suitable for inferior or low valued crops. The sets of land characteristics that may affect the productivity and hence prices are as follows.

#### NATURAL ATTRIBUTE: SOIL TYPE

It is expected that the price of land will be positively associated with fertile land and negatively associated with sandy land. In our sample 49.38 per cent of plots were fertile land and 50.62 per cent of plots were sandy land. Similarly, land with irrigation lacility is more productive hence its price will be high as compared to dry land. 51.23 per cent of plots were irrigated and received water from various sources.

Size of Plot

The size of plot is also correlated with its price. There is a fixed cost for each selling and buying transaction, which is invariant with respect to plot size [Binswanger and Silleers 1983]. A possible reason for this is that most of the transaction cost such as information gathering relating to finding potential buyer or seller, negotiation between buyer and seller, obtaining certified copy of the plot from the land revenue authority. registration of the plot with the registration office, cost incurred for taking witnesses during the execution of the registration deeds, etc, are fixed cost and are not dependent on the size of plot. As such the price per unit of land will be inversely correlated with the size of plot.

Location and Transportation

This relates to location in relation to buyer's site; potential non-agricultural use and the distance to reach the plot. Buying a plot in the vicinity of the buyer's land would establish territorial contiguity of the plot. This will also reduce the transaction cost of the buyer in terms of supervision cost for enforcing the security of crops, and reduce time for moving the agricultural implements (tractors and other machines) for cultivation and collection of crops after its maturity. As such the buyer will save transaction cost of transportation and travel time, etc. Thus, favourable location reduces the cost of cultivation by increasing

the farm gate price of output and by reducing the effective costs of inputs.

Similarly, if the plot is situated nearby the village, the household will save travel time from transportation of inputs and output. Besides the cost of enforcement of security of crops from theft will also be reduced. Thus, the price of a land will be high if it is situated near a village. In our sample 40.12 per cent of the plots were situated near the village and 30.86 per cent of plot purchased were near the buyers land.

Further, if the plot is located near a road side or in such a place which is suitable for immediate non-agricultural use then the potential intensity of land use will go up and hence its price will be high. But if the quality of such land is barren, dry and has no immediate use for non-agricultural purpose its price may be low. In our sample 36.42 per cent of plots were suitable for non-agricultural use.

External factor related to time of sale and purchase. This serves as aproxy for a series of variables that influence the dynamics of land price. In our sample we have plots which were sold from 1960 to 1991, 1 e, for a period of 32 years.

#### METHODOLOGY FOR ESTIMATION OF LAND VALUE

The conceptual approach of this study is like that use by Griliches (1971) in the estimation of implicit or hedonic prices. The empirical approach of this model is to regress the price of different varieties or models of a commodity as a measure of a bundle of characteristics of dimensions of a commodity. In the present case the land prices (shadow prices) are computed using the coefficients estimated by means of a regression of land prices on land characteristics [Griliches 1971]. The model assumes that the price per acre is an additive function of its characteristics. The equations that are estimated are reduced form of equations that summarise the influences of demand forces and the supply forces on land value as demand and supply jointly determine the price of land.

The data consists of actual sale of plots of land in the sample villages between the period 1960 to 1991, it consists of 162 plots which included the plots sold by local residents as well as households who have migrated to town or other villages.

#### VARIABLES

Dependent variable: The average price per acre of land during the period was Rs 40,440 with a standard deviation of 59,741.22 in current price. It was Rs 6,177.39 in constant price (1960-61 price) with a standard deviation of 3,025.30.

Explanatory variables. The size of plot in acre  $(x_1)$ . The average size of plot was 2.4855 acres with a standard deviation of 2.4012. The following are the dummy variables

which take on the value I when the land fits a certain characteristics and the value 0, otherwise. The characteristic described by each of the variables is as follows:

 $x_2 = 1$  If the land is irrigated, 0 otherwise.

 $x_3 = 1$  if the land is fertile, 0 otherwise.

 $x_4 = 1$  If the land is not useful for crop purpose, 0 otherwise.

x<sub>5</sub> = 1 If the land is situated near to the village, 0 otherwise.

x<sub>6</sub> = 1 If the land is situated near to the buyer's plot, 0 otherwise.

T = It varies from 1 to 32 beginning from 1960.

#### EMPIRICAL RESULTS

The results of the regression analysis have been shown in Table 7. All the coefficients of the explanatory variables except one have the expected sign. The coefficient of five of these are significant at the 95 per cent confidence level or above. The coefficient of the variable land size has a negative sign. As expected with an increase in size of land the price per acre decreases. Similarly, coefficient of the variable irrigation has positive sign. As such the price per unit of land with irrigation facility will be high as compared to dry land. The coefficient of the variable fertility has expected positive sign. The price of fertile land is high as compared to non-fertile land. Moreover the coefficients of variables village and time have expected positive signs. The plot of land situated near the village will become higher compared to land situated elsewhere. The coefficient of the variable time is positive and highly significant statistically implying that land price has rose with the passage of time. The coefficient of the variable non-crop use of land has a negative sign and it is statistically significant. It is due to the fact that these plots are basically dry and barren land which have no immediate non-agricultural use. As such these plots have lower value. The negative sign of the coefficient near the buyer's land was not expected. In any case the coefficient is not statistically significant. The explanatory variables together explain about 70 per cent of the price variance and as such it is a good fit. The regression results confirm that land with irrigation facilities, high fertility, located near the village carries higher price as compared to dry, barren and land located at distant place from the village.

#### IV Conclusions

The preceding analysis of land transactions in the study area confirms that the turnover of land sale is low as argued by a number of authors including Basu (1986), Platteau (1990), Raj (1990) and Binswanger and Rosenzweig (1986). It is noteworthy that even in a dynamic rural area like the study area, with diversified occupation and modern

technology, the turnover of land sale is low. The same observation applies to land purchase transactions. The later are somewhat more important as compared to the former; because migrants, who have no interest in land, have sold their land and left the village.

Two categories of sales, namely, interim (mortgage) and regular, were found in the study area. The frequency of mortgage has been declining of late. A variety of reasons have led to the sale of land once for all. In the case of poorer farmers, land sale were mostly involuntary in nature; given an inelastic demand for fund. These households had no choice but to sell their land. In such transactions they had to part away more than two-fifths of their landholdings. By contrast, the sale transactions of the medium and large farmers were voluntary in nature and the demand for fund was elastic. The main reasons for sale included luxurious consumption, diversification of productive activities and disposing of surplus land [Coin 1981].

The analysis of the reasons for sale by different groups of households revealed the amorphous nature of distress sale. Even if the purpose of sale of land was same for more than one group of households, it was only in the case of marginal and small farmers that their livelihood pattern affected adversely after the sale transactions. Moreover these transactions were involuntary. As such a transaction to be distress sale has to satisfy two conditions; namely, that the sale is involuntary and the livelihood pattern of seller is to be affected adversely. It was only in the case of poor farmers these two conditions were satisfied. Conversely the sale of land by the richer farmers to meet the dowry needs of their daughters and conspicuous consumption were not distress sale.

Sale of land due to migration to urban aras has been found in all landholding size groups. This was an important component of regular supply of land [as in Basu 1986]. Sale of land to start non-agricultural activity has emerged as another component of regular supply. Of course, this component is small and yet uncertain. It was found among the medium and large farmers who can take risk and can mobilise fund for new business.

A number of households with lump sum cash earning from service or other income have converted these earnings into a stable form of property by purchasing land [Sen 1981, Platteau 1990]. Many households, that could manage fund from the informal credit market have supplemented this source for land purchase. Given the imperfection of the credit market, it was the collateral rich and therefore creditworthy households who could mobilise the funds. On the other hand, the collateral poor households were left out from getting informal credit and as such were not able to purchase land unless they had money

from the service sector. Clearly the credit market imperfections were reflected in the land market as argued by Platteau (1990).

There was wide variation in the price per unit of land sold during the period. The impact of green revolution and diversification of rural economy due to government intervention have been reflected in the rising price of land during 1970s and 1980s. The average price of land rose modernly during 1970s and later period. But there was wide variation in the price of land during the period of study, especially during the early 1970s.

The regression analysis clearly revealed that the variance of land prices of land stemmed from differences in the characteristics such as site, relative location, and the time of the sale of land. About 70 per cent of the variation in the land price could be explained on that basis.

#### Notes

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- 1 A distress sale is involuntary when a household does not have a reasonable alternative option while deciding to sell a piece of land.
- 2 Even if some uncertain channel of investment is available the farm households who are mostly illiterate and not acquainted with such activity may prefer the current and stable asset holding rather than the new uncertain one [Desai 1984].
- 3 It is difficult to synchronise the time of borrowing from the formal credit sector and the time of negotiation for the purchase of land, as obtaining loan for long-term purposes including for land purchase, is time consuming due to cumbersome bureaucratic procedures [Adams and Nehman 1979, Sarap 1991a].
- 4 Raj has argued that ownership of landholding of even fairly small size provides some kind of insurance to families that are dependent on finding adequate wage employment and form the hard core of rural poverty [Raj 1990].
- 5 Such high personal valuation on land is based on two interrelated considerations. (i) He would place a personal valuation or price on the land which is high enough to give him alternative source of livelihood as rentier. The fact that typically the market value is considerably lower than this is of no consequence in his personal calculation. This is because he is primarily concerned with the question of assured livelihood. Further, the same piece of land can produce different rates of surplus or net income over necessary costs, depending on the intensity of its use. This, in turn, is largely influenced by the particular organisation of production. For instance, a small farmer with intensive use of family labour can generate an income stream which can provide him livelihood. In that case the personal valuation he would place on such a piece of land would correspond to a price which is at

- least high enough at the existing rate of interest to earn him roughly the same stream of income [Bhaduri 1983: 72].
- 6 It is to be stressed that a land mortgage may not be always as interim sale.
- 7 However it is to be stressed that the farm household may not offer a piece of land even for mortgage if he has alternative collateral which is acceptable to the lender. For instance, in a study of 166 farmers drawn from different locations of seven districts in Punjab (India) [Chatha et al 1991], only 6.63 per cent of them had resorted to mortgage during the period 1981-1990. According to this study the lower turnover of mortgage was possibly due to the fast declining value of money, increasing alternative source of credit and higher expenditure on registration deeds.
- 8 For instance, a household which migrates to an urban area may like to sell its land once and for all [Rao 1972].
- 9 The terms and conditions of mortgage are influenced by a number of factors including the purpose and the lender's strategy as to whether he is interested to earn interest income from giving loan or interested in the default of the piece of collateral [see Sarap 1990a] in the latter case, he may agree for a larger amount of money, on a piece of land, with the hope that the borrower may not be in a position to recover the piece of land. For evidence on land default to the lender [Barooah 1980, Darling 1977, Mukherjee 1985; 56]. If the intention of the lender is to precipitate default, then the difference between the price per unit of land for sale and the price per unit for mortgage may be low (Table 8) The quality of land, its location from the lender's point of view may also influence the terms of the mortgage.

TABLE 8: AVERAGE PRICE PAID PER ACRE OF LAND TRANSACTION DURING THE PERIOD 1870-1911 IN THE DISTRICT OF ROHTAK

| Year                  | Price Per<br>Acre of | Price Per<br>Acre of | Column(3)<br>As Per- |  |
|-----------------------|----------------------|----------------------|----------------------|--|
|                       | Land Sold            | Land                 | centage of           |  |
|                       | (m Rs)               | Mortgaged            | Columii(2)           |  |
| (1)                   | (2)                  | (3)                  | (4)                  |  |
| 1870-71 to            | 20.03                | 13,09                | 65.35                |  |
| 1880-81 to            | 29.71                | 18.29                | 61.56                |  |
| 1889-90<br>1890-91    | 55.69                | 32.07                | 57.59                |  |
| 1900-01<br>1901-02 to | 61.59                | 39.03                | 63.37                |  |
| 1905-06<br>1906-07 to | 54.79                | 47.03                | 06.04                |  |
| 1910-11               | 34.79                | 47.03                | 85.84                |  |

Source Gazetteer, Rohtak District, 1909 and 1936; Part II Statistical Table, Government of Punjab, Lahore.

10 There were many laws relating to land transactions. For instance, Punjab Land Revenue Act 1887; Transfer of Property Act 1872; Indian Limitation Act, 1963, article 90, to mention a few. The intention of these acts were to reduce the fragmentation of land to different persons through sale of land. But the manifest function of these acts was in fact a deterrent factor for the seller of land. Given such provisions there would be legal dispute between the buyers on the one hand and blook

- retation/co-sharers on the other, in recent past (1987) some acts have been amended and the right of redemption is confined to co-sharers and not to the blood relations. But even now such acts may work as a deterrent factor for land sale.
- 11 For instance, the relatives/caste fellows of the seller may persuade him to sell the land to a relative if he is determined to sell. In that case the competition among the seller and the buyer will be minimised. The price of the land may be lower in comparison with a situation in which there is free competition.
- 12 As such the number of transactions on the land mortgaged were an underestimation because some of the households which had mortgaged land but repaid the loan and got back their ownership rights may have been left out.
- 13 During the period of our study some plots were sold by the ex-dwellers of these villages who have migrated to town/other villages. Since the land and other details of these households are not available the tabular analysis is confined to the transactions of resident households only.
- 14 Households with ownership holding up to 2.50 acres have been defined as marginal farmers. For small farmers the ownership holding was from 2.51 to 5 acres. It was from 5.01 to 10 acres for medium farmers and from 10.01 to 20 acres for large farmers; and 20 01 acres and above for very large farmers.
- 15 The amount of land purchased (310.69 acres) by these households was higher than the amount of land sold (255.62 acres). This is due to the disposing of land by the erstwhile residents who have migrated to urban areas and other villages.
- 16 This is due to lack of accumulation of funds on the parts of many households. If the capital market is imperfect, then it will be more difficult for such households who have no access to credit market. This will be discussed later in this section.
- 17 Given the choice a household will try to sell that piece of land which he prefers less. If he does not find a huyer for this plot, he may offer a better quality plot in case the demand for funds is inelastic and the amount is lump sum. Other things remaining same, a buyer will prefer a piece of land which is fertile, or near his own plot, or near the village. This will reduce the transaction cost of cultivation in case the buyer has no land before the purchase, his preference for a piece of land will be dependent on the availability of land.
- 18 Besides, there may be problems of supervision and effective control of labour in the case of large sized holdings [Sen 1981, Platteau 1990].
- 19 It is noteworthy that even to buy a small piece of land a household requires lump sum amount and has to arrange the fund within a short pen xd.
- 20 Households which are currently in service generally lease out their land in the village and earn rental income. Enforcement of personal property right in rural society is not difficult or costly because of family/caste connection. By frequently visiting the village such households enforce their rights over their land as well as supervise/monitor the tenants.
- 21 Only marginal farmers have resorted to mortgage of land in the informal credit market to purchase land.
- 22 There has been a lot of historical evidence of land transfer to moneylenders in the region of

our study in the first part of this century. See for instance Darling (1977), Chowdhry (1984), Guha (1987: 128) to mention a few. Even in the case of land mortgage the involvement of traders/moneylenders is negligible. One of the important motives of the mortgagee is to expand the size of the operational holdings for cultivation to utilise the surplus manpower/ tractor/surplus fund, etc. For instance, out of the total, 58 plots were near the village, and about 39.66 per cent plots were near the mortgages. If the land is not irrigated it may be near the buyer or near the village. Out of the 58 mortgaged plots, 5.17 per cent satisfied all the three attributes, 34 48 per cent plots were near the buyers and irrigated. All these attributes are helpful to the mortgages for better yields of crops and to reduce transportation cost of cultivation.

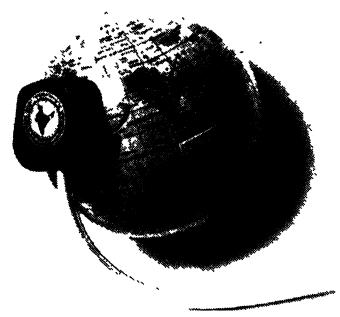
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CONTOUR NIA 19/9

# **Designing Financial Services for Rural Poor**

## **Retooling Rural Financial Institutions?**

#### K Kaladhar

Requirements of financial services for poor rural households encompass consumption smoothening, human capital formation, production and investment credit and insurance, in addition to savings facilities. While the informal sector provides most of the services, the formal rural financial institutions have inappropriate tools and perspectives in delivering the services. Unless institutions retool themselves by focusing on a rural household's economy rather than limiting themselves to activity linked lending, they cannot be successful in delivery of financial services.

IN the recent past, the debate on rural financial institutions (RFI) has been focusing on analysing reasons for 'successful' performance of such institutions more from operational perspectives and away from macro-economic variables [Yaron 1992] In the 1960s, 1970s and 1980s analysis centred around problems stemming from low interest rates or subsidised credit, supply leading finance, government owned and expanded financial institutions [Adams et al 1984]. However, now, the emerging research on rural financial institutions shows some of the operational elements that have been relevant to successful performance such as organisational culture. informational asymmetry, etc. In this paper it is proposed to examine the developments that have taken place, synthesise the learning and develop an operational framework for implementation in the Indian context with respect to formal rural financial institution system.

The rural poor, especially women, commonly have restricted access to financial services expected to be given by the formal rural financial institutions. The Indian perception has been that due to lack of adequate network of such institutions, the inaccessibility has been further strengthened. As a remedial measure the national government assisted by donors have envisaged, substantially in large-scale, formal regulated programmes emphasising more credit to poor in rural areas. In the process huge bureaucracy has been built-up for the purpose of purveying credit to rural poor. The financial programmes launched by the formal institutions had other assumptions such as a low rate of interest, purpose linked credit, formal project appraisal, etc, with a view to reaching the benefits via income generating activities, to the rural poor

#### PROJECT APPROACH TO LENDING

One of the central pivots on which the credit institutions were built was the World Bank's approach to developing rural poor, viz, project approach. The project approach was layered into definite sequences with identification of the activity(ies) in the first

phase, followed by formulation, appraisal. implementation, monitoring and evaluation phases. This was called project cycle [Baum 1978]. Project approach envisaged a detailed project appraisal involving calculation of rates of return and financing the best of the projects for the purpose of generating adequate income to the rural poor. The focus under the approach was more on the purpose/ activity that was expected to 'help' the poor rather than on the poor themselves. In the process, during the 1960s and 1970s very many rural development projects in terms of sectors such as plantation, horticulture, irrigation development, animal husbandry development projects were appraised and sanctioned by the World Bank for implementation through formal rural financial institutions. In addition, functional areas such as extension, credit, etc. also received widespread importance. Among these projects, primacy was accorded to rural credit projects under which the elements of project appraisal were subjected to analytical rigour and rates of return were calculated both under economic analysis as well as financial analysis. Credit was to be purveyed under such projects to rural poor for various activities such as minor irrigation, animal husbandry, plantation and horticulture, etc. Each of the activities was analysed in detail in terms of costs and benefits and the rates of return were calculated accordingly. If the rates of return were above the given cut-off point, then the projects were accepted for the purpose of financing under the project.

Under the system, production-oriented lending had taken roots with elaborate sequentially designed procedures being observed by rural bankers. Some of the characteristics that were developed and stabilised over the years were activity/ purpose centred. Technically feasible sizes were determined (e.g., two milch animal unit, one hectare plantation of oranges) with the objective of achieving financial viability. Farm budgets were designed along with farm models containing extensive analysis on financial and economic aspects. Repayment would be fixed in suitable instalments over the economic life of activity, after accounting for grace/gestation period, out of the income generated because of the activity. Thus, rural financial institutions were to identify activities keeping in view the potential of the area, formulate and appraise farm budgets and farm models (unit costs), implement (advance loans) monitor and then evaluate. An activitywise areawise (villagewise) credit plan would be prepared for the purpose under the dispensation presently called 'Service Area Credit Plan'. The Service Area Approach emphasised the project approach at the micro-level (branch level) with branch manager as the focal point for credit based development of rural poor residing in the service area comprising on an average about 15-25 villages.

Coinciding with the project approach to lending, another approach developed focusing on the role of finance in economic development, whereunder the concept of fungibility of money was propagated which theorised that money makes it difficult to pinpoint exactly which borrowers had spent for what. For example, a borrower who has been financed for purchase of livestock, perhaps could have used, actually, the savings which he/she has and used the loans taken under the project for the purpose of financing a wedding or any such social ceremony. Another use for which loan could have been put to may have been immediate debt payment or meeting consumption needs. This was expected to happen inspite of postloan sanction and disbursement supervision with a view to ensuring 'end-use' of loans. The borrower, accordingly, would perchive the loan funds as an additionality to his total budget and it would be difficult to attribute the benefits to investment in a production activity as envisaged under the project to the loan funds alone. In other words, as long as a rural household's financial budget permitted repayment, given its priorities, the repayment would occur irrespective of the success of the investment loan. In addition, it also pinpoints the futility of focusing on income generation exclusively out of the investment and repayment as a proportion to the income generated. In other words, by concentrating and analysing the purpose or the activity alone, the repayment need not occur [Pischke and Adams 1980].

We will first examine the impact of such thinking at the macro-level, i e, at the level of World Bank which has been in the centre stage in propagating the project approach to lending. The issue of current practices in project appraisal was examined and the conclusion that was arrived at was "we have found that the extent to which (social cost benefit analysis is) used and (has) real influence is not great, even in the World Bank" [Little and Mirrlees 1991]. This observation by Little and Mirrlees, considered the fathers of the project appraisal, comes as a shocking statement and leads us to raise two broad questions [Shantayanan et al 1995]. (1) What is the proper role for project evaluation in today's world? (2) How can we make the project appraisal ensure high quality projects?

When Little and Mirrlees wrote the Manual of Industrial Project Analysis in 1969, the governments were expanding public investments rapidly and much of that investment was in industry and related sectors. During those decades there were major distortions arising from trade policy and exchange rate policy amongst the most developing economies and for the purpose of removing this distortion the focus was on techniques such as border prices and conversion factors. Another factor that had sustained project appraisal in those decades was the calculation of the rate of return for a public sector project. The same technique also was sought to be applied to rural development projects.

Today, in the latter 1990s, governments of the developing countries are reducing their role, going ahead with privatisation of public enterprises followed by gradual removal of distortion in the trade policy and exchange rate systems. In addition, the concern now is focused on whether a project ought to be in the public sector at all or not. This has led to the posing of a counterfactual: what would the world look like in the absence of a project. In other words wherever there is a private sector alternative to public provision, encouragement should be accorded to the private sector alternative.

The World Bank, thus, over the years is gradually shifting from activity specific project appraisal to that of sectoral and public expenditure analyses or what is called structural adjustment lending. For example, the agricultural expenditure review of India carried out by the World Bank in 1993 [Pradhan and Pillai-Essex 1993] examined several agricultural programmes as projects and calculated their minimum rate of return. It concluded that two programmes - a fertiliser subsidy and a crop production scheme - had a zero rate of return because there was no justification for public provision of these goods. Yet the bulk of the Indian government's expenditure was going to these two schemes. Interestingly, the study also pointed to the high rates of return in ground water irrigation and extension services recommending a reorientation of public expenditure in that direction. This approach actually goes beyond setting a good foundation for subsequent appraisal. It also improves the overall quality of the sectoral investment programmes.

Concurrent with the shift of focus of the World Bank to structural adjustment lending from project-based lending, within the project cycle there have been qualitative changes in various phases emerging with the experience into 'new' project cycle. The Bank's evaluation suggested that when development projects perform poorly it is usually for one or more of the following reasons: (i) Beneficiaries do not participate sufficiently; (ii) borrowers are not committed to project goals; (iii) risks are inadequately assessed and managed; or (iv) capacity building was separately pursued through technical assistance programmes, etc. The proposed new project cycle [Picciotto and Weaving 1994] now has (1) listening (2) piloting (3) demonstrating and (4) mainstreaming as different phases.

Under the first phase, viz, listening, the central role of the borrower and the participation of potential beneficiaries, right from the start, symbolises the learning dimension of projects as against 'identification' - a term suggests a visual selection of physical goals or focusing on specific activities such as minor irrigation, animal husbandry, etc. The second phase, piloting, is geared to exploring alternatives identified at the learning phase and objectively assessing risks through participatory methodology. The third phase is demonstrating, i.e. providing opportunities to fine tune and adapt project concepts to ensure a satisfactory development impact. The fourth phase, mainstreaming, aims at achieving the overall goal of credit-based assistance, viz, institutional learning and ensuring a lasting impact on the country's policies, practices, technologies and skills. The new cycle thus comes to fruition with largescale adoption, mainstreaming, of methods, techniques and programmes pioneered during the pilot and demonstration phases.

Another critical view on the traditional cost benefit analysis is seen from its inability in developing capabilities of rural poor and building the same into cost benefit analysis as presently practised [Clements 1995].

The existing literature on economic cost benefit analysis seeks to exclude the main factors that affect the rural poor in terms of improvements in nutrition, health, education, etc. Under the approach titled 'capabilities approach to project analysis' (CAPA) capability is looked at not on the income or public services, a person has access to, nor

on the particular choice, plans and the strategies a person makes but rather on the range of choices that are available to the individual [Sen 1993]. Undernutrition and poor health restrict this range of choices in a direct, physiological manner. Three kinds of information should be considered under CAPA for indicating benefit levels. The first is quantitative information collected by and for the project, normally on project inputs and on changes in the beneficiary population's capability standards. Second, benefit estimates may be assisted by outside studies bearing on the connection between project inputs and population capabilities. Third, there should be some scope for project staff and agency representatives to contribute to benefit estimates based on their observations and opinions.

This suggested approach, viz, CAPA has several problems for operating bankers at the field level. They neither have time nor skills for incorporating these three elements into assessing the credit demands and thereafter taking a decision in the matter. While conceptually the approach is sound, operationally it is very difficult to implement at the field level.

The above debate leads us to the conclusion that the World Bank, from a commodity/ sector-based project lending approach has gradually shifted to structural adjustment lending under which the macro-economy as a whole is taken into account for assessing the effectiveness of investment. The different phases under the traditional project cycle have also given way to the new project cycle with shifting of focus from activity to the rural poor or the participant in a development project. This debate gives rise to the question whether the shifting of focus in policy perspective can be applied at the beneficiary level or at the level of the rural poor in terms of looking at the economy of the beneficiary. This means that instead of focusing on the financing of the activity alone and determining the cost and benefits thereunder, we have to look at a rural household's economy at the family level and then determine what kind of credit packages need to be devised. This calls for having a fresh look at the way the credit is seen from the perspective of rural poor and tailoring financial services delivery accordingly.

## FINANCIAL SERVICES FROM PERSPECTIVE OF RURAL POOR

In traditional approach to rural finance, the production side of rural farm households is generally seen as providing the logic for rural credit. What is forgotten in the whole process is the poor household's demand for financial services relating to consumption smoothening, human capital formation, off-farm income generating activities, insurance and savings services [Zeller 1995; Zeller,

Von Braun, John and Puetz 1994]. In a study conducted for the World Bank, the nature of demand for financial services by rural poor in India was assessed through a client survey [Mahajan and Ramola 1995]. It was found that in terms of current usage, the priority across different types of financial services among the rural poor was consumption credit, savings, production credit and insurance. Consumption constituted two-thirds of the credit usage, the rest being for production credit. Consumption included illness, household expenses during the lean season. Informal sector met consumption requirements at a high rate of interest, with formal rural financial institutions meeting two-thirds of production credit requirements.

The usage of financial savings is low by rural financial institutions with rural poor themselves assessing a large gap between their current savings and potential savings. In all, savings accounted for 5 per cent of the income and about 10 per cent of annual credit usage. The usage of insurance services was very low.

Under production credit, many had received loans linked to government poverty alleviation programmes such as IRDP after accounting for out of pocket costs, payments to middlemen, price difference of assets received as loan in kind vs the cash price in the market, wage loss, etc.

In the delivery of financial services, the borrowers had opined in another study, that the attitude of the banking officials was indifferent to them [Rajasekhar and Vyasulu 1991]. That obtaining a loan is a complicated and lengthy process was evident from the study, in addition to the finding that the time taken to get a loan sanctioned was inversely related to the size of land holding. Added to that, the loan amounts were inadequate. It was also felt, as a widespread problem, that it was better to obtain a loan from a moneylender than to go through the ordeal of bank procedures [Gupta and Shroff 1990]

In the Indian context, provision of credit to the poor and marginal farmers was constrained by lack of access in view of collaterals, low interest rates, leading to rationing of credit to wealthy rural clientele. followed by various systems and procedures that were inappropriate for the rural poor The credit needs of the poor as seen by them [MYRADA 1992] indicate that they require small but regular and urgent loans for consumption whereas their options were restricted to IRDP or similar programmes designed and approved by the government. Small loans for consumption were readily available from money lenders who also placed the poor on the track of increasing debt and bondage which went rapidly downhill On the other hand, banks were not willing to lend small amounts nor would

they entertain loans for consumption, even though it was obvious that the largest number of loans was taken for this purpose. The formal rural financial institutions also could not give any loans quickly when needed. Another practice was adoption of standardised cost and estimates often on the grounds of feasibility; these amounts were generally larger than required by the people. For example, when farmers in one area. where the water table was high, needed approximately Rs 3,000 to sink an open well, the bank insisted on providing the standard rate of Rs 9,000. There are other examples where the requirements were higher than the standardised cost or what is known in the banking system as 'unit cost' There was, thus, no mechanism to fine tune the size of projects and estimates to the micro situation. This is relevant to the context of rural household's economy mentioned earlier. In several cases the schedule of recovery design by the bank did not conform to actual trends in returns. An interesting case of difference in recovery schedules concerned milch animals. It is well known that in the summer the milk yield falls, yet the recovery instalments required by the bank remain constant, instead of adjusting to the actual trends in milk yields. Another example of inappropriate recovery schedules was the practice of linking recovery with harvest time on agricultural loans to marginal dry land farmers - the core of the rural poor. The majority of them consume over 80 per cent of their produce and could not possibly repay loans from sales of the remainder. The schedule of recoveries could not be disturbed due to changing situations as in one example a member of group stood for village elections who had borrowed for purchase of a cow from the group; the group suspected that he would sell the cow to raise funds for the election so they seized it till the elections were over. The rural financial institutions were pre-occupied with viability. For example providing a poor woman with 10 ewes and one ram which usually failed to earn adequate returns according to schedules since it pre-supposed that the woman was doing nothing prior to this project. Managing a 10+1 unit is almost a full time job requiring her of giving up other wage opportunities which provided her daily needs in order to manage the sheep unit. Thus, the rural financial institutions ignored manageability in the process of determining viability. The above illustrations indicate the inappropriateness of the strategy and systems and procedures followed by the formal rural financial institutions.

Approach to Delivery of Financial. Services by Informal Sector

Given the paradigm of rural poor perceptions and the inadequacy of formal

rural financial systems in meeting the demand with all its structural requirements, how the informal sector, including the self-help groups, is catering to the rural poor is dealt with below. The evidence with regard to the approach or 'how' the financial services are delivered is linked directly to the methodology of credit rationing employed by the informal sector.

The determinants of credit rationing centre around informational asymmetry between lender and borrower [Stiglitz and Weiss 1981 Heading to lenders demanding collateral or charging higher rates of interest. Collateral requirements have been identified as a major determinant of the lenders' decision to ration loan demand [Binswanger et al 1989]. Informal lenders on the other hand, often use collateral substitute. Third party guarantees, trade contracts and threat of loss of future access to credit are common devices in informal contacts [Adams and Fitchett 1992, Binswanger et al 1989]. In a study conducted in Madagascar on determinants of credit rationing by both informal lenders and formal credit groups [Zeller 1995] several findings are of relevance to the Indian context. The credit rationing by informal lenders was determined by age with older individuals more likely to apply for credit, with higher age leading to decline in credit obtention. Secondly, the number of years of schooling has a positive effect on loan application since it augments, other things being equal, returns on capital and therefore credit demand. Thirdly, the poor, proxied by occurrence for wage income, significantly rely on informal credit for consumption smoothening with a duration of two months which is easily obtained with little waiting time. Fourthly, it is the head of the household who is more likely among the members to ask for a loan. The fifth determinant relates to sickness leading to the demand for credit for financing medical care. In contrast to these determinants which trigger seeking credit from informal lenders, the decision taken by the formal groups is to approve a loan request based on the health of the applicant household (which is an indicator of repayment ability) in addition to existing indebtedness in the informal sector while the outstanding debt taken from the formal sector does not impinge on the rationing process.

The pilot project on developing linkages with self-help groups currently under implementation in India also gives useful insights into the rationing process or the methodology of appraisal being followed by the self-help groups [NABARD 1995]. The groups' initial source of fund was savings supplemented later by credit and the activities financed were need based even while self-help groups adopted a flexible approach. Interest rates charged were varying and market-related; shorter repayments were

fixed, as against the procedural requirement of allowing longer repayment period by formal rural financial institutions, keeping in view all available sources of income instead of limiting to income generated out of the financed activity alone. This facilitated members taking more than one loan during a year. Flexibility in norms of lending was observed on case to case basis with less importance attached to documentation. In case of emergency/situations of distress, a second loan was also allowed while the first loan was yet to be repaid. Penal interest for delays in repayment of instalment was applied flexibly. Meetings of groups were conducted regularly which served as a formal base for exchanging information, completing documentation, etc.

In the context of the above it is useful to look into the totally new dimensions thrown up in respect of Bangladesh Grameen Bank, a formal rural financial institution, in managing credit for the rural poor and the reasons for its success [Jain 1996]. The study, startlingly, indicates that the Grameen Bank in practice does not enforce its acclaimed policy of making five-member groups jointly responsible for repayment of loans. Contrarily, the success of the Grameen Bank was posited to a combination of several organisational policies which were designed to steer the behaviour of its large number of functionaries and borrowers along a "credit responsive mode". The elements of credit responsive mode centred around various organisational levels and at each level different 'credit responsive paths' have been taken ensuring in an overall context, the success of the bank. At the local village level the banks credit policies provided a set of neoclassical (dis)incentives to align the selfseeking behaviour of borrowers along a credit responsive path. The important activity of group/centre was meant to develop a culture wherein both members and the bank functionaries followed the bank norms implicitly and as a matter of routine. The main purpose and function of the groups and centres was to foster this culture by enabling routine repetition of ideological behaviour by all the members week after week, 52 times a year which made it a 'cultural habit' for each individual to follow bank norms

In respect of branch operations as well as at the level of area office the characteristics that were observed related to routineness, reliability in service delivery, demonstrable honesty and error-tree performance in addition to repeated supervision and crosschecks. In summary, in development banking not only do the determinants of borrower members' behaviour have to be in place, but the determinants/stimulants of bank functionaries performance also have to be properly aligned. The Grameen Bank through

its staff incentive policies could broadly align its staffs' self-seeking behaviour with the bank's norms.

SUCCESSFUL RFIS FROM INDONESIA

The relative success in the provision of financial services to the rural poor, indicated by Indonesian experience (Chaves and Gonzalves-Vega 1996], is also noteworthy for the Indian context. The various Indonesian RFIs have fostered intensive inter-action of two types of agents, viz, those who have the information and those who have the resources, in the provision of financial services to the rural poor. Such inter-action has been at the foundation of the success of the Indonesian rural financial institutions. The individualised approach instead of the group approach in the context of Indonesia proves that joint liability or peer pressure would result in extra costs, and moral hazards for the group members, leading to borrowing on individual basis. This was also proved in the case of Grameen Bank example cited above.

All the steps necessary to complete the financial transaction are undertaken locally. In most cases the client does not have to leave his/her village. Further, local decision-making and character-based lending (when no collateral is required) allow for the rapid disbursement of loans. Most of the time funds are available when needed, with no particular restrictions on end use. Most importantly, loans are granted on individual basis.

To overcome information asymmetry which is the heart of the rural financial market problem, the Indonestan experiment resolved through a system of incentives (performance-based remuneration and efficiency wages as compatible incentives) that has induced a behaviour on the part of

RFI managers consistent with the financial health of the unit.

The role of credit and credit institutions in augmenting production and productivity is well recognised. This approach has resulted in an impressive growth of rural banking in India over the last four and a half decades in terms of outreach, credit disbursement and support to the poverty alleviation programmes. However, the emphasis throughout has been on achieving certain quantitative targets leading to loan defaults and virtual erosion of repayment ethics. The end result was the disturbing growth in overdues which not only hampered the recycling of scarce resources of banks but also affected the profitability and viability of the financial institutions,

Out of the 369 district central co-operative banks, only 171 were operating in profit as on March 31, 1994. The overdues at Rs 3,874 crore constituted 33 per cent of the demand. As regards primary agricultural credit societies (PACS), out of 90,783 units, only 52,211 (58 per cent) had been identified as being viable as on March 31, 1994. Overdues of PACS at Rs 3.875 crore constituted 38 per cent of their outstanding loans. The picture as regards the regional rural banks (RRBs) was no better. During 1994-95, 32 RRBs had made profit while 164 RRBs showed a loss aggregating Rs 423.21 crore. The annual loss increased from Rs 94.05 crore in 1991 to Rs 425.65 crore in 1994-95 while the accumulated losses of RRBs aggregated Rs 1,686.61 crore as on March 31, 1995 (C Rangarajan First Ravi Mathai Memorial Lecture 1996). Similar data for rural business of commercial banks is not available.

The characteristics in terms of internal practices and attitudes among rural financial institutions indicate that they are not suited, structurally, for the delivery of the financial

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services to the rural poor [Mahajan et al 1995]. Few products suit rural people's special needs on the dimension of urgency, informality, seasonality, illiteracy and diversity in livelihood. No consumption loans are given while lending is security-based with the insistence on collaterals. Largely, one time loans are given with the poor seen as a social obligation and intrinsically unworthy of credit.

The financial sector reform that is currently under way encompasses the institutional rural credit delivery system. As part of the measures recapitalisation is being undertaken along with other measures such as development action plans, coupled with memoranda of understanding for the purpose of chalking out action-oriented strategies for revitalising the institutions.

However, little attention has been paid to the rigid frameworks that have permeated the rural financial institutions. This is evidenced from the perspectives of rural poor with regard to credit. One point, a central one at that, of importance in the reforms process in respect of rural financial institutions is that unless the rural poor are responded to properly the rural financial institutions will not be able to trigger required impulses and maintain themselves as vibrant and healthy institutions. Time has come to recognise limits of credit as against credit limits [Dandekar 1995]. Based on the experiences outlined above what is required is retooling of the rural financial institutions rather than tinkering at the periphery in the name of reforms.

In addition to the above the Indian rural credit system is characterised by certain rigid frameworks which are inhibiting performance compared to that of informal sector. The elements that characterise the framework and simultaneously inhibit the performance are: unit costs, repayment periods, grace period and/moratorium period, looking at the activity, and confining one-self to the income generation and unit cost from the point of view of activity alone.

If one has to learn the lessons from the practices being followed in the credit management groups or informal lenders what kind of procedural changes can be made so as to bring in the elements of Grameen Bank as already discussed coupled with the effectiveness of the informal sector? It appears that the present activity-based financial relationships need to be given a goby so as to overcome the structural rigidities in approach to rural finance. In the informal sector the lenders always look to the individual and take a holistic view of the cash flows that are being generated by the invidual. In this context, it is useful to recall what was already discussed here with regard to changes in the learning pattern of the World Bank from that of specific project activity to that of structural adjustments lending. It is also useful to recall the present rethinking that is occurring in respect of the project cycle approach from the traditional phases of identification, formulation, appraisal implementation, monitoring and evaluation, to give importance to the 'process' by focusing on (a) listening, (b) piloting, (c) demonstrating and (d) mainstreaming.

Under this process the core focus is on developing and enduring relationship between the lender and the borrower on a long-term basis rather than seeking it as a one shot lending approach. In the light of the above the rural bankers should now realign approach to rural financing whereunder the rural family or the rural household is taken as a unit for the purpose of holistic analysis of its micro-economy.

A rural household or a rural individual will be the focus for delivering financial services. Financial services would encompass different requirements as seen from the household perspective interms of investment credit, production credit, consumption smoothening, human capital formation, insurance and last but not the least appropriate savings products.

The informational asymmetry between the financial institution and the rural household can be overcome by developing long-term and enduring relationships. For the purpose the present methodology of doing banking from the branch premises need to be reoriented. The branch manager assisted by his staff shall have to visit each of the villages under his service area regularly and deliver financial services at the village itself. The visits may be such that each of the villages are visited at least once in 10 days during which time he must mobilise both savings as well as disburse credit.

In the initial stages, say first six months or one year the branch manager shall identify about 100-200 families in a village and develop documentation on each of the families with regard to the family economics, the assets and liabilities position including debts owed to informal sector. This is to be done simultaneously along with mobilising savings from the rural households.

After the bond is established between the branch manager and the family, credit requirements on an overall basis can be ascertained and revolving credit facilities can be granted keeping in view the quantum of requirements. While granting revolving credit facilities the distinction between production credit and investment credit shall be dispensed with. The activities that the borrower proposes to take up shall be assessed by the borrower or the rural household itself and amounts of loans arrived at taking into account consumption smoothening, human capital formation, etc. No unit cost for

investment credit or scale of finance in respect of production credit shall be applicable. The repayment schedule shall be drawn up with weekly instalments and each of the instalments shall be collected during the visits by the branch manager to the village.

The family credit plan under implementation under IRDP needs to be distinguished from the approach suggested above. The emphasis under the family credit plan continues to be 'lending' for two or more activities expectedly bringing the family above poverty line without looking into the compulsions of a rural household's economy. The approach in other words would be in consonance with the clientele requirements with the rural households being the central focus.

With a view to operationalising the rural household approach to financial services a beginning can be made by selecting 4-5 districts in India involving the rural and semi-urban branches of commercial banks. the branches of RRBs as well as the ground level units of the co-operative banking system. For the last 50 years we have been in the first phase of the new project cycle, viz, listening. Having done that, it is rather overdue for getting into the second phase of the new project cycle, viz. piloting It would be appropriate that at the earliest, action is initiated by the government and other connected actors and pilot stage is launched without any further delay.

#### TOWARDS A CONCLUSION

In the context of the problems being faced by the rural financial institutions, both endogenous and exogenous, and with a view to improving the delivery of financial services to the rural poor, several measures are being taken for improving the system. In addition to financial sector reforms at the operational level linkages with informal sector in the form of self-help groups has been established. The developing of linkages with self-help groups which started on a pilot basis sometime ago has now been extended all over India [RBI 96] in terms of the recommendations of the working group set up to examine the issues on the subject. The mandate to extend the linkage project has however, been seen from the point of view of including the lendings to self-help groups under 'priority sector' and building up a database on the lendings through a format. Unfortunately, one of the indicators that is missing in the format relates to data regarding savings mobilisation which is the basis for linking with self-help groups. Several proposals have been made elsewhere for expanding the linking process in terms of improving the resource base of self-help groups, operational 'takeovers' and making the self-help groups agents of formal banking system [Kaladhar 1995]. Coterminous with such efforts there is a need for change from within in respect of rural financial institutions and the changes if not in terms of attitudes, have to come by taking the rural household as the central point for delivery of financial services. By moving away from activity-based lending approach to rural household-based continuous financial relationship foundation the strengthening of rural financial institutions is expected to happen on a more qualitative footing.

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### CENTRE FOR STUDIES IN SOCIAL SCIENCES, CALCUTTA

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The Centre for Studies in Social Sciences, Calcutta, will hold its annual All India Cultural Studies Workshop on 1-5 February 1997 in Gwalior. The theme for this year's workshop is "Culture and Democracy" in which the focus will be on contestations over identity, autonomy and equality in the fields of cultural production in India. The workshop is intended to give young researchers the opportunity of intensive discussion of their work with senior scholars. The faculty will include distinguished scholars from India and abroad. The CSSSC will bear the expenses of travel within India for all participants and will extend full hospitality to them in Gwalior.

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# **Rural Credit in VIP Districts**

## A Study in Uttar Pradesh

#### Veerashekharappa

Several studies have found that credit institutions (and therefore institutional credit) are unequally distributed across region and accessibility to timely credit depends often on political intervention. This study attempts to examine the influence of political intervention on the expansion and delivery of institutional credit in two districts of Uttar Pradesh, Raebareli and Sultanpur, represented in parliament by two former prime ministers.

THE major objective of nationalisation of banks was to bring them under the control of government and ensure lending to fulfil social objectives. Afternationalisation banks introduced innovative schemes in their operation and functioning, such as widening the bank network in rural areas, through branch expansion in the rural and semiurban areas: establishment of specialised branches for farm lending; Lead Bank Scheme and District Credit Plans (LBS and DCP in 1969); Differential Rate of Interest (DRI 1972) scheme; Village Adoption Scheme (VAS 1974) and Service Area Approach (SAA 1989). Further, RRBs were established to take institutional credit to unbanked regions of rural areas. Later the NABARD was established to take up the role of a leader in the entire rural credit system in the country. Thus, the banking sector emerged as an important agency in extending rural development through credit.1

Credit institutions, (and institutional credit too), are unequally distributed across regions [Rao 1988], accessibility and timely credit depends on political intervention, particularly for schematic loans. In fact the banking system has become a tool in the hands of the ruling party to canvass for votes [Rajasekhar and Vyasulu 1990].

Against this background, an attempt is made in this study to examine the impact of political power on the expansion and delivery of institutional credit. This exercise has been carried out in two districts of Uttar Pradesh (UP), viz, Raebarcli and Sultanpur. The prime minister represented these districts for several years. The late Indira Gandhi represented Raebareli, and Rajiv Gandhi represented Sultanpur district (Amethi Constituency). They represented the best of what the system can do. Thus, these two districts are an appropriate choice to examine the expansion of institutional credit, viz, expansion of branches, efficiency in credit delivery, etc. For this the data is culled out from secondary and primary sources.3 The methodology used in sample selection for collection of primary data was presented in the appendix.

This paper is presented in three sections, the first section discusses the economic background of the selected districts, the second section documents the development of banking sector, the third section examines the credit delivery system from the borrowers' point of view, the fourth and final section sums up the issues on the basis of observation made in the above sections.

## Physical Features of Selected Districts

Sultanpur and Raebareli districts are located in Faizabad and Lucknow division respectively, and adjoin each other. The geographical area and population of the Sultanpur district is 4436 sq km and 25.6 lakhs respectively and Raebareli district, 4609 sq km and 23.2 lakhs respectively.

Though these districts are endowed with physical and humanpower resources, the levels of productivity and overall production in the districts have been lower than the state average and much lower than the national one. For instance, the workforce in both the districts constitutes 36 per cent of the population with a small variation and most are engaged in agriculture. Within agriculture, the share of cultivators is large and of agricultural labourers small. However, more

than 80 per cent of total working population is engaged in agriculture and allied activities. The sexwise distribution of workers shows

TABLE 2: DISTRIBUTION OF BANK BRANCHES AT ALL-INDIA AND UP, IN 1992.

(Per cent)

| Group       | All India | Uttar Pradesh |
|-------------|-----------|---------------|
| Rural       | 57        | 66            |
| Semi-Urban  | 20        | 14            |
| Urban-Metro | 23        | 20            |
| Total       | 100       | 100           |

Source RBI, Report of Currency and Finance 1993-94

TABLE 3: COMPOUND GROWTH RATE IN BRANCH EXPANSION, DEPOSITS AND ADVANCES DURING 1974-94

| District      | Office | Deposits | Advances |
|---------------|--------|----------|----------|
| Allahabad     | 11     | 14       | 14       |
| Azamgarh      | 6      | 6        | 8        |
| Barabankı     | 5      | 15       | 18       |
| Faizabad      | 7      | 8        | 9        |
| Pratapgarh    | 7      | 14       | 25       |
| Racbareli     | 9      | 20       | 27       |
| Sultanpur     | 13     | 23       | 30       |
| Unnao         | 8      | 12       | 14       |
| Uttar Pradesh | 8      | 4        | 3        |

Source NABARD, Banking Statistics

TABLE 1 DISTRICT PROFILE OF SULTANPUR AND RAEBARFLI AND UP

|                                         | Sultanpur | Raebarch | UP       |
|-----------------------------------------|-----------|----------|----------|
| Geographical Area in Sq Km              | 4436      | 4609     | 294411   |
| Population ('000)                       | 2561      | 2320     | 138760   |
| Rural Population (per cent)             | 94.32     | 89 7     | 80 1     |
| Per cent of worker to population        | 36.1      | 36.3     | 37.3     |
| Cultivators (per cent)                  | 63.5      | 67 38    | 58.52    |
| Agricultural Labourers ('000)           | 22 99     | 17.45    | 15 08    |
| Household Industry ('000)               | 2 78      | 1 98     |          |
| • • • • • • • • • • • • • • • • • • • • |           |          | 25.5     |
| Other Workers                           | 10 73     | 13 19    |          |
| Geographical Area (000 ha)              | 44()      | 458      | 19819    |
| Net Area Sown (000 ha)                  | 393       | 271      | 17244    |
| Fallow Land (000 ha)                    | 53        | 57       | 1932     |
| Other Uncultivated Area (000 ha)        | 18        | 25       | 1115     |
| Area under Multiple Cropping (000 ha)   | 143       | 136      | 8046     |
| No of Land Holding (000)                | 456       | 380      | 17817    |
| Per cent of holdings held by SF/MF      | 93        | 77.6     | 86.8     |
| Land-Man Ratio (land per person)        | 0.26      | 0.22     | 0.23     |
| Net Irrigated Area (hectares)           | 160681    | 181339   | 10331900 |
| Per cent to Net Sown Area               | 40 8      | 66 8     | 59.9     |

Sources: 1 National Bank for Agriculture And Rural Development Potential Linked Plan Raebareli, 1990-91 to 1994-95, Uttar Pradesh, Lucknow, 1991.

2 National Bank for Agriculture and Rural Development, Potential Linked Plan Sultanpur, 1990-91 to 1994-95, Uttar Pradesh, Lucknow, 1991. that about 50 per cent of males and less than 10 per cent of females are in the workforce in the districts (NABARD, 'Potential Linked Plan Sultanpur 1990-91 - 1994-95', Lucknow, Utter Pradesh). This indicates that presently the opportunities to the women for organised full time and useful employment are very low.

The average annual rainfall in these districts is between 900 mm to 1000 mm with small variation across districts (This is based on 30 years data.) A majority of cultivators in both the districts are marginal and small farmers. A comparison of agricultural censuses data between 1977 and 1981 indicate that the percentage of holdings above 1 ha declined, while that of below 1 ha increased substantially.

Though adjoining, these districts differ in proportion of cropped area and irrigated area to total area and in the consumption of fertilisers. Raebareli district has a higher proportion of cropped and irrigated area then the Sultanpur district (Table 1). The consumption of fertiliser in these two districts is less than that of the state average. On an average, the consumption of N+P+k per hectare of net sown area was 98.6 kg in Sultanpur, while it was only 63.8 kg in Raebareli. Consequently, the yields of the important crops were lower in these districts as compared to the state as a whole.

There is variation in irrigation and sown area across districts but the crops grown are the same in both, viz, wheat, jowar, tur and pulses, which account for more than 50 per cent of gross cropped area.

#### II Banking Infrastructure in Selected Districts

The district as well as the state is served by a fairly good network of banking institutions. In fact, the banking network expanded during post-nationalisation period. The reason attributed are both push and pull factors. The pull factors are the large number of development activities taking place in the district and state,5 which are complementary to each other and contribute to the opening of bank branches. The push factor is the policy decision of the state according to which formal credit is made accessible to all the regions and needy persons. This, policy decision corroborated by the political pressure has forced the opening of branches in the remote and unbanked areas. Thus the pull factor is influenced by the economic advance of the region whereas the push factor is influenced by state intervention<sup>6</sup> and these two factors contribute to the expansion of bank branches. In these selected districts, between 1969 to 1994 the number of branches increased at annual rate of 9.3 per cent (Sultanpur) and 71.2 per cent (Raebareli). The all India level is 746 per cent, in UP it was 1165 per cent,<sup>7</sup> and this has reduced the population per branch. And the number of branches located in rural areas is 66 per cent in UP whereas at the all India level it is 57 per cent (Table 2).

The compound growth rates between 1974 and 1994 brings out that the districts had better growth rates than the state average. According to Table 3, bank branches grew at an annual rate of 9.3 per cent and 11.2 per cent in Sultanpur and Raebareli respectively and similar order is noticed in growth of deposits and advances. (In 1980s

the political intervention was noticed in expansion of branches and in advances.) Bu Allahabad district has bettered these district but due to a higher base the compound growth rates are shown as being low.

Table 4, shows the share of RRB. (branches, deposits and advances) in the total bank network. Sultanpur district has a better network than Raebareli. The reason attributed are the change in politica leadership in the district, the number of developmental and popular schemes take up simultaneously in the district. As a par of it the expansion of RRB's branch networl

TABLE 4: DISTRIBUTION OF OFFICES, DEPOSITS AND ADVANCES ACROSS TYPE OF BANKS

| Districts     | Of  | fices | Der | osits | Advances |      |
|---------------|-----|-------|-----|-------|----------|------|
|               | CBS | RRBs  | CBS | RRBs  | CBS      | RRBs |
| Allahabad     | 78  | 22    | 78  | 22    | 68       | 32   |
| Azamgarh      | 68  | 32    | 75  | 25    | 76       | 24   |
| Barabanki     | 57  | 43    | 81  | 19    | 78       | 22   |
| Faizabad      | 61  | 39    | 64  | 36    | 65       | 35   |
| Pratapgarh    | 68  | 32    | 68  | 32    | 75       | 25   |
| Racbareli     | 42  | 58    | 75  | 25    | 78       | 22   |
| Sultanpur     | 32  | 68    | 72  | 28    | 70       | 30   |
| Unnao         | 55  | 45    | 78  | 22    | 58       | 42   |
| Uttar Pradesh | 64  | 36    | 72  | 28    | 90       | 10   |

Source: NABARD, Banking Statistics, Bombay.

TABLE 5: OUTSTANDING AMOUNT OCCUPATIONWISE IN GROWTH RATES, 1974-1994

| District      | Agri<br>Allied | Industry | Trade | Personal<br>Loan | All<br>Others | Total |
|---------------|----------------|----------|-------|------------------|---------------|-------|
| Allahabad     | 12             | 22       | 28    | 15               | 18            | 19    |
| Azamgarh      | 22             | 21       | 8     | 17               | 15            | 15    |
| Barabanki     | 15             | 18       | 17    | 18               | 21            | 16    |
| Faizabad      | 18             | 15       | 14    | 17               | 22            | 16    |
| Pratapgarh    | 14             | 16       | 14    | 13               | 18            | 15    |
| Raebareli     | 22             | 19       | 21    | 33               | 15            | 20    |
| Sultanpur     | 27             | 36       | 34    | 39               | 33            | 30    |
| Unnao         | 12             | 14       | 15    | 18               | 9             | 11    |
| Uttar Pradesh | 17             | 36       | 21    | 27               | 18            | 17    |

Source: NABARD, Banking Statistics.

Table 6: Total Deposits in Selected Bank Branches of VIP Districts
(Amount in Rs '000

|          |            | Sulta      | ınpur      |        |            | Raeb       | areli      |             |
|----------|------------|------------|------------|--------|------------|------------|------------|-------------|
| Year     | Time       | Savings    | Current    | Total  | Time       | Savings    | Current    | Total       |
|          | (Per Cent) | (Per Cent) | (Per Cent) | Amount | (Per Cent) | (Per Cent) | (Per Cent) | Amount      |
| Commerc  | cial Banks |            |            |        |            |            |            | <del></del> |
| 1984-85  | 51.94      | 44.32      | 3.74       | 92511  | 45.02      | 40.20      | 14.79      | 108855      |
| 1985-86  | 51.84      | 44.44      | 3.72       | 114388 | 43.53      | 42.27      | 14.20      | 158929      |
| 1986-87  | 55.02      | 42.05      | 2.93       | 140267 | 49.13      | 39.63      | 11.24      | 187124      |
| 1987-88  | 54.83      | 43.49      | 1.68       | 169511 | 53.00      | 34.59      | 12.41      | 203684      |
| 1988-89  | 55.60      | 42.02      | 2.37       | 198805 | 52.51      | 36.78      | 10.71      | 239786      |
| Regional | Rural wank | s          |            |        |            |            |            |             |
| 1984-85  | 50.31      | 48.43      | 1.25       | 8849   | 43 39      | 52.59      | 4.02       | 19281       |
| 1985-86  | 53.43      | 46.13      | 0.44       | 11673  | 45.58      | 51 11      | 3.32       | 25428       |
| 1986-87  | 56.04      | 43.65      | 0.31       | 15627  | 46.88      | 50.96      | 2 16       | 30180       |
| 1987-88  | 56.19      | 43.38      | 0.43       | 19061  | 47.13      | 50.14      | 2.73       | 36639       |
| 1988-89  | 56.06      | 43.08      | 0.86       | 23493  | 45.61      | 51.16      | 3.23       | 43162       |
| Total    |            |            |            |        |            |            |            |             |
| 1984-85  | 51.80      | 44.68      | 3.52       | 101360 | 44.77      | 42.06      | 13.17      | 128136      |
| 1985-86  | 51.99      | 44.60      | 3.42       | 126061 | 43.81      | 43.49      | 12.70      | 184357      |
| 1986-87  | 55.12      | 42.21      | 2.67       | 155894 | 48.82      | 41.20      | 9.98       | 217304      |
| 1987-88  | 54.97      | 43.48      | 1.55       | 188572 | 52.11      | 36.96      | 10.93      | 240323      |
| 1988-89  | 55.65      | 42.13      | 2.21       | 222298 | 51.45      | 38.98      | 9.57       | 282948      |

took place in a large way. Thus, area-wise
Sultanpur district is small but the density of
bank branches per sq km is high, in fact
political pressure forced the RRB to open
more branches in unbanked areas including
remote areas, where commercial banks are

remote areas, where commercial banks are reluctant to open their branches. (This observation was made during the field work, while discussing with chairman of RBI. The number of branches opened during preelection period is high compared to other periods.) In fact, state force is nothing but a proxy for political power in the district.9 The banking infrastructure in these districts also shows that the number of regional rural banks is large. Raebareli commercial bank branches are 47, RRBs branches are 74 and co-operatives 27 and land development bank branches seven. In Sultanpur district, commercial bank branches are 36, RRBs 93, district co-operative banks 25 and land development banks 25 ('Potential Linked Plan Raebareli', NABARD, Lucknow, Uttar Pradesh). The expansion of commercial

banks in general and RRBs in particular took place during the second half of the 1980s.<sup>10</sup>

Having noticed the quantum of credit in earlier paragraphs, we now discuss the purpose of advances. The purpose-wise amount outstanding is presented across districts and state in Table 5. The figures show that during 1974 the outstanding amount concentrated against the industrial activity, by 1994 though the proportion reduced, the same activity still holds a large share of the amount, the decline being attributed to the large amount diverted for schematic lending. The compound growth rates show that Sultanpur district has a higher growth rate than the other districts. This indicates that Sultanpur district got special consideration in the expansion of branch network as well as in making advances for different purposes. During the 1970s credit is concentrated for industry, but after Rajiv Gandhi's entrance in the district the credit structure changed along with the credit flow to industry. Popular schemes also began to benefit in a large way.

# DEPOSITS GROWTH IN SELECTED BANK BRANCHES

The growth of deposits in the selected banks in Sultanpur has been impressive. The amount of total deposits grew from Rs 1013.6 lakh in 1984-85 to Rs 2222.98 lakh in 1988-89 at an annual compound growth rate of 22 per cent. Such a rapid growth was mainly due to an increase of amount kept as time deposits which grew, at around 24 per cent per annum (Table 6). The growth of deposits in Raebareli was rapid, between 1984-85 and 1988-89, the amounts of deposits increased from Rs 1281.36 to Rs 2829.48 lakh at an annual compound growth rate of

Table 7: Sectorwise Lending by Sample Banks in VIP Districts
(Amount in Rs '000)

|            |                        | Sultanpur                  |                 |                        | Racbareli                  |                 |
|------------|------------------------|----------------------------|-----------------|------------------------|----------------------------|-----------------|
| Bank/Years | Priority<br>(Per Cent) | Non-Priority<br>(Per Cent) | Total<br>Amount | Priority<br>(Per Cent) | Non-Priority<br>(Per Cent) | Total<br>Amount |
| Commercia  | l Banks                |                            |                 |                        |                            |                 |
| 1984-85    | 77.51                  | 22.49                      | 8905            | 68.31                  | 31.69                      | 57320           |
| 1985-86    | 67.93                  | 32 07                      | 8404            | 67 10                  | 32 90                      | 76045           |
| 1986-87    | 60.62                  | 39.38                      | 5845            | 71 79                  | 28.21                      | 81534           |
| 1987-88    | 78.68                  | 21.32                      | 6825            | 74 23                  | 25.77                      | 90861           |
| 1988-89    | 80.45                  | 19.55                      | 6398            | 70.81                  | 29 19                      | 110238          |
| Regional R | ural Banks             |                            |                 |                        |                            |                 |
| 1984-85    | 94.75                  | 5.25                       | 1795            | 70.07                  | 29.93                      | 17081           |
| 1985-86    | 95.08                  | 4.92                       | 2218            | 66 62                  | 33.38                      | 23026           |
| 1986-87    | 95.72                  | 4.28                       | 2405            | 66 77                  | 33.23                      | 26717           |
| 1987-88    | 95 39                  | 4.61                       | 3351            | 68.53                  | 31 47                      | 29748           |
| 1988-89    | 92.46                  | 7.54                       | 3653            | 67.01                  | 32 99                      | 32325           |
| Land Devel | opment Ban             | ks                         |                 |                        |                            |                 |
| 1984-85    | 100 00                 | 0.00                       | 8825            | 100 00                 | 0.00                       | 4540            |
| 1985-86    | 100.00                 | 0.00                       | 11196           | 94.58                  | 5.42                       | 7071            |
| 1986-87    | 100.00                 | 0.00                       | 10634           | 100.00                 | 0.00                       | 5936            |
| 1987-88    | 100.00                 | 0.00                       | 13805           | 95 25                  | 4 75                       | 7533            |
| 1988-89    | 100.00                 | 0.00                       | 17756           | 96 29                  | 3 71                       | 15922           |
| Primary Co | o-operative I          | Banks                      |                 |                        |                            |                 |
| 1984-85    | 100.00                 | 0.00                       | 1772            | 100.00                 | 0.00                       | 1545            |
| 1985-86    | 100 00                 | 0.00                       | 1647            | 100 00                 | 0.00                       | 1453            |
| 1986-87    | 100.00                 | 0.00                       | 1959            | 100 00                 | 0.00                       | 1603            |
| 1987-88    | 100.00                 | 0.00                       | 2819            | 100.00                 | 0.00                       | 2200            |
| 1988-89    | 100.00                 | 0.00                       | 2472            | 100 00                 | 0.00                       | 1544            |
| Total      |                        |                            |                 |                        |                            |                 |
| 1984-85    | 90                     | 10                         | 21297           | 71 08                  | 28 92                      | 80486           |
| 1985-86    | 88                     | 12                         | 23465           | 69.24                  | 30 76                      | 107595          |
| 1986-87    | 88                     | 12                         | 20844           | 72.47                  | 27.53                      | 115790          |
| 1987-88    | 94                     | 6                          | 26800           | 74 58                  | 25 42                      | 130342          |
| 1988-89    | 95                     | 5                          | 30278           | 72 86                  | 27.14                      | 160029          |

TABLE 8: RECOVERY PERFORMANCE OF SELECTED BANK BRANCHES

|             |              | Sultanpur      |          |         | Raebarch |          |
|-------------|--------------|----------------|----------|---------|----------|----------|
| Year/Bank   | Total        | Recovery       | Per Cent | Total   | Recovery | Per Cent |
|             | Demand       |                | Recovery | Demand  |          | Recovery |
| Commercia   | l Banks      |                |          |         |          |          |
| 1984-85     | 10483        | 4195           | 40.02    | 8972    | 3110     | 34.66    |
| 1985-86     | 13862        | 6200           | 44.73    | 11187   | 4601     | 41.13    |
| 1986-87     | 15533        | 6896           | 44 40    | 9661    | 4472     | 46 29    |
| 1987-88     | 13800        | 5921           | 42 91    | 10730   | 4617     | 43.03    |
| 1988-89     | 17764        | 7232           | 40 71    | 10124   | 4830     | 47.71    |
| Regional Re | ural Banks   |                |          |         |          |          |
| 1984-85     | 453          | 85             | 18.76    | 2124 63 | 671 4    | 31.60    |
| 1985-86     | 473          | 122            | 25.79    | 2465.4  | 758.1    | 30.75    |
| 1986-87     | 514          | 142            | 27.63    | 2936.63 | 1019     | 34.70    |
| 1987-88     | 577          | 196            | 33 97    | 3988 4  | 1537.4   | 38 55    |
| 1988-89     | 741          | 399            | 53.85    | 4635 7  | 2031 9   | 43 83    |
| Land Devel  | opment Ban   | ks             |          |         |          |          |
| 1984-85     | 18532        | 11432          | 61 69    | 9949    | 7138     | 71.75    |
| 1985-86     | 19728        | 14615          | 74 08    | 12833   | 9650     | 75.20    |
| 1986-87     | 21705        | 14802          | 68.20    | 17296   | 11066    | 63.98    |
| 1987-88     | 21543        | 14890          | 69.12    | 16620   | 10397    | 62.56    |
| 1988-89     | 21229        | 14652          | 69 02    | 23315   | 16137    | 69.21    |
| Primary Ag  | ricultural C | o-operative Ba | anks     |         |          |          |
| 1984-85     | 3623         | 1530           | 42 23    | 3530    | 1930     | 54.67    |
| 1985-86     | 3368         | 1511           | 44 86    | 3562    | 1887     | 52 98    |
| 1986-87     | 3709         | 1534           | 41.36    | 3917    | 3051     | 77 89    |
| 1987-88     | 4087         | 1737           | 42 50    | 4911    | 2687     | 54.71    |
| 1988-89     | 4384         | 1922           | 43 84    | 5217    | 2560     | 49.07    |
| All Banks   |              |                |          |         |          |          |
| 1984-85     | 33091        | 17242          | 52 10    | 24576   | 12850    | 52.29    |
| 1985-86     | 37431        | 22448          | 59 97    | 30047   | 16896    | 56 23    |
| 1986-87     | 41461        | 23374          | 56.38    | 33810   | 18608    | 55.04    |
| 1987-88     | 40007        | 22744          | 56.85    | 36250   | 19239    | 53.07    |
| 1988-89     | 44118        | 24205          | 54.86    | 43291   | 25559    | 59 04    |

22 per cent. In this district also, the amount kept as time deposits accounted for much of the growth. As in Sultanpur, the amount of deposits in RRBs also increased at a faster rate.

The growth of disbursements in district is 19 per cent per annum during the period 1985-86 to 1987-88 (Table 7). On the other hand, the growth of outstanding advances in the selected branches is comparatively less. The total amount of outstanding advances in Sultanpur increased from Rs 213.68 to Rs 302.78 lakh during the period 1984-85 to 1988-89. The amount of outstanding advances increased at annual growth rates of 9 and 18 per cent in Sultanpur and Raebareli respectively. In both the districts, the bulk of the lending is going to the priority sector.

There is no consistent pattern in the recovery of loans by the selected banks in the selected districts. Table 8 reveals that the percentage recovery of total demand in Sultanpur increased (with fluctuations) from 52.29 per cent in 1984-85 to 59.04 per cent in 1988-89. We should term such an increase in recovery as impressive because the total demand itself doubled during this period. Moreover, the adverse political environment did not seem to have much of an impact on the recoveries. This is a positive aspect. Yet another aspect is that the percentage recovery of overdue demand has been increasing steadily, barring the year 1987-88. In contrast, the percentage recovery of current demand had marginally declined. At the macro level, the percentage recovery of loans increased between 1985-86 and 1987-88, though the percentage recovery of loans across various types of banks fluctuated.

Regarding the performance of individual banks, there is no consistent pattern. The recovery performance of commercial banks and RRBs is similar to that of all the selected banks in the district. To put it differently, the percentage recovery of commercial banks and RRBs had improved significantly. The percentage recovery of both overdue and current demand in these banks increased and it is gladdening to note that the percentage increase in the former is relatively high. However, the percentage recovery of total demand in LDBs and PACs had marginally declined during this period. Nevertheless, the percentage recovery of demand in these banks (especially in PLDBs) is much higher as compared to commercial banks and RRBs. A sudden decline in the percentage recovery of total demand in PACs in 1988-89 is probably due to the adverse political. environment (Table 8); this was the loan waived era.

In Raebareli, the recovery percentage was fluctuating during this period. The recovery of total demand in all the selected banks increased by nearly 8 percentage points

between 1984-85 and 1985-86. However, the recovery percentage has been steadily declining since then. This decline was mainly due to a lower recovery of overdue demand (Table 8).

There is no consistent pattern in recovery of loans by various banks. The recovery percentage of total demand in RRBs has consistently increased mainly because of better recovery of overdue demand. The overall trend in percentage recovery of current demand is one of declining. In other banks, the percentage recovery of total demand marginally increased (with fluctuations) during the period 1984-85 to 1988-89. LDBs account for bulk of the total demand in the selected banks and a better recovery of loans in these banks resulted in better percentage recovery of loans in all the selected banks (Table. 8).

Table 9 reveals that the overdue increased in both the districts. The growth is relatively high in Suitanpur. As far as agewise overdue is concerned, the overdue falling in the category of 0-3 years consistently declined in Sultanpur, while those falling in the category of more than six years marginally increased. The percentage of overdue in the age group of three to six years rapidly increased.

In Raebareli, there is no consistent pattern. The percentage of overdue in the category of 0-3 years remained almost the same during this period, while there is an overall decline in the overdue falling in the age group of three to six years. The percentage of overdue in the age group of above six years increased, albeit with fluctuations (Table 9). Thus, while the increase in percentage of old and sticky overdue is significant in Raebareli, it is only marginal in the Sultanpur.

# III Borrowers and Credit Delivery System

For analysis of the credit delivery system, we collected information from 87 borrowers in Sultanpur and 97 in Raebareli on their views on the existing credit delivery system

(Table 10). This information is analysed in the ensuing paragraphs.

The sources of finance are presented in Table 11. In fact the sources show the accessibility of the borrowers to different

TABLE 10: BANKWISE DISTRIBUTION OF LOANS

|               | Sultanp | ur          | Raebareli |             |  |
|---------------|---------|-------------|-----------|-------------|--|
| Type of bank  | Number  | Per<br>Cent | Number    | Per<br>Cent |  |
| Commercial    |         |             |           |             |  |
| banks         | 21      | 24.1        | 25        | 25.8        |  |
| Regional Rura | l       |             |           |             |  |
| banks         | 21      | 24.1        | 24        | 24.7        |  |
| Co-operative  |         |             |           |             |  |
| societies     | 24      | 27.6        | 24        | 24.7        |  |
| Land Developm | nent    |             |           |             |  |
| banks         | 21      | 24.2        | 24        | 24.8        |  |
| Total         | 87      | 100         | 97        | 100         |  |

TABLE 11: SOURCES OF FINANCE FOR CULTIVATION

|                  | Su | ltanpur  | Racbareli |          |
|------------------|----|----------|-----------|----------|
| Source           | No | Per Cent | No        | Per Cent |
| 1) Farm savings  | 18 | 20.7     | 12        | 12.4     |
| 2) Moneylenders  | 10 | 11.5     | 10        | 10.3     |
| 3) Banks         | 10 | 11.5     | 24        | 24.7     |
| 4) Co-operatives | 8  | 92       | 17        | 17.5     |
| 5) 2 and 3       | 8  | 9.2      | 11        | 11.3     |
| 6) 3 and 4       | 27 | 31.0     | 13        | 13.4     |
| 7) 2 and 4       | 5  | 5.7      | 8         | 8.2      |
| 8) All           | 1  | 1.1      | 2         | 2.1      |
| Total            | 87 | 100.0    | 97        | 100.0    |
|                  |    |          |           |          |

TABLE 12: PURPOSEWISE DISTRIBUTION OF LOANS

|                            | Sult        | anpur       | Raebarelı   |             |  |
|----------------------------|-------------|-------------|-------------|-------------|--|
| Purpose                    | Num-<br>ber | Per<br>Cent | Num-<br>ber | Per<br>Cent |  |
| Crop loans<br>Agricultural | 24          | 27.6        | 26          | 26 8        |  |
| allied                     | 21          | 24.1        | 7           | 7.2         |  |
| Non-farm petty             |             |             |             |             |  |
| activities                 | 8           | 9.2         | 4           | 4.1         |  |
| Small business             | 10          | 11.5        | 37          | 38.1        |  |
| Land augmenti              | ng          |             |             |             |  |
| activities                 | 12          | 13.8        | 21          | 21.6        |  |
| Labour saving              |             |             |             |             |  |
| activities                 | 12          | 13.8        | 2           | 2.2         |  |
|                            | 87          | 100.0       | 97          | 100.0       |  |

TABLE 9: AGE STRUCTURE OF TOTAL OVERDUE IN SELECTED BANKS

(Amount in Rs '000s)

| Class     | 0 - 3  | Years    | 3-6    | Years                                  | 6 Years | and above                              | All C  | lasses   |
|-----------|--------|----------|--------|----------------------------------------|---------|----------------------------------------|--------|----------|
| Years     | Amount | Per Cent | Amount | Per Cent                               | Amount  | Per Cent                               | Amount | Per Cent |
| Sultanpur |        |          |        | ······································ |         | ······································ |        |          |
| 1984-85   | 6456   | 47.4     | 5880   | 40.7                                   | 1724    | 11.9                                   | 14460  | 100      |
| 1985-86   | 6401   | 45.4     | 6127.  | 43.4                                   | 1583    | 11.2                                   | 14111  | 100      |
| 1986-87   | 6510   | 35.2     | 9760   | 52.8                                   | 2230    | 12.1                                   | 18500  | 100      |
| 1987-88   | 6980   | 32.8     | 11437  | 53.8                                   | 2841    | 13.4                                   | 21258  | 100      |
| 1988-89   | 6757   | 30.8     | 12192  | 55.5                                   | 3003    | 13.7                                   | 21952  | 100      |
| Raebareli |        |          |        |                                        |         |                                        |        |          |
| 1984-85   | 6429   | 22.6     | 18080  | 63.7                                   | 3884    | 13.7                                   | 28393  | 100      |
| 1985-86   | 8347   | 30.5     | ¥5165  | 55.5                                   | 3826    | 14.0                                   | 27338  | 100      |
| 1986-87   | 11508  | 34 7     | 17598  | 53.1                                   | 4034    | 12.2                                   | 33140  | 100      |
| 1987-88   | 6505   | 21.1     | 19388  | 63.0                                   | 4883    | 15.9                                   | 30776  | 100      |
| 1988-89   | 7689   | 22.2     | 20705  | 59.8                                   | 6252    | 18.0                                   | 34646  | 100      |

credit agencies, which do not have their own savings. The proportion of borrowers who met the cultivation expenses from their own savings is 25 per cent in Sultanpur, while it is only 10 per cent in Raebareli. More than 52 per cent of the borrowers in Sultanpur district borrowed from the banks and cooperatives for cultivation expenses. Around three-fourths of total borrowers in Racbareli obtained loans from banks and co-operatives for meeting cultivation expenses. The proportion of borrowers who obtained loans from money lenders, banks, co-operatives is relatively more in Sultanpur than in Raebareli. However, a majority of borrowers in both the districts depended either on their own savings or banks and co-operatives, but their dependency on money lenders is minimal.

The proportion of loans from credit agencies across districts for doftcrent purposes varies. People mainly borrowed from institutional credit agencies loans for crops followed by other agriculture and allied activities. For small business activities the number of loans in Raebareli is higher than in Sultanpur (Table 12).

To cross check the opinion of bankers on the credit delivery system, we have collected information from borrowers in both the selected districts. Most borrowers in both the districts expressed satisfaction in the credit delivery system. Nevertheless, 40 and 32 per cent of the sample borrowers in Sultanpur and Raebareli, respectively, faced one problem or the other.

With a rapid expansion of the branch network not many sample borrowers have problems regarding distant location and lack of previous experience. More importantly, a significant proportion of the borrowers in the Sultanpur district felt that bank procedures are complicated. About one-tenth of the sample households in the selected districts felt that the attitude of the banking staff towards them is indifferent. However, these problems are less here than in other parts of India, where more than 51 per cent of borrowers experienced problems due to complicated procedures and the attitude of the bank staff [Institute of Social and Economic Change 1991].

A distribution of the total loans obtained by the sample borrowers is presented in Table 14 About 70 per cent of the loans in Sultanpur are disbursed within 15 days. About 23 per cent of the loans took 15 to 30 days to get sanctioned. Only 7 per cent of the loans are delayed beyond one month to get sanctioned. In contrast, the problems of delays in the sanctioning of loans are relatively widespread in Raebareli. Only 57 per cent of the loans are disbursed within 15 days. As many as 17 per cent of the loans took more than one month time to get sanctioned. Thus, the problem of delays in

the sanctioning of loans seems to be much more acute in Raebareli district as compared to Sultanpur. In other districts loan sanction is delayed much more to this.

A significant proportion of the borrowers in Raebareli also faced the problem of inadequate loans. As many as 33 per cent of the borrowers in this district stated that loan amounts are inadequate. In contrast, only 14 per cent of the sample households in Sultanpur district received madequate loan amounts. This is further corroborated by Table 12 which provides a distribution of loans on the basis of percentage shortage in the amount received to the amount needed. In the case of 70 per cent of the loans in Sultanpur, there was no shortage. The percentage of loans sanctioned without any shortage is less in Raebareli. There was a shortage of 25 to 50 per cent in the case of 20 per cent of the loans in Raebareli. The corresponding proportion in the pilot district is only 6 per cent. Thus, a significant proportion of the loans in the control district fell well short of amount needed. About 30 per cent of the loans in the Sultanpur district also fell short of the amount needed - but the percentage of shortage is insignificant.

The evidence on number of visits paid to credit agencies and the number of days spent by the borrowers to get a loan is presented in Tables 13 to 15. On an average,

TABLE 15: AVERAGE NUMBER OF VISITS AND AVERAGE NUMBER OF DAYS TAKEN TO GET LOAN SANCTIONED BY TYPE OF CREDIT AGENCIES

|                | Sult | anpur | Racbareli |      |
|----------------|------|-------|-----------|------|
| Type of Bank   | ANVP | ANDS  | ANVP      | ANDS |
| Commercial     |      |       |           |      |
| banks          | 2    | 10    | 4         | 28   |
| Regional rural |      |       |           |      |
| banks          | 3    | 12    | 3         | 49   |
| PACS           | 3    | 28    | 2         | 8    |
| Land developme | nt   |       |           |      |
| banks          | 3    | 9     | 5         | 33   |
| Total          | 3    | 15    | 4         | 28   |

TABLE 16: AVFRAGE NUMBER OF VISITS AND AVERAGE NUMBER OF DAYS TAKEN TO GETS THE LOAN SANCTIONED BY TYPE OF LOAN

|                   | Sult | anpur | Racbareli |       |  |
|-------------------|------|-------|-----------|-------|--|
| Type of Loan      | ANVP | TTGLS | ANVP      | TTGLS |  |
| Crop loans        | 3    | 27    | 3         | 11    |  |
| Allied agricultur | al   |       |           |       |  |
| activities        | 3    | 8     | 3         | 30    |  |
| Non-farm petty    |      |       |           |       |  |
| activities        | 2    | 10    | 5         | 54    |  |
| Small business    | 2    | 7     | 4         | 32    |  |
| Land augmentin    | g    |       |           |       |  |
| activities        | 3    | 11    | 6         | 39    |  |
| Labour saving     |      |       |           |       |  |
| activities        | 3    | 16    | 4         | 20    |  |
| Others            | }    | 5     | 3         | 23    |  |
| Total             | 3    | 15    | 4         | 28    |  |

TABLE 13. PROBLEMS FACED BY THE BORROWERS

(In per cent)

|                                   | Sultanpur |      |       | Raebareli |                                       |                                         |
|-----------------------------------|-----------|------|-------|-----------|---------------------------------------|-----------------------------------------|
| Problems                          | Yes       | No   | Total | Yes       | No                                    | Total                                   |
| While obtaining the loan          |           |      |       |           | · · · · · · · · · · · · · · · · · · · | *************************************** |
| Complicated procedures            | 30.9      | 69.1 | 100   | 17.3      | 82 7                                  | 100                                     |
| Distant location of the bank      | 11.1      | 88 9 | 100   | 49        | 95 1                                  | 100                                     |
| No previous experience            | 4.9       | 95.1 | 100   | 136       | 86 4                                  | 100                                     |
| Indifferent attitude of the staff | 99        | 90.1 | 100   | 8.6       | 914                                   | 100                                     |
| After obtaining the loan          |           |      |       |           |                                       |                                         |
| Inadequate loan                   | 13.6      | 86.4 | 100   | 33.3      | 66.7                                  | 100                                     |
| Did officials provide the linkage | 28 4      | 716  | 100   | 19.8      | 80.2                                  | 100                                     |

Note: Total number of loans - Sultanpur: 87, Raebarel: 97.

TABLE 14: TIME SPENT TO GET A LOAN SANCTIONED

| Size Class                 |      | Days Spent to Get a Loan Sanctioned |         |              |          |  |  |  |  |  |
|----------------------------|------|-------------------------------------|---------|--------------|----------|--|--|--|--|--|
| of the Operated<br>Holding | 0 15 | 15 - 30                             | 30 - 60 | 60 and above | Total    |  |  |  |  |  |
| Sultanpur                  |      |                                     |         |              |          |  |  |  |  |  |
| Below 2.5                  | 70   | 30                                  | 0       | 0            | 100 (27) |  |  |  |  |  |
| 2.5 - 5 0                  | 68   | 16                                  | 1 i     | 5            | 100 (19) |  |  |  |  |  |
| 5 0 - 25.0                 | 65   | 30                                  | 3       | 3            | 100 (37) |  |  |  |  |  |
| 25 and above               | 50   | 25                                  | 25      | 0            | 100 (4)  |  |  |  |  |  |
| All classes                | 67   | 26                                  | 5       | 2            | 100      |  |  |  |  |  |
|                            | (58) | (23)                                | (4)     | (2)          | (87)     |  |  |  |  |  |
| Raebareli                  | , ,  | . ,                                 |         |              |          |  |  |  |  |  |
| Below 2.5                  | 60   | 28                                  | 5       | 7            | 100 (40) |  |  |  |  |  |
| 2.5 - 5.0                  | 48   | 30                                  | 13      | 9            | 100 (23) |  |  |  |  |  |
| 5 0 - 25.0                 | 62   | 24                                  | 10      | 4            | 100 (29) |  |  |  |  |  |
| 25 and above               | 40   | O                                   | 0       | 60           | 100 (5)  |  |  |  |  |  |
| All classes                | 57   | 26                                  | 8       | 9            | 100      |  |  |  |  |  |
|                            | (55) | (25)                                | (8)     | (9)          | (97)     |  |  |  |  |  |

Note: Figures in brackets indicate the number of loans.

borrowers in Sultanpur paid three visits and spent 15 days to get a loan sanctioned. The corresponding figures are four and 28 in Raebareli. This variation is due to political power existing at that time. It has been evidenced that banking activities in the Sultanpur district have been simplified and consequently, borrowers would spend lesser time in obtaining a loan. State intervention through its development agencies as promoters in providing loans contibuted in reduction visits and delay in loan sanction.

Evidence on the number of visits and time taken to get a loan sanctioned according to type of loan is presented in Table 16. Surprisingly, crop loans in Sultanpur takes relatively more time to be granted. On the other hand, loans for non-farm petty activities such as shoe-making and so on, take as many as 54 days in Raebareli. Given the fact that these loans are generally meant for the poor, it can be concluded that the poor seem to be spending more time in obtaining a loan in Raebareli.

The efficient function of credit agencies depends on the infrastructure it has at the functioning level. Hence some of the related indicators to manpower and machinery were analysed. Normally the field officer is the person who plays major role in sanctioning of loans. To function efficiently one field officer is appointed for 750 borrowers. Comparing between two districts we see the variation in coverage of borrower by field officer across the district. In Sultanpur district, most of the selected banks in the district have a field officer per 750 borrowers. On the other hand, the field officers in Raebareli were supervising, on an average, more than 750 borrowers and in other districts a field officer supervise more than 1,500 borrower [Vyasulu and Rajasekhar 1995]. The lower burden of work on the field officer indirectly contributes to the effective delivery of credit, as the field officer can clear files quickly (see Table 17 and Table 18).

The field level staff is required to undertake field visits at fixed intervals normally. The field officers are spending, on an average, 11 days in a month on field visits, while their counterparts in Raebareli spend nine days. The difference between the expected and actual number of visits is only marginal in both the districts. Field officers from commercial banks spend fever days than those from rural-based institutions such as RRBs and PACs in visiting borrowers (Table 19).

Almost all the field officers from the selected banks visit borrowers in both the districts. In the Sultanpur districts, all the field officers (excepting those from LDBs as they do not lend short-term loans) visited the borrowers before sanctioning short-term loans. On verification, we found that the field officers would not visit the borrowers

in case of crop loans. Regarding visits before sanctioning the long-term loans, all the field officers (excepting those from PACs because they do not lend long-term loans) visited the borrowers (Table 20) The proportion of field officers visiting borrowers after sanctioning the loan is 100 per cent.

The branch managers from both the districts face the problem of inadequate field level staff; the percentage of branch managers facing this problem is 24 and 64 in Sultanpur

TABLE 17: COVERAGE OF FIELD OFFICERS IN THE DISTRICTS

|           | Villag | es Per Field ( | Officer | Borrowers Per Field Officer |      |      |  |
|-----------|--------|----------------|---------|-----------------------------|------|------|--|
| Districts | A      | В              | T       | A                           | В    | T    |  |
| Sultanpur | 75     | 165            | 128     | 826                         | 1067 | 967  |  |
| Raebareli | 28     | 109            | 65      | 1310                        | 940  | 1120 |  |

A = Group A banks; B = Group B banks; T = All the banks.

TABLE 18: DISTRIBUTION OF FIELD OFFICERS BY NUMBER OF BORROWERS

| Size Class <u>Sultanpur</u> |     |      |      |      |       | Raebareli |      |      |      |       |  |  |
|-----------------------------|-----|------|------|------|-------|-----------|------|------|------|-------|--|--|
| of Borrower                 | CBs | RRBs | LDBs | PACS | Total | CBs       | RRBs | LDBs | PACS | Total |  |  |
| 0-500                       | 4   | 2    | 2    | 3    | 11    | 2         | 1    | 1    | 4    | 8     |  |  |
| 500-750                     | 3   | 3    | 0    | 3    | 9     | 3         | 2    | 2    | 2    | 9     |  |  |
| 750-1000                    | 2   | 2    | 0    | 1    | 5     | 1         | 2    | 0    | 3    | 6     |  |  |
| 1000-1500                   | 3   | 2    | 1    | 1    | 7     | 2         | 2    | 0    | 0    | 4     |  |  |
| 1500 and                    | 1   | 0    | 0    | 0    | 1     | 2         | 1    | 0    | 1    | 4     |  |  |
| Total                       | 13  | 9    | 3    | 8    | 33    | 10        | 8    | 3 •  | 10   | 31    |  |  |

TABLE 19: AVERAGE NUMBER OF VISITS BY FIELD OFFICERS IN DISTRICTS

|                  | Average Number of Visits Per Field Officer |      |      |      |       |  |  |  |  |
|------------------|--------------------------------------------|------|------|------|-------|--|--|--|--|
|                  | CBs                                        | RRBs | LDBs | PACs | Total |  |  |  |  |
| Sultanpur        |                                            |      |      |      |       |  |  |  |  |
| Expected         | 15                                         | 15   | 16   | 16   | 16    |  |  |  |  |
| Actual           | 10                                         | 10   | 12   | 13   | 11    |  |  |  |  |
| Difference (E-A) | 5                                          | 5    | 4    | 3    | 5     |  |  |  |  |
| Raebareli        |                                            |      |      |      |       |  |  |  |  |
| Expected         | 14                                         | 13   | 16   | 22   | 16    |  |  |  |  |
| Actual           | 7                                          | 9    | 14   | 13   | 11    |  |  |  |  |
| Difference (E-A) | 7                                          | 5    | 2    | 9    | 5     |  |  |  |  |

TABLE 20: DETAILS OF FIELD VISITS BY FIELD OFFICERS

|                      |            |     | S    | ultanpu | r    |       | Racbareli |      |      |      |       |
|----------------------|------------|-----|------|---------|------|-------|-----------|------|------|------|-------|
| Variable             |            | CBs | RRBs | LDBs    | PACs | Total | CBs       | RRBs | LDBs | PACS | Total |
| Visits before        | ) Yes      | 9   | 11   | 0       | 8    | 28    | 6         | 8    | 0    | 7    | 21    |
| sanctioning the      | No         | 0   | 0    | 0       | -    | 0     | 0         | 2    | 0    | 0    | 2     |
| short-term loan      | Irrelevani | t O | 0    | 20      | 0    | 20    | 0         | 0    | 11   | 0    | 11    |
| Visits before        | Yes        | 8   | 9    | 18      | 1    | 36    | 5         | 10   | 10   | 6    | 31    |
| sanctioning the      | No         | 1   | 2    | 2       | 0    | 5     | 1         | 0    | 1    | 1    | 3     |
| long-term loan       | Irrelevan  | t O | 0    | 0       | 7    | 7     | 0         | 0    | 0    | 0    | 0     |
| Visits after         | ) Yes      | 9   | 11   | 20      | 8    | 48    | 6         | 10   | 9    | 7    | 32    |
| sanctioning the loan | No         | 0   | 0    | 0       | 0    | 0     | 0         | 0    | 2    | 0    | 2     |

Table 21: Branch Managers' Statement on Visits and Adequacy of Field Staff

|                                        |       |     | Sultanpu | r District |       | Raebareili District |      |      |       |  |
|----------------------------------------|-------|-----|----------|------------|-------|---------------------|------|------|-------|--|
|                                        |       | CBs | LDBs     | RRBs       | Total | CBs                 | LDBs | RRBs | Total |  |
| Do you visit                           | ) Yes | 13  | 6        | 9          | 28    | 9                   | 3    | 9    | 21    |  |
| borrowers?                             | No    | 0   | 0        | 0          | 0     | 3                   | 1    | 1    | 5     |  |
| Average No of da<br>spent on visits to |       |     |          |            |       |                     |      |      |       |  |
| borrowers                              |       | 5   | 7        | 9          | 6     | 4                   | 5    | 7    | 5     |  |
| Adequate                               | ) Yes | 8   | 6        | 9          | 23    | 2                   | 2    | 4    | 8     |  |
| field staff                            | No    | 5   | -        | -          | 5     | 10                  | 2    | 6    | 18    |  |
| Adequate                               | Yes   | 9   | 4        | 8          | 21    | 4                   | 2    | 5    | 11    |  |
| infrastructure                         | No    | 4   | 2        | 1          | 7     | 8                   | 1    | 5    | 14    |  |

and Raebareli, respectively. A majority of the branch managers facing this problem come from commercial banks and this is consistent with our earlier finding. They also face problems regarding infrastructural facilities. In the absence of adequate infrastructure, a significant proportion of branch managers in both the districts face difficulties in fixing the visits for field officers. These problems compelled 40 per cent of the branch managers in Sultanpur to state that the pilot project brought in additional work (Table 21).

Transport seems to be an important problem for a majority of the field officers in the pilot district. As many as 27 per cent of the total field officers are not provided with the transport and the bulk of them are from the PACs. Only 14.8 per cent of the total field officers in Raebareli are not provided with the transport. A majority of the field officers in both the districts are provided with jeep or motor cycle or both. A majority of the field officers at times share their vehicles with other staff members and such sharing causes inconvenience to most of the field officers from the pilot district. Another disturbing feature is that the maintenance allowance is provided to only a few of the field officers and they do not consider it to be adequate. On the other hand, a majority of the field officers in Raebareli are provided with maintenance allowance and all of them consider it to be adequate.

A majority of the field officers in both the districts face problem due to borrowers' indifference. It is not surprising that the field officers in Raebareli district face this problem. But, what is surprising is a majority of the field officers in Sultanpur face this problem as also that of transport. In Raebareli, the proportion of field officers facing the problem of inadequate transport is relatively less. The proportion of field officers who opined that the maintenance allowance is inadequate is significant in both the districts. Nearly two-thirds of the total field officers in Raebareli district face problems of periodical desk work and government scheme loans.

#### IV Conclusions

The analysis supports the hypotheses that the politically represented district will have better service compared to other. And further it corroborates the argument once the political power reduced the development of the activities also slows down. Another aspect quality of delivery of credit, such as timely and adequate is correlated with the existing political power in that constituency. In spite of the problems at credit agency level, Sultanpur district seems to have better credit delivery system. Although field officers complained that the borrowers are indifferent (and vice versa), the bank-borrower relations seem to have improved. The activities of

granting loans seems to have brought more borrowers' confidence. Most of the borrowers seem to be receiving adequate loans. Thus, as far as the qualitative improvement of credit delivery system is concerned, Sultanpur district seems to have a better position.

In Sultanpur district the recovery of loans.

In Sultanpur district, the recovery of loans has been good, in spite of the adverse political environment prevailing all over the country. Our comparison of the credit delivery system in Sultanpur and the Raebareli district, Racbareli, reveals that the latter did as well or better than the Sultanpur district. This intriguing phenomenon may be explained with the help of the following factors. Firstly. for a long time, Raebareli, being a VIP parliamentary constituency, had political patronage. In other words, the banking system in this district enjoyed (and is enjoying) all the benefits. Secondly, the infrastructural facilities, and the persons manning them. function in Raebareli in an above average manner. Hence, it is not surprising that Raebareli's performance is as good as Sultanour's, though the former is not having a compared VIP person. But, overall, ever in this comparison, we have seen that Sultanpur is in a better position.

#### Appendix: Note on Methodology

To collect information on rural creditelivery system, the districts were divided into two areas — one that is relatively well-off in economic terms and one that is relatively poor. In general, this corresponded to areas with higher and lower levels of banking activity.

In the well-off area of the district, sip branches of each type of institution were selected and surveyed. This will total to 24 branches. In the poorer area of the district three branches of each type of institution were selected and surveyed. This totalled to 12. Thus, in a district, information wa collected from 36 bank branches representing both category 'A' and category 'B institutions.

Detailed information was collected from the credit agencies, to note the strength and weakness of credit agencies at functioning levels. The details collected were, the type of loans given by each bank, along witl other details such as age structure of defaults were obtained. From the well-off part of the district, one branch from each credit agencwas selected. From these branches, there was a scrutiny of 160 cases in each branch including 60 who had repaid loans on tim and 100 who were defaulters. In the sam way, four branches were selected in the poo area and there will be a scrutiny of 80 case including 20 who have repaid loans on time Thus, in each district, there was a scrutin of 720 loans distributed across differer

TABLE 22: DETAILS OF TRANSPORT PROVIDED TO FIELD OFFICERS

|                   |   |     |     |      | Sultan | pur  | Raebareli |     |      |      |      |       |
|-------------------|---|-----|-----|------|--------|------|-----------|-----|------|------|------|-------|
| Variable          |   |     | CBs | RRBs | s LDBs | PACs | Total     | CBs | RRBs | LDBs | PACS | Total |
| Provision of      | 1 | Yes | 8   | 9    | 11     | 2    | 30        | 5   | 7    | 11   | 3    | 26    |
| transport         | j | No  | 1   | 2    | 9      | 6    | 18        | i   | 3    | 0    | 4    | 8     |
| Mode of transport |   |     |     |      |        |      |           |     |      |      |      |       |
| MC                |   |     | 4   | 5    | 3      | 0    | 12        | 3   | 4    | 0    | 0    | 7     |
| Jeep              |   |     | 0   | 0    | 3      | 0    | 3         | 0   | 0    | 9    | 0    | 9     |
| Both              |   |     | 4   | 0    | 0      | 0    | 4         | 2   | 0    | 2    | i    | 5     |
| Cycle             |   |     | 0   | 4    | 5      | 2    | 11        | 0   | 3    | 0    | . 2  | 5     |
| Not provided      |   |     | 1   | 2    | 9      | 6    | 18        | i   | 3    | 0    | 4    | 8     |

TABLE 23: PROBLEMS ENCOUNTERED BY THE FIELD OFFICERS IN FIELD

|                                                                 |     |    | S  | ulta | unpi | ır D | istric | t  |    |      |    |    |            | Ra  | ebar | eli D      | ustric | t  |    |      |
|-----------------------------------------------------------------|-----|----|----|------|------|------|--------|----|----|------|----|----|------------|-----|------|------------|--------|----|----|------|
|                                                                 | CE  | Bs | RF | RBs  | LI   | )Bs  | PA     | Cs | T  | otal | C  | Bs | R          | RBs | LI   | <b>DBs</b> | PA     | CS | To | otal |
| Problems                                                        | Ā   | В  | Ā  | В    | Ā    | В    | A      | B  | Ā  | B    | Ā  | В  | A          | В   | A    | В          | A      | В  | Ā  | В    |
| Inadequate<br>transport<br>Inadequate<br>vehicle<br>maintenance | 33  | 9  | 45 | 11   | 80   | 20   | 100    | 8  | 67 | 48   | 50 | 6  | 80         | 10  | 45   | 11         | 29     | 7  | 53 | 34   |
| allowance<br>Government                                         | 56  | 9  | 55 | 11   | 35   | 20   | 13     | 8  | 40 | 48   | 50 | 6  | <b>6</b> 0 | 10  | 73   | 11         | 29     | 7  | 56 | 34   |
| scheme loans<br>Borrowers'                                      | 78  | 9  | 36 | 11   | 30   | 20   | 25     | 8  | 40 | 48   | 50 | 6  | 60         | 10  | 73   | 11         | 43     | 7  | 59 | 34   |
| indifference<br>Periodical                                      | 56  | 9  | 36 | 11   | 40   | 20   | 88     | 8  | 50 | 48   | 33 | 6  | 60         | 10  | 18   | 11         | 43     | 7  | 38 | 34   |
| desk work                                                       | 100 | 9  | 73 | 11   | 35   | 20   | 100    | 8  | 67 | 48   | 67 | 6  | 60         | 10  | 45   | 11         | 43     | 7  | 53 | 34   |

A = Percentage of field officers saying yes; B = Number of field officers.

representing majortypes of loans, combining both the district the information collected total loans are 1,440.

An effort was made to divide defaulters, based on the judgments of the field officer, into those who are wilful defaulters and those who default for reasons beyond their control. From the 720 households in each district, 87 and 98 samples were selected through purpose random sampling method, though we planned to collect 100 from each for primary survey and household questionnaires were administered to them.

#### **Notes**

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- 1 In India, the commercial banking sector is dominated by the public sector banks. They control 90 per cent of both deposits and advances.
- 2 Veerashekharappa, 'Patter and Utilisation of Farm Finance, A Micro Level Study Focusing

Department of Economics, Osmania University, Hyderabad, in this dissertation, very well documented how the political intervention has helped to get loan from RRBs and Co-operative institutions.

- 3 Social Services Management Unit, 'Strengthening the Credit Delivery System', Institute for Social and Economic Change, Bangalore.
- 4 This district, because of VIP representation a host of programmes have been implemented, viz,
  - Agriculture extension programme (T and V), under this programme good efforts were made in extension of agriculture technology
  - The special rice production programme
  - The special tood production programme.
  - Incentive to industry under the "No Industry"
  - Project on strengthening rural credit
- 5 The development activities in these district are different from others, a couple of programmes in these districts were monitored by the prime minister's office, during their representation.
- 6 It has been assumed that the pull factor is determined by the market forces whereas the push factor in determined by the force of the state. For example, the pull factor contributes to the opening branches in metropolitan area whereas the push factor contributes to the opening of branch in

7 The number of branches:

......

|               | 1969  | 1994   |
|---------------|-------|--------|
| Uttar Pradesh | 747   | 8,700  |
| All India     | 8,262 | 61,750 |

- 8 Population reduced from 1,19,000 to 13,000 per branch in UP.
- 9 This conclusion is out come of the discussion with administrators bankers and borrowers during the survey period
- 10 The discussion with LBOs and other officials are revealed that there was lot of pressure on the official in speeding up opening of the branches and extending credit.

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# Agriculture in Future: Demand-Supply Perspective for the Ninth Five-Year Plan

#### Praduman Kumar V C Mathur

This paper provides information on demand for agricultural commodities and suggests the required stell growth in Ninth and Tenth Five-Year Plans. The study identifies the regions which must be explored to meet domestic and exports needs.

THE introduction and rapid spread of highhelding varieties in the late 1960s and early 1970s resulted in a steady output growth for oodgrains Public investment in nfrastructure, research and extension along with crop production strategy has ignificantly helped to expand foodgrain production and stocks Foodgrain production. which was 72 million tonnes (mt) in 1965-56, rose to 191 mt in 1995-96 Buffer stocks, which were just 2 2 mt in 1965-66, rose to 31 mt in 1995. However, the current concern is that the earliest gains from the green revolution have already been reaped and future growth in production can only be input based in many regions of the country Also the growth in total factor productivity is declining Urbanisation higher economic growth as well as streable additions to population will increase the food demand in future Diversified food basket is exhibited both in rural and urban areas with significantly higher levels of per capita consumption of milk and milk products, truits and vegetables, and meat [Kumar 1996] Agricultural trade liberalisation may attract greater investments in agriculture and thereby accelerate the growth process. These emerging scenarios will change the supply and demand prospects for food in the next century The present paper provides information on the demand for agricultural commodities in Ninth and Tenth Five Year Plans (FYP) and suggests the supply policies to attain the food security

## Demand Projections

A number of demand models are available tor estimating the income and price elasticities of demand for a commodity Recent demand studies are centred around complete demand systems which take into account mutual interdependence of a large number of commodities in the budget decisions of the consumer. The important models which have received considerable attention are the linear expenditure demand system (LEDS) [Stone 1954], and almost ideal demand system (AIDS) [Deaton and Muelibauer 1980]. These models are

generally used for estimating demand equations for a group of commodities and not for commodities at a disaggregate level Also these models do not allow increasing or decreasing income elasticities. The normalised quadratic demand system (NQDS), generalised Leontief demand system (GLDS) and transcendental logarithmic demand system (ILDS) suggested by Swainy and Binswanger (1983) are the models which satisfy all general restrictions of demand theory and also allow for estimation of cross-price elasticities within a group of close substitutes or complements, and do not assume additivity These models also include linear and squared income terms which allow more flexibility in the response of consumer items to changes in income In contrast to econometric models Bouis (forthcoming) suggested a non econometric model based on demand characteristics known as food characteristic demand system (FCDS) This model is based on demand for energy, variety, and tastes

The expenditure (income) and caloric elasticities based on FCDS, TLDS NQDS and LEDS were compared so that realistic view of demand forecast can be assessed (Table 1). The rice income elasticities are high, followed by wheat and coarse grains. The cheapest source of calories has the lowest income elasticities. The caloric elasticity was the lowest derived from demand parameters of FCDS (0.12) tollowed by LEDS (0.42.0.46), NQDS (0.49-0.53) and highest in case of TLDS (0.51-0.60).

Behrman and Deolalikar (1989) have presented empirical evidence for Indian population to show that calone income elasticities were not statistically significantly different from zero. Thus one can believe that the demand elasticities obtained from FCDS can give most reliable demand projections for foodgrains and other food commodities.

Demand elasticities vary widely across income groups and by regions as production environments and tastes change [see Alderman 1986 for a review | The elasticities computed for various expenditure groups1 tor each region2 for rural and urban areas using FCDS [Kumar et al 1996] are used to arrive at the demand projections for each commodity As seen in Appendix 1 the expenditure and price elasticities are in accordance with a priori expectations. The expenditure elasticities decline with the increase in total expenditure. The expenditure elasticities for cereals were highly inelastic Own price elasticities for all the commodities are negative. Across commodities and expenditure groups the magnitude of own price elasticities are highly correlated with the income elasticities. The magnitude of elasticities follow the historical trends in percapita consumption pattern as observed in the NSS data

The demand projections of our study assume income growth of 5 per cent per year gradual decline in population growth, with an average annual growth of 1 91 per cent between 1995 and 2000 and 1 8 per cent between 2000 and 2010 tate of urbanisation

Table 1 Comparison of Expenditure (Income) and Calorie Leastichies Using Different Models of Demand for Rural and Urban India

|                          |       | R     | ural |      | Urban |             |      |      |  |
|--------------------------|-------|-------|------|------|-------|-------------|------|------|--|
|                          | LEDS  | TLDS  | NQDS | FCD5 | LĒDS  | <b>FLDS</b> | NQDS | TCDS |  |
| Rice                     | 0 45  | 071   | 0 57 | 0 06 | 0 22  | 0 46        | 0 42 | 0 02 |  |
| Wheat                    | 0 44  | 0 63  | 0.55 | 0.06 | 0 25  | 0.30        | 0 32 | 0 08 |  |
| Coarse cereal            | 0 0 3 | -0 55 | 0 09 | 0.15 | 0 26  | 1 62        | 1.05 | 0 16 |  |
| Other food               | 0 89  | 0 99  | 0 76 | 0.50 | 0 84  | 0.98        | 0.88 | 0 40 |  |
| Non foods Aggregate food | 1 60  | 2 63  | 1 43 | 2 25 | 1 51  | 2 57        | 1 36 | 1 87 |  |
| income elasticity        | 0 72  | 0 80  | 0.65 | 0 29 | 0 73  | 0 80        | 0 73 | 0 28 |  |
| Calone-income elasticity | 0 46  | 0 60  | 0 53 | 0 12 | 0 42  | 0.51        | 0 49 | 0 12 |  |

Note Other food includes all foods other than cereals

consistent with the recent historical trend,. and inequality in the distribution of expenditures across income groups the same as observed in the past. The share of rural population in total population was 74.3 per cent in 1991 which was predicted to be 73.4 per cent in 1995, 72.3 per cent in 2000 and 69.9 per cent in 2010. Distribution of population by expenditure groups given in Appendix 2 revealed that the rural poverty ratio (the sum of population proportion of lower two expenditure groups) declined from 48 per cent in 1987 to 33 per cent in 2000 and 21 per cent in 2010 and urban poverty ratio from 29 per cent in 1987 to 16 per cent in 2000 and 8 per cent in 2010. It is clear that in the long run, food consumption will largely be influenced by the non-poor groups in the rural and the non-poor higher groups in urban areas. Significantly, in 2010 food consumption will be determined by the nonpoor higher groups in both rural and urban areas which account for half of the rural and three-fourths of the urban population, respectively

#### DOMESTIC DEMAND FOR FOODGRAINS

Several studies done in the past provide the demand projections for foodgrains in the year 2000 (Table 2). Among the most recent ones, the demand estimates given by Radhakrishna and Ravi (1990) are on higher side as they use high expenditure elasticities. Similarly, projections by Sarma and Gandhi (1990) are on the higher side because of double counting in estimation of wastage and livestock feeding<sup>1</sup>. Bansil (1996) projected the demand for foodgrains at 198 mt in 2000 which is on the lower side. This study is based on the incremental approach, providing additional requirements for household and non-household demand over the base year's production of foodgrains. It does not account for regional variations in consumption pattern and changes in income distribution. Rosegrant et al (1995) provided food projections for IFPRI's 2020 vision based on the International Model for Policy Analysis of Agricultural Commodities and Trade (IMPACT). The demand for rice and coarse cereals is on the higher side and demand for wheat is on the lower side in this study as the model does not account for regional variations in consumption pattern and the changes in income distribution. It uses demand supply elasticities and technical coefficients synthesised from other sources, primarily from past studies. The results are not the true reflection of ground realities. The demand projections based on FCDS [Kumar et al op cit] are close to reality as these projections account for regional variations in consumption pattern and changes in income distribution besides taking into account the energy requirements and changes in tastes and preferences of consumers for food varieties.

According to our estimates, the household demand of foodgrains will reach 186 mt in the year 2001-02 with a break-up of about

83 mt of rice, 64 mt of wheat, 23 mt of coarse grains, and 16 mt of pulses (Table 3). By the year 2006-07, foodgrains demand will grow to 205 mt with a breakup of about 91 mt for rice, 71 mt for wheat, 24 mt for coarse

Table 2: Comparison of Studies for Demand Projections for Foodgrains in 2000 (Million tonnes)

| Studies                                          |                |       |                   | Human Demand     | Domestic Demand  |
|--------------------------------------------------|----------------|-------|-------------------|------------------|------------------|
| National Commission o                            | n Agriculture, | 1976  |                   |                  | 205 - 225        |
| World Bank, 1981                                 | •              |       |                   |                  | 191 - 205        |
| IFPR1 study, 1984                                |                |       |                   |                  | 210              |
| Planning Commission, I                           | 985            |       |                   |                  | 240              |
| Radhakrishna and Ravi                            | 1990           |       |                   | 205 <sup>b</sup> | 234 <sup>e</sup> |
| Sarma and Gandia,                                |                |       |                   | 176ª             | 220°             |
| 1FPRI 1990                                       |                |       |                   | 183 <sup>b</sup> | 227٠             |
| P C Bansil, 1996                                 |                |       |                   |                  | 198 <sup>d</sup> |
| Praduman Kumar, 1996                             |                |       |                   | 182h             | 209°             |
| IARI -IFPRI study                                |                |       |                   |                  | 205°             |
| Mark W Rosegrant et al<br>IFPRI 2020 Vision stud | •              |       |                   |                  | IARI-IFPRI study |
| Foodgrains                                       | 1990           | 2020  | 2000 <sup>r</sup> | •                | 2000             |
| Rice                                             | 74.8           | 144 8 | 93.0              |                  | 88.2             |
| Wheat                                            | 47.9           | 95.6  | 50.1              |                  | 71.1             |
| Coarse cereals                                   | 36.4           | 63.9  | 43 9              |                  | 32.3             |
| Total cereals                                    | 159.1          | 304.3 | 197.0             |                  | 191.6            |
| Pulses                                           |                | -     | 17.88             |                  | 17.8             |
| Total Foodgrains                                 |                | -     | 214.8             |                  | 209 4            |

- Notes: a Without change in income distribution.
  - b With change in income distribution.
  - c Projected the requirements for seed, feed, industrial use and wastage. Feed demand is computed using the feeding ratio (that is, the quantity of feed required to produce one unit of livestock products).
  - d Using incremental demand model by providing additional requirement for household and non-household over the base year demand.
  - e Using a grossing factor of 1.143 to account for non-household demand
  - f Interpolated for the year 2000.
  - g As the demand projection for pulses was not available in the study, the pulse demand projections of IARI-IFPRI study are used to arrive at the foodgrain demand for comparison purpose.

TABLE 3: DOMESTIC DEMAND FOR FOODGRAINS 'N INDIA

(Million tonnes)

| Items            | 1991-92     | 1996-97 | 2000-01 | 2001-02 | 2006-07 |
|------------------|-------------|---------|---------|---------|---------|
|                  | (Base Year) |         |         |         |         |
| Plan End         | VII         | VIII    | . –     | ΙX      | x       |
| Household Demand |             |         |         |         |         |
| Rice             | 67 1        | 75.0    | 81.5    | 83.0    | 91.3    |
| Wheat            | 50.8        | 57.1    | 62.5    | 63.7    | 70.9    |
| Coarse cereals   | 20.3        | 21.6    | 22 7    | 22.9    | 24 2    |
| Total cereals    | 138.2       | 153.7   | 166 7   | 169.6   | 186.4   |
| Pulses           | 11.7        | 13.9    | 15.6    | 16.1    | 188     |
| Foodgrains       | 149.9       | 167.6   | 182.3   | 185.7   | 205.2   |
| Domestic Demanda |             |         |         |         |         |
| Rice             | 72.6        | 81.2    | 88.2    | 89.8    | 98.8    |
| Wheat            | 57.8        | 65.0    | 71.1    | 72.5    | 80.7    |
| Coarse cereals   | 28.9        | 30.7    | 32.3    | 32.6    | 34.4    |
| Total cereals    | 158.0       | 175.7   | 191.6   | 194 9   | 213.1   |
| Pulses           | 13.4        | 15.9    | 17.8    | 18.4    | 21.5    |
| Foodgrains       | 171.3       | 191.6   | 209.4   | 213.3   | 234.5   |

a Domestic demand = Household (human) demand plus allowances for seed, feed and wastage which is taken as 7.6 per cent of gross rice production, 12.1 per cent of wheat, 29.7 per cent of coarse cereals, 12.5 per cent of total cereals, 12.5 per cent of pulses, and 12.5 per cent of foodgrains. Thus the grossing factor used is 1.082 for rice, 1.138 for wheat, 1.422 for coarse cereals, and 1.143 for total cereals, pulses and total foodgrains to account for non-household demand.

cereals and 19 mt for pulses. Apart from the foodgrain demand for direct human consumption, an increasingly important component is the indirect demand for livestock consumption.4 Increasing demand for livestock products (milk, meat and eggs) will drive up demand (including feed, seed, industrial use and wastage) for foodgrains to 213 mt in 2001 and 235 mt in 2006. In 2001, domestic demand for rice will be about 90 mt, wheat 73 mt, coarse cereals 33 mt and pulses 18.4 mt. In the year 2006, demand will reach to 99 mt for rice, 81 mt for wheat, 34 mt for coarse cereals and 22 mt for pulses. During the Ninth Five-Year Plan period, domestic demand will grow at the annual compound growth rate of 2.11 per cent for rice, 2.21 per cent for wheat, 1.21 per cent for coarse cereals and 2.96 per cent for pulses. The demand of total foodgrains will grow at the rate of 2.17 per cent.

#### DOMESTIC DEMAND FOR NON-FOODGRAINS

In the year 2001-02, the demand for vegetables will be 92 mt, fruits 53 mt, edible oils 7.9 mt, cotton 2.4 mt and sugar 16.8 mt (Table 4). Among livestock products, the demand of milk will reach 93 mt, meat and eggs 5 mt and fish 7 mt. In 2006-07. total demand will reach 109 mt for vegetables, 69 mt for fruits, 120 mt for milk, 9.5 mt edible oils, 15 mt for eggs, meat and fish. 2.9 mt for cotton and 19.6 mt for sugar. During Ninth FYP, the total demand will grow at the annual rate of 5.2 per cent for milk, 4 per cent for edible oils, 3.5 per cent for vegetables, 5.4 per cent for fruits, 5.1 per cent for meat and eggs, 5.6 per cent for fish, 3 per cent for sugar, and 3.6 per cent for cotton. Thus increase in demand for nonfoodgrains will be much higher than the growth in population.

#### EXPORTS OF AGRICULTURAL COMMODITIES

The countries of south Asia, south-east Asia, west Asia, North Africa, sub Saharan Africa and the former Soviet Union and eastern Europe offer India the advantages of locational proximity and product acceptability for the exports of agricultural products. Based on the estimates of production for 2020 [Rosegrant et al 1995]. it is expected that there would be a deficit of 63.7 million tonnes of wheat in south Asia, China, south-east Asia, west Asia and North Africa and sub Saharan Africa in the year 2001 and 71.5 million tonnes in 2006 (Table 5). India can easily capture 5 per cent of this potential wheat market. Thus the exports of wheat from India can be targeted at 3.2 mt in 2001 and 3.6 mt in 2006. India is currently exporting about 1 million tonnes of wheat.

There has been a remarkable progress in the rice exports during the current year. This assumes larger significance with increased buying interests from qualityconscious markets of Europe, America, Korea, etc. The Indian non-basmati rice export figures have touched an all-time high of 3 mt during 1994-95. Total rice exports (basmati and non-basmati) from India attained a level of 3.51 mt. A deficit of 8.4 mt in the year 2001 and 9.4 mt in 2006 is expected in west Asia and North Africa, sub Saharan Africa and the former Soviet Union. India has a diversified export market for rice which includes a large number of countries in south and southeast Asia, west Asia, Africa and Europe. India can capture 50 per cent of these

markets and can aim to export 4.2 mt in 2001 and 4.7 mt in 2006.

In addition to foodgrains, India has the potential for exporting cotton, vegetables, fruits and marine products. Assuming likely exports to be 10 per cent of cotton production, 2 per cent of fruits and vegetables, and 5 per cent of fish production, India can aim to export 0.24 mt cotton, 1.9 mt

TABLE 7 TOTAL FACTOR PRODUCTIVITY GROWTH (Per cent)

| Crop          | 1971-80 | 1981-88 | 1971-88 |
|---------------|---------|---------|---------|
| Rice          | 1.31    | 0.97    | 1.03    |
| Wheat         | 1.42    | 1.08    | 1.26    |
| Coarse grains | 1.09    | 0.92    | 1.01    |

Source: Mruthyunjaya and Kumar (1994).

Table 4: Demand for Non-Foodgrains in India

(Million tonnes)

| Items         | 1991-92<br>(Base Year) | 1996-97 | 2000-01 | 2001-02 | 2006 07 |
|---------------|------------------------|---------|---------|---------|---------|
| Plan End      | VII                    | VIII    |         | ιx      | х       |
| Milk          | 56.1                   | 72 4    | 88 6    | 931     | 119.5   |
| Edible oil    | 5.4                    | 6.5     | 76      | 79      | 9.5     |
| Vegetables    | 64 8                   | 77 3    | 88.7    | 917     | 108.5   |
| Fruits        | 30 8                   | 40.4    | 50.0    | 52 6    | 69.1    |
| Meat and eggs | 2.7                    | 3.6     | 4.4     | 4 6     | 6.0     |
| Fish          | 4 i                    | 5.4     | 67      | 7 1     | 93      |
| Sugar         | 12 i                   | 14.5    | 16.3    | 16.8    | 19.6    |
| Cotton        | 1.64                   | 2.0     | 2 3     | 2.4     | 2.9     |

TABLE 5. INDIAN WHEAT AND RICE EXPORT MARKET

(Million tonnes)

|           |                            | <u>Deficit</u> |      |      |      |  |  |
|-----------|----------------------------|----------------|------|------|------|--|--|
| Commodity | Regions                    | 1990           | 2001 | 2006 | 2020 |  |  |
| Wheat     | South Asia                 | +3             | 66   | 8.9  | 21.3 |  |  |
|           | China                      | 149            | 18.3 | 20 0 | 25.8 |  |  |
|           | South-East Asia            | 4.6            | 6.2  | 69   | 9.8  |  |  |
|           | West Asia and North Africa | 26.8           | 31.6 | 33.8 | 41.5 |  |  |
|           | Total                      | 49 6           | 63.7 | 71 5 | 98 4 |  |  |
| Rice      | Former Soviet Union        | 0.6            | 0.5  | 0.8  | 0.9  |  |  |
|           | Sub Saharan Africa         | 2.8            | 3.9  | 4.5  | 6.8  |  |  |
|           | West Asia and North Africa | 3.3            | 3.8  | 4.1  | 5.0  |  |  |
|           | Total                      | 6.7            | 8 4  | 9.4  | 12.7 |  |  |

Source: Mark W Rosegrant, et al (1995)

TABLE 6: DOMESTIC DEMAND, EXPORT AND TOTAL DEMAND FOR AGRICULTURAL COMMODITIES IN INDIA
(Million tonnes)

| Items         | Domesti | c Demand | Ex      | port    | Total D | emand   |
|---------------|---------|----------|---------|---------|---------|---------|
|               | 2001-02 | 2006 07  | 2001-02 | 2006-07 | 2001-02 | 2006-07 |
| Rice          | 89 8    | 98 8     | 4 2     | 4.7     | 94.0    | 103.5   |
| Wheat         | 72.5    | 80.7     | 3 2     | 3.6     | 75.7    | 84.3    |
| Coarse cereal | 32.6    | 34 0     | _       | -       | 32 6    | 34.4    |
| Total Cereals | 193.9   | 2131     |         | -       | 202.3   | 222 2   |
| Pulses        | 18.2    | 210      | -       |         | 18.2    | 21.0    |
| Foodgrains    | 212 3   | 234.5    | 7.4     | 8.3     | 220 5   | 243.2   |
| Edible Oil    | 7.9     | 9.5      | -       | -       | 79      | 9.5     |
| Vegetables    | 91.7    | 108.5    | 1.9     | 2 2     | 93.6    | 1107    |
| Fruits        | 52.6    | 69.1     | 1.1     | 1.4     | 53.7    | 70 5    |
| Sugar         | 16.8    | 19.6     | -       |         | 16.8    | 19.6    |
| Cotton        | 24      | 2 9      | 0.24    | 0.29    | 2 64    | 3.19    |
| Milk          | 93.4    | 1195     | -       |         | 93.4    | 119.5   |
| Meat and eggs | 4 6     | 6.0      | -       | -       | 4 6     | 6.0     |
| Fish          | 7 1     | 9.3      | 0.37    | 0.49    | 7 47    | 9 79    |

vegetables, 1.1 mt fruits, and 0.37 mt marine products in the year 2001.

## TOTAL DEMAND FOR AGRICULTURAL COMMODITIES

The demand for foodgrains (including feed, seed, wastage and exports) in the years 2001 and 2006 will be 220.5 mt and 243.2 mt, respectively (Table 6). In the year 2001, the demand for rice will be 94 mt, wheat 75.7 mt, coarse cereals 32.6 and pulses 18.2 mt. Among non-foodgrains, the demand for edible oils will be 7.9 mt, vegetables 93.6 mt, fruits 53.7 mt, sugar 16.8 mt and cotton 2.64 mt (15.53 million bales of 170 kg cach) in 2001. In the same period, demand for milk will be 93.4 mt, meat and eggs 4.6 mt and marine products 7.5 mt.

# II Supply of Agricultural Commodities

TECHNOLOGICAL CHANGE

Indian agriculture has undergone a technological change at different rates in different regions and among different crops which has resulted in substantial increases in marketable surplus of wheat and rice and contributed to achieving food security mainly by inducing a decline in real prices of rice (2.2 per cent) and wheat (3.3 per cent). The new technologies increased the dependence of farmers on modern inputs and substantially increased the cost of production per unit of land at constant prices. But the increase in yield has been much higher than the increase in real cost of production and hence the cost per unit of output has declined for rice (at the rate of 1.1 per cent in eastern region, 2.14 per cent in northern region and 3.9 per cent in the southern states) and wheat (ranging from 2.0 per cent to 2.8 per cent in different wheat growing states) [Kumar and Mruthyunjaya 1992; Kumar and Rosegrant 1994]. The benefits of higher efficiency in the use of inputs and low unit cost of production that the MVs and improved farming practices have generated have quickly passed on from farmers to consumers in the form of lower prices. The fall in prices has benefited the urban and rural poor much more than the upper income groups, because the former spend a much larger proportion of income on cereals than the latter.

The increase in area and production of crops is highly associated with their relative profitability. Rice gained area mainly through substitution effect at the cost of coarse cere als and wheat mainly through expansion effects because of phenomenal growth of tubewell irrigation in the wheat belt. For rice, during 1967/68-1989/90, the area increased at the annual rate of 0.6 per cent per annum and

TABLE 8: PRODUCTION TARGETS AT THE END OF NINTH AND TENTH FIVE-YEAR PLANS IN INDIA

| Items                     | TE I   | 994-95       | Year 2                                  | 001-02 | Year 2 | 2006-07 |
|---------------------------|--------|--------------|-----------------------------------------|--------|--------|---------|
|                           | Area   | Prod         | Arca                                    | Prod   | Area   | Prod    |
|                           | (Mha)  | (MT)         | (Mha)                                   | (MT)   | (Mha)  | (MT)    |
| Crops                     |        |              | *************************************** |        |        |         |
| Rice                      | 42.19  | <b>78</b> .1 | 42.18                                   | 94.0   | 42.18  | 103.5   |
| Wheat                     | 25.13  | 60.8         | 26.24                                   | 75.7   | 26.24  | 84.3    |
| Coarse cereals*           | 33.25  | 32.6         | 30.69                                   | 32.6   | 30.69  | 34.4    |
| Jowar                     | 12.25  | 11.1         | 10.52                                   | 10.4   | 10.52  | 10.4    |
| Bajra                     | 10.09  | 7.0          | 9.27                                    | 6.6    | 9.27   | 6.6     |
| Maize                     | 6.02   | 9.6          | 6.12                                    | 11.4   | 6.12   | 13.2    |
| Total cereals             | 101.57 | 171.5        | 99.11                                   | 202.3  | 99.11  | 222.2   |
| Pulses <sup>c</sup>       | 22.59  | 13.4         | 21.69                                   | 18.2   | 21.69  | 21.0    |
| Gram                      | 6.69   | 5.2          | 6.53                                    | 7.1    | 6.53   | 8.2     |
| Arhar                     | 3.49   | 2.4          | 3.43                                    | 3.3    | 3.43   | 3.8     |
| Foodgrains                | 124.16 | 184.9        | 120.80                                  | 220.5  | 120.80 | 243.2   |
| Oilseedsh                 | 25.80  | 21.0         | 28.62                                   | 28.0   | 28.62  | 33.8    |
| Groundnut                 | 8.14   | 8.2          | 7.82                                    | 9.6    | 7.82   | 11.5    |
| Mustard and rapeseed      | 6.24   | 5.3          | 7.36                                    | 7.4    | 7.36   | 8.9     |
| Soybean                   | 4.05   | 3.9          | 711                                     | 66     | 7.11   | 7.9     |
| Sugarcane                 | 3.60   | 243.0        | 3.71                                    | 297.0  | 3.71   | 352.8   |
| Vegetables                | 5.10   | 71.0         | 5.28                                    | 93.6   | 5.28   | 110.7   |
| Fruits                    | 3.20   | 33.0         | 3.20                                    | 53.7   | 3.20   | 70.5    |
| Cotton                    | 7.60   | 1.94         | 7.69                                    | 2.64   | 7.69   | 3.19    |
| Livestock and Poultry Pri | educts |              |                                         |        |        |         |
| Milk                      | -      | 60.5         | -                                       | 93.1   | -      | 119.5   |
| Meat and eggs             | -      | 3.2          | -                                       | 4.6    | -      | 6.0     |
| Marine products           | -      | 4.6          | •                                       | 7.5    | -      | 9.8     |

Notes: TE 1994-95: Average triennia ended 1994-95.

Prod: Production target which is equal to human demand plus non-human demand (seed, feed, wastage) plus export.

The area is projected for the year 2001-02 based on compound annual rate of change between the triennias ending 1988 and 1994 with the assumption that the area under crop will stabilise after 2001-02.

- a It is assumed that the share of jowar in total coarse cereals will decline from 34.2 to 32.3 per cent in the year 2001-02, share of bajra from 21.5 to 20.2 per cent; the share of maize in total coarse cereals will increase from 29.4 per cent in TE 1994-95 to 35 per cent in 2001-02 and to 40 per cent in 2006-07.
  - After end of 2001-02, the demand for coarse cereals will be met from maize.
- b The groundnut and rapeseed and mustard will meet 34 and 31 per cent of the edible oil requirement respectively. The share of soybean in total edible oil is 5.9 per cent in TE 1994-95 which is likely to increase to a level to 15 per cent by 2001-02. The conversion factor from oilseed to oil is 28 per cent for groundnut, 33 per cent for rapeseed and mustard, and 18 per cent for soybean.
- c Gram and arhar will meet 39 per cent and 18 per cent respectively of the total pulse demand.

TABLE 9: REQUIRED YIELD (KO/HA) TARGET BY CROPS AT THE END OF NINTH AND TENTH
FIVE YEAR PLANS IN INDIA

| Iterns               | Achieved   | Required ' | Yield Level | Per Cent                       |  |
|----------------------|------------|------------|-------------|--------------------------------|--|
|                      | TE 1994-95 | 2001-02    | 2006-07     | Irrigated Crop<br>Area 1992-93 |  |
| Rice                 | 1851       | 2229       | 2454        | 46.8                           |  |
| Wheat                | 2420       | 2885       | 3213        | 84.3                           |  |
| Coarse cereals       | 979        | 1062       | 1121        | 10.2                           |  |
| Jowar                | 888        | 989        | 989         | 6.3                            |  |
| Bajra                | 688        | 712        | 712         | 5.8                            |  |
| Maize                | 1590       | 1863       | 2157        | 21.8                           |  |
| Pulses               | 593        | 839        | 968         | 10.4                           |  |
| Gram                 | 774        | 1087       | 1256        | 21.9                           |  |
| Arhar                | 688        | 962        | 1108        | 5.0                            |  |
| Oilseeds             | 815        | 1104       | 1646        | 23.9                           |  |
| Groundnut            | 1007       | 1228       | 1471        | 19.2                           |  |
| Rapeseed and mustard | 849        | 1005       | 1209        | 57.5                           |  |
| Soybean              | 963        | 928        | 1111        | na                             |  |
| Cotton               | 255        | 343        | 415         | 33.2                           |  |
| Sugarcane            | 67354      | 80054      | 95094       | 87.9                           |  |
| Vegetables           | 17915      | 17727      | 20966       | na                             |  |
| Fruits               | 10281      | 16781      | 22031       | na                             |  |

Note: na - not available

production showed an increase of 2.7 per cent mainly because of yield growth. The area under rice has increased only slightly during the 1980s. The gains in rice production have come essentially from the improved utilisation of the available infrastructure and from the resulting increase in yield per unit of land. Acceleration in yield growth need not imply that the potential productivity from the inputs has been fully realised. Spread of inputs in the new areas where the existing level of application is relatively low will contribute to the increase in the productivity per unit of input as well as ensuring more equitable distribution of benefits.

The rapid growth in irrigated area under wheat and spread of modern varieties during 1967-72 resulted in a extraordinarily high rate of growth in wheat production (9.7 per cent). Nearly half of this increase was contributed by yield gains. In the following decade, the rate of production increase declined to 2.4 per cent per year with yield gains slowing down to 2.6 per cent annually. This is because the use of modern inputs in wheat reached ceiling levels, particularly in the frontline states. The scope for further expansion of area under wheat is bleak even in the northern states. Coarse grains gained growth in production (1.4 per cent for maize, 1.3 per cent for sorghum and 0.4 per cent for pearl millet) through yield effects in spite of a declining trend in area of sorghum and pearl millet.

The growth in total factor productivity (TFP) during 1971-88 is estimated at about 1.03 per cent for rice, 1.26 per cent for wheat and 1.01 per cent for coarse grains (Table 7). More than one-third of output growth in cereals is contributed by TFP. TFP and growth in crop inputs have contributed significantly to the production of rice and wheat, and have enabled India to increase availability of foodgrains per capita in the presence of high population growth rates and limited land resources. Deceleration in the growth of TFP is observed. This slowdown process has been explored in more details by Kumar and Rosegrant (1994) in case of rice, by Kumar and Murthyunjaya (1992) in case of wheat, and Rosegrant and Evenson (1992) for Indian crop sector as a whole. Market infrastructure, research, irrigation, and balanced use of fertilisers are identified as the most important sources of growth in TFP. Other authors have attributed this slow-down to a reduction of growth following exploitation of early productivity gains from adoption of modern varieties and declining trend of investment in agriculture during 1980s. Real investment in irrigation by the public sector declined during the 1980s at the rate of 1.73 per cent per annum [Rao 1993]. Increasingly, soil salinity and waterlogging problems also contribute to declining productivity [Joshi and Agrihotri 1982; Joshi and Jha 1991].

#### YIELD GROWTH IN NINTH PLAN

Future increases in the production of food and non-food agricultural commodities have to be essentially achieved through increases in productivity as possibilities of area expansion are minimal. Around three million hectare crop area is predicted to the shifted from foodgrains to non-foodgrains. To meet the growing domestic and export needs, the average yield at national level

is required to be improved by 30 to 50 per cent for various commodities by the end of the Ninth Five-Year Plan (2001-02) (Tables 8 and 9). The country should attain a per hectare yield of 2.2 tonnes for rice, 2.9 tonnes for wheat, 1.1 tonnes for coarse grains, 0.84 tonnes for pulses, 1.1 tonnes for oilseeds, 0.34 tonnes for cotton, 80 tonnes for sugarcane, 17.7 tonnes for vegetables and 16.8 tonnes for fruits by 2001-02. It requires an annual yield growth of about 2.5 per cent for foodgrains, 4.5 per cent for pulses, 3.9 per cent for oilseeds, 3.8 per cent for cotton, 3.5 per cent tor vegetables, around 6 per cent for fruits and

TABLE 10° PER CENT TARGETED ANNUAL GROWTH IN YIELD/PRODUCTION TO ATTAIN SELF-SUFFICIENCY IN FOOD DURING THE NINTH AND TENTH FIVE YEAR PLAN

| Item                 |         | Growth Achieve | d       | Target  | Growth  |
|----------------------|---------|----------------|---------|---------|---------|
| •                    | 1980-90 | 1990-94        | 1980-94 | 2001-02 | 2006-07 |
| Crops                |         |                |         |         |         |
| Rice                 | 3.70    | 1 79           | 3.06    | 2 35    | 2 19    |
| Wheat                | 3.28    | 2.23           | 2.93    | 2 22    | 2 20    |
| Coarse cereals       | 2.52    | 2.71           | 2 58    | 1.01    | 1.04    |
| Jowar                | 2.08    | 2.89           | 2.35    | 1.36    | 0.83    |
| Bajra                | 2 08    | 1.47           | 1 94    | 0.43    | 0.26    |
| Maize                | 3 70    | 1 23           | 2 42    | 2.00    | 2.37    |
| Pulses               | 2.01    | 0.83           | 1.46    | 4 45    | 3 86    |
| Gram                 | 0.97    | 2.36           | 1.44    | 4.34    | 3 79    |
| Arhar                | 0 64    | -1.58          | -0.61   | 4.28    | 3.73    |
| Oilseeds             | 3 58    | 1 19           | 2.33    | 3.88    | 5.56    |
| Groundnut            | 2 67    | 0.80           | 2.04    | 2.51    | 2 96    |
| Rapeseed and mustard | 5.91    | -0 69          | 3.50    | 2 13    | 2.76    |
| Soybean              | 3.57    | 1 77           | 2 60    | 0.46    | 1.11    |
| Sugarcane            | 1.40    | 1.30           | 1.36    | 3 07    | 3 20    |
| Cotton               | 4.58    | 3 08           | 4 10    | 3 78    | 3 82    |
| Vegetables           | na      | na             | na      | 3 53    | 3 20    |
| Fruits               | na      | na             | na      | 6 04    | 6 04    |
| Livestock products   |         |                |         |         |         |
| Milk                 | 5.31    | 4 26           | 4.95    | 5 54    | 5.37    |
| Fish                 | 5.56    | 4.27           | 5.96    | b 25    | 5 98    |
| Meat and eggs        | 8.55    | 4.55           | 6 90    | 5.54    | 4.95    |

TABLE 11: ADOPTION OF TECHNOLOGY AND PRODUCTION IN LYS AND HYS OF INDIA

| Items          |            | Cent  |      | Cent |     | Cent   |      | Cent   |            | ield    |  |
|----------------|------------|-------|------|------|-----|--------|------|--------|------------|---------|--|
|                | Irrig      | gated | HY   | V of | Sh  | are of |      | re of  |            | (kg/ha) |  |
|                | Crop       | Area_ | Crop | Area | Cro | p Area | Prod | uction | TE 1994-95 |         |  |
|                | LYS        | HYS   | LYS  | HYS  | LYS | HYS    | LYS  | HYS    | LYS        | HYS     |  |
| Rice           | 32         | 89    | 61   | 87   | 76  | 24     | 63   | 37     | 1528       | 2867    |  |
| Wheat          | 78         | 96    | 83   | 98   | 79  | 21     | 66   | 34     | 2032       | 3838    |  |
| Coarse cereals | 6          | 13    | -    | -    | 57  | 43     | 14   | 56     | 791        | 1298    |  |
| Jowar          | 6          | 7     | 52.  | 99   | 96  | 4      | 95   | 5      | 886        | 1025    |  |
| Bajra          | 2          | 10    | 32   | 75   | 51  | 49     | 34   | 66     | 459        | 936     |  |
| Maize          | 11         | 36    | 36   | 73   | 80  | 20     | 69   | 31     | 1368       | 2495    |  |
| Puises         | 5          | 10    | -    | -    | 85  | 15     | 77   | 23     | 527        | 861     |  |
| Gram           | -          | -     | _    | _    | 100 | 0      | 100  | 0      | 778        | ~-      |  |
| Arhar          | -          | _     | -    | -    | 82  | 18     | 73   | 27     | 612        | 1028    |  |
| Oilsecds       | 20         | 45    | -    | _    | 92  | 8      | 87   | 13     | 831        | 1399    |  |
| Groundnut      | 16         | 33    | _    | -    | 86  | 14     | 78   | 22     | 916        | 1566    |  |
| Rapeseed and   |            |       |      |      |     |        |      |        |            |         |  |
| mustard        | 61         | 79    | _    | -    | 83  | 17     | 77   | 23     | 795        | 1176    |  |
| Soybean        | <b>-</b> • | -     | _    | _    |     | 100    | 0    | 100    |            | 938     |  |
| Cotton         | 23         | 100   | _    |      | 85  | 15     | 72   | 28     | 218        | 459     |  |
| Sugarcane      | 87         | 100   | -    | -    | 73  | 27     | 63   | 37     | 57921      | 91431   |  |

Notes: LYS-States which achieved yield below the required national average in 2001-02, HYS-States which achieved yield above the required national average in 2001-02

milk and livestock products and 3 1 per cent for sugarcane (Table 10). In case of soybean, production targets will be achieved as a result of area expansion, even though there may be a slight decline in yield per hectare.

Looking at the past performance of 1990-94 we have achieved a yield growth which is much lower than needed during the Ninth FYP. This is not a simple task and serious efforts will have to be made by the agricultural scientists and extension agencies to improve production. More than half of the required growth in yields must be met from research efforts by developing locationspecific and low-input-use technologies. The productivity increases need to be achieved from all the states of India. However, required increments in yield levels cannot be expected from high yield states (HYS), which are the states in which current yield levels are above the required national average in 2001-02, as these states account for only around onefifth of the crop area for most of the crops (Table 11). Hence yield improvements must come from the low yielding states (LYS), which are the states in which current yield levels are below the required national average yield in 2001-02. The classification of HYS and LYS by crop is presented in Appendix 3. Under the scenario of yield improvement from the HYS ranging from 0 to 2.5 per cent, the required yield target for the LYS is presented in Table 12. The most likely scenario for HYS is 0 to 1 per cent per annum improvement in yield. Thus, to ensure future food security, efforts must be made to improve the yield for LYS from existing levels of 1.53 tonnes to 2 tonnes for rice. 2 tonnes to 2.63 tonnes for wheat, 0.79 tonnes to 0.92 tonnes for coarse cereals, 0.53 tonnes to 0.83 tonnes for pulses, 0.83 tonnes to 1.07 tonnes for oilseeds, 0.22 tonnes to 0.32 tonnes for cotton and 57.9 tonnes to 76 tonnes for sugarcane by 2001. This means there is a need to increase the per hectare yields substantially (30-50 per cent) in the next five years. Thus there is a need to attain the higher yield growth during Ninth FYP than attained during 1980-94. The yield growth target for LYS needs to be fixed at 3.6 per cent for rice, 3.3 per cent for wheat, 1.87 per cent for coarse cereals, 5.92 per cent for pulses, 3.27 per cent for oilseeds, 3.43 per cent for sugarcane and 5.02 per cent for cotton (Table 13). The required growth in vield from the LYS is substantially higher for pulses, oilseeds, sugarcane and cotton than achieved in the past.

Emphasis needs to be given for yield improvements in paddy in the states of Bihar, Orissa, Assam, West Bengal and Uttar Pradesh (Table 14). For wheat we must focus mainly on Uttar Pradesh, Madhya Pradesh, Bihar and Rajasthan. For coarse cereals, major emphasis must be given to

TABLE 12: YIELD (KG/HA) TARGET FOR LOW YIELD STATES OF INDIA AT THE END OF NINTH FIVE-YEAR PLAN

| Crop                                    |          | C        | rowth in Y   | eld for HYS |          |          | Yield      |  |
|-----------------------------------------|----------|----------|--------------|-------------|----------|----------|------------|--|
| •                                       | 0        | 0.5      | 1            | 1.5         | 2.0      | 2.5      | in LYS     |  |
|                                         | Per Cent | Per Cent | Per Cent     | Per Cent    | Per Cent | Per Cent | TE 1994-95 |  |
| *************************************** |          | R        | equired yiel | d in LYS    |          |          | ·          |  |
| Rice                                    | 2028     | 1991     | 1952         | 1913        | 1872     | 1830     | 1528       |  |
| Wheat                                   | 2632     | 2590     | 2547         | 2503        | 2457     | 2409     | 2032       |  |
| Coarse cereais                          | 917      | 885      | 851          | 817         | 781      | 744      | 791        |  |
| Jowar                                   | 988      | 986      | 984          | 982         | 980      | 978      | 886        |  |
| Bajra                                   | 497      | 460      | 422          | 383         | 342      | 300      | 459        |  |
| Maize                                   | 1705     | 1680     | 1653         | 1626        | 1598     | 1569     | 1369       |  |
| Pulses                                  | 835      | 829      | 823          | 816         | 809      | 802      | 527        |  |
| Gram                                    | 1087     | 1087     | 1087         | 1087        | 1087     | 1087     | 778        |  |
| Arhar                                   | 947      | 937      | 927          | 916         | 905      | 894      | 612        |  |
| Oilseeds                                | 1075     | 1069     | 1063         | 1057        | 1051     | 1045     | 831        |  |
| Groundnut                               | 1168     | 1157     | 1145         | 1133        | 1121     | 1108     | 916        |  |
| Rapesecd and                            |          |          |              |             |          |          |            |  |
| mustard                                 | 967      | 957      | 946          | 934         | 923      | 911      | 795        |  |
| Soybean                                 | 928      | 928      | 928          | 928         | 928      | 928      | 938        |  |
| Cotton                                  | 323      | 319      | 316          | 312         | 309      | 305      | 218        |  |
| Sugarcane                               | 75846    | 74469    | 73044        | 71568       | 70041    | 68460    | 57921      |  |

TABLE 13: YIELD GROWTH TARGET FOR LOW YIELD STATE OF INDIA AT THE END OF NINTH FIVE-YEAR PLAN

| Crop           |          | Gro       | wth in Yic   | ld for HY  | S          |          | Growth | Achieved |
|----------------|----------|-----------|--------------|------------|------------|----------|--------|----------|
| •              | 0        | 0.5       | ı            | 1.5        | 2.0        | 2.5      | during | 1980-94  |
|                | Per Cent | Per Cent  | Per Cent     | Per Cent   | Per Cent   | Per Cent | LYS    | HYS      |
|                | Requ     | ired annu | al yield gro | owth in LY | S (Per cen | t)       |        |          |
| Rice           | 3.60     | 3 36      | 3.11         | 2.85       | 2.57       | 2.28     | 3.51   | 2 09     |
| Wheat          | 3.29     | 3.08      | 2.86         | 2.64       | 2.40       | 2.15     | 2.49   | 3 06     |
| Coarse cereals | 1.87     | 1.41      | 0.92         | 0.40       | -0 16      | -0.77    | nc     | nc       |
| Jowar          | 1.36     | 1.34      | 1.32         | 1.30       | 1.27       | 1.24     | 1.77   | 4.70     |
| Bajra          | 0.99     | 0.03      | -1.04        | -2.24      | -3.60      | -5.16    | 0.99   | 2.43     |
| Maize          | 2.79     | 2.60      | 2.40         | 2.18       | 1.96       | 1.73     | 2.49   | 2.28     |
| Pulses         | 5.92     | 5.83      | 5.72         | 5.62       | 5.50       | 5.39     | nc     | nc       |
| Gram           | 4.27     | 4.27      | 4.27         | 4.27       | 4.27       | 4.27     | 1.44   | -        |
| Arhar          | 5.60     | 5.46      | 5.32         | 5.17       | 5.01       | 4.85     | -0.38  | -1.24    |
| Oilseeds       | 3.27     | 3.20      | 3.13         | 3.06       | 2.98       | 2.90     | nc     | nc       |
| Groundnut      | 3.09     | 2.96      | 2.83         | 2.70       | 2.56       | 2.41     | -010   | 3.20     |
| Rapeseed and   |          |           |              |            |            |          |        |          |
| mustard        | 2.48     | 2.34      | 2.20         | 2.05       | 1.89       | 1.72     | 1.50   | 2.89     |
| Soybean        | -0.13    | -0.13     | -0.13        | -0.13      | -0.13      | -0.13    | -      | 1 44     |
| Cotton         | 5.02     | 4.88      | 4.74         | 4.60       | 4.44       | 4.28     | 3.23   | 5.33     |
| Sugarcane      | 3.43     | 3.19      | 2.94         | 2.68       | 2.40       | 2.11     | 1 88   | -0.01    |

Note: nc - not computed.

TABLE 14: POLICY SCENARIOS

| Commodities  | Target<br>Growth<br>Per Cent | Priority<br>States | Per Cent Share of<br>Priority States in<br>Total Crop Area |  |
|--------------|------------------------------|--------------------|------------------------------------------------------------|--|
| Rice         | 2.35                         | BH, OR, AS, WB, UP | 66                                                         |  |
| Wheat        | 2.22                         | UP, MP, BH, RJ     | 68                                                         |  |
| Jowar        | 1.36                         | MH, KN, MP. AP     | 82                                                         |  |
| Bajra        | 0.43                         | RJ                 | 47                                                         |  |
| Maize        | 2.00                         | BH, UP, MP. RJ     | 60                                                         |  |
| Gram         | 4 34                         | MP, RJ, UP, MH     | 83                                                         |  |
| Arhar        | 4.28                         | MH, GJ. KN, AP, MP | 72                                                         |  |
| Groundnut    | 2.51                         | AP, GJ, KN, MH     | 76                                                         |  |
| Rapeseed and |                              |                    |                                                            |  |
| mustard      | 2.13                         | RJ, UP, MP, WB     | 74                                                         |  |
| Soybean      | 1.11                         | MP, RJ             | 83                                                         |  |
| Cotton       | 3.78                         | MH, GJ, KN, RJ, AF | 74                                                         |  |
| Sugarcane    | 3.07                         | UP                 | 51                                                         |  |

Notes: AP: Andhra Pradesh, AS: Assam, BH: Bihar, GJ: Gujarat, HP: Himachal Pradesh, KN Kornataka, MP: Madhya Pradesh, MH: Maharashtra, OR: Orissa, RJ; Rajasthan, UP: Uttar Pradesh, WB: West Bengal.

Kajasthan, Maharashtra, Karnataka, Madhya Pradesh, Andhra Pradesh and Uttar Pradesh. To meet the demand for pulses greater emphasis is needed in almost all the states with particular focus on Madhya Pradesh. Maharashtra, Rajasthan, Gujarat, Andhra Pradesh, Karnataka and Uttar Pradesh which have three-fourths of total pulse area. The target growth in pulse yield from these states annually must be 6 per cent; otherwise the nation will experience shortage of pulses for all times to come. The task of attaining self sufficiency in pulse production looks difficult without area expansion and irrigation. In case of oilseeds greater emphasis is needed for all the LYS states which occupy 92 per cent of the area with special emphasis on Andhra Pradesh, Madhya Pradesh, Rajasthan, Maharashtra, Karnataka, West Bengal and Uttar Pradesh to increase the yield by about 4 per cent. The possibilities of developing processing industry for extracting edible oils from non-oilseeds commodities, like rice bran, etc, need to be explored. The introduction of palm cultivation for oil production may release the pressure on traditional oilseeds crops to meet future edible oil demand. In case of sugarcane research and development efforts are to be strengthened in Uttar Pradesh and Bihar to increase the yields per hectare by about 4 per cent per annum. The demand for sugar can also be met by developing mini sugar mills so that substantial sugarcane production can be diverted from khandsari to sugar production. This may also help release some sugarcane area to other crops. Cotton is emerging as a potential export commodity. It requires greater yield improvement emphasis on 81 per cent of the cotton area in Maharashtra, Gujarat and Andhra Pradesh.

#### III Conclusions

Vast untapped potential exists for increasing the production of all the commodities. What is needed are serious efforts on the part of scientists, and extension and development agencies to attain the targeted growth in yields from LYS and transcending the yield levels in HYS. Most LYS have low level of irrigation and technology. Greater research emphasis needed for dryland agriculture.

The challenge to sustain food security will be difficult for any country that has a large proportion of rainfed and unfavourable foodgrowing environment. Rainfed areas, which account for about 70 per cent of India's cultivated land, play a key role in meeting future food needs, in generating employment, and in promoting national economic growth. Resource-poor farmers in the rainfed ecosystems practise less-intensive

agriculture, and since their incomes depend on local agriculture, they benefit little from increased food production in irrigated areas. To help them, efforts must be increased to disseminate available dryland technologie and to generate new ones. It will be necessar:

APPENDIX 1: EXPENDITURE AND PRICE ELASTICITIES BASED ON FCDS BY EXPENDITURE GROUP FOR RURAL AND URBAN POPULATION, INDIA

| Food        |           |          | Rural      |       |                                       |            |       | Urban |       |       |
|-------------|-----------|----------|------------|-------|---------------------------------------|------------|-------|-------|-------|-------|
|             | I         | II       | 111        | IV    | ALL                                   | i          | 11    | 111   | ١٧    | A     |
| Expenditure | elasticit | ies      |            |       | · · · · · · · · · · · · · · · · · · · |            |       |       |       |       |
| Rice        | 0.183     | 0.106    | 0.035      | 018   | 0.064                                 | 0.148      | 0.078 | 0.010 | ()29  | 0.01  |
| Wheat       | 026       | 055      | 072        | 057   | 056                                   | 0.005      | 078   | 125   | - 101 | 08    |
| C cer       | 173       | 170      | 153        | 097   | 151                                   | 135        | 213   | 207   | 119   | 16    |
| Pulses      | 0.611     | 0.454    | 0.310      | 0.121 | 0.309                                 | 0.612      | 0.442 | 0 275 | 0.095 | 0.21  |
| Milk        | 0.895     | 0.740    | 0.573      | 0.299 | 0.458                                 | 0.878      | 681   | 0.525 | 0.272 | 0.37  |
| Oilseeds    | 0.768     | 0.578    | 0.399      | 0.178 | 0.389                                 | 0 675      | 0.488 | 0.320 | 0.122 | 0.23  |
| Vegetables  | 0.742     | 0.568    | 0.408      | 0.194 | 0.385                                 | 0.669      | 0.487 | 0.337 | 0 152 | 0.25  |
| Fruits      | 0.826     | 0.661    | 0.524      | 0.293 | 0.442                                 | 0.782      | 0.610 | 0.499 | 0 293 | 0.36  |
| Meat        | 1.136     | 1.007    | 0.887      | 0.600 | 0.848                                 | 1.076      | 0.880 | 0.755 | 0 489 | 0.63  |
| Sugar       | 0.369     | 0.234    | 0.125      | 0.025 | 0.133                                 | 0.350      | 0.199 | 0.088 | 013   | 0.05  |
| OFood       | 1.241     | 1.107    | 0.996      | 0.739 | 0.945                                 | 1.198      | 0 979 | 0.868 | 0.585 | 0.69  |
| Non Food    | 2.547     | 2.634    | 2.505      | 1.998 | 2.251                                 | 2.488      | 2.338 | 2.160 | 1.757 | 1.87  |
| Uncompensa  | ited own  | price el | asticities |       |                                       |            |       |       |       |       |
| Rice        | 472       | 360      | 245        | 133   | 282                                   | 464        | 402   | - 302 | 205   | 28    |
| Wheat       | 400       | 317      | 227        | 140   | 242                                   | 319        | 312   | 216   | - 143 | 21    |
| C cer       | - 389     | 308      | 214        | 111   | 286                                   | 451        | 392   | 281   | 166   | ~.30  |
| Pulses      | 775       | 686      | 545        | 334   | 524                                   | 784        | ~.738 | 597   | 406   | 51    |
| Milk        | 897       | 838      | 727        | 510   | 636                                   | 894        | ~ 870 | 777   | 605   | 66    |
| Oilseeds    | 832       | 740      | <b>600</b> | 386   | 567                                   | <b>798</b> | 757   | 622   | 422   | 52    |
| Vegetables  | 826       | 747      | 618        | 415   | 601                                   | 803        | 762   | 640   | 475   | 56    |
| Fruits      | 872       | 805      | 703        | 520   | 641                                   | 856        | 845   | 767   | 640   | 68    |
| Meat        | 962       | 945      | 912        | 806   | ~.879                                 | 950        | - 950 | - 917 | - 854 | 88    |
| Sugar       | 686       | ~.572    | 424        | 237   | -,405                                 | 681        | 622   | 477   | 288   | 39    |
| OFood       | 995       | 990      | 975        | 942   | 967                                   | 993        | 990   | - 985 | - 957 | - 96  |
| Non Food    | -1.32     | -1.35    | -1.30      | -1.18 | ~1.241                                | -1.31      | -1.35 | -1 31 | -1.21 | -1.23 |

Notes: I: Very poor, II: moderately poor, III: non-poor low, IV: non-poor high.

The elasticities for each expenditure group for rural and urban areas are derived as the weighted average of the elasticities of the regions. The ratio of the consumption of it region to the aggregate consumption of all regions for each expenditure class in the rural urban areas is used as weight. Similarly aggregated elasticities for rural and urban area have been derived as the weighted average of the elasticities of the expenditure groups

APPENDIX 2: PROJECTIONS OF POPULATION (MILLION) BY EXPENDITURE GROUPS

(Millior

| Year   | Very<br>Poor                          | Moderately<br>Poor | Non-Poor<br>Lower | Non-Poor<br>High | All<br>Groups |
|--------|---------------------------------------|--------------------|-------------------|------------------|---------------|
| Rural  | · · · · · · · · · · · · · · · · · · · |                    |                   |                  |               |
| 1987   | 158.33                                | 120.33             | 168.29            | 138 60           | 585.55        |
|        | (0.27)                                | (0.21)             | (0.29)            | (0.24)           |               |
| 1991   | 146.79                                | 122.45             | 184.68            | 173 39           | 627.3!        |
|        | (0.23)                                | (0.20)             | (0.29)            | (0.28)           |               |
| 1995   | 132.54                                | 123 96             | 202.00            | 211.92           | 670 42        |
|        | (0.20)                                | (0.18)             | (0.30)            | (0.32)           |               |
| 2000   | 113.35                                | 121.11             | 218.93            | 272 26           | 725 65        |
|        | (0.16)                                | (0.17)             | (0.30)            | (0.37)           |               |
| 2010   | 72.11                                 | . 102.09           | 232.88            | 432.44           | 839.52        |
|        | (0.09)                                | (0.12)             | (0.28)            | (0.51)           |               |
| Urban  | , ,                                   |                    |                   |                  |               |
| 1987   | 28.67                                 | 27.42              | 50.85             | 83 07            | 190.01        |
|        | (0.15)                                | (0.14)             | (0.26)            | (0.49)           |               |
| 1991   | 26.78                                 | 27.88              | 55 68             | 106 67           | 217.01        |
| ****   | (0.12)                                | (0.13)             | (0.26)            | (0 49)           | •             |
| 1995   | 23.32                                 | 27.44              | 59.79             | 132 90           | 243.45        |
| •      | (0.10)                                | (0.11)             | (0.24)            | (0.55)           |               |
| 2000   | 18.93                                 | 25,49              | 62.05             | 172.36           | 278.83        |
|        | (0.07)                                | (0.09)             | (0.22)            | (0.62)           |               |
| . 2010 | 10.46                                 | 18.57              | 57.67             | 273.95           | 360.58        |
| . 20.0 | (0 03)                                | (0.05)             | (0.16)            | (0.76)           |               |

Source: Radhakrishna and Ravi (1990). Figures in parentheses are the share of total population.

to enlarge the efforts for promoting available dry land technologies, increasing the stock of this knowledge, and removing proirrigation biases in public investment and expenditure, as well as credit flows, for technology-based agricultural growth. Research problems in rainfed unfavourable ecosystems and breaking of the current irrigated yield ceiling are more complex and challenging. To make headway on them will require mobilising the best of science and the best of scientists in national agricultural systems through partnership research.

Phosphorus deficiency is now the most widespread soil fertility problem in both irrigated and unirrigated plots in the country [Kumar and Desai 1995]. Correcting the distortion in relative prices of primary fertilisers could help correct the imbalances in the use of primary plant nutrients nitrogen, phosphorus, and potash. Recent initiatives taken by the government to remove such imbalances in fertiliser use are a welcome move. To improve efficiency of fertiliser use, what is really needed is enhanced location-specific research on efficient fertiliser practices (such as balanced use of nutrients, correct timing and placement of fertilisers, and, wherever necessary, use of micronutrients and soil amendments). improvement in extension services, development of improved fertiliser supply and distribution systems, and development of physical and institutional infrastructure [Desai 1986].

The scope for influencing long run productivity growth through manipulation of crop prices is limited. Reforms of trade and macro-economic policy are needed to encourage long-term investment and technological change in agricultural sector. The increasing complexity of production

environment demands efficient information dissemination and training in the use of modern technologies. For this, the extension strategies need to be reoriented to stimulate and encourage both top-down and bottom-up flow of information between farmers, extension workers and research scientists to promote the generation, adoption and evaluation of location-specific farm technologies.

Creating infrastructure in less developed areas, Watershed development for raising yields of rainfed crops, widening of seed revolution to cover oilseeds, pulses, fruits and vegetables, improvement of agricultural credit, and technological upgradation of postharvest handling are areas which need more attention.

#### Notes

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1 The expenditure strata, four for the rural and four for the urban, are formed on the basis of the poverty lines adopted by the Planning Commission. Based on the expenditure classes of NSS, persons below 75 per cent of the poverty line are defined as very poor, between 75 per cent and poverty line as moderately poor, between poverty line and 150 per cent of the poverty line as non-poor lower, and ex-penditure classes above 150 per cent of poverty line as non-poor higher Per capita expenditure is taken as a proxy

for income and these terms are used interchangeably in the study.

- 2 In addition to urbanisation and economic status, consumption pattern is also influenced by region. Rice is the main staple food in eastern and southern regions. Wheat is the main staple food in western and northern regions. Sorghum is the second staple cereal in western and southern regions. Demand parameter estimates may vary by region, urbanisation and income group. Thus, for the purpose of analysis, state-wise time series data were aggregated into four regions, namely, eastern region covering the states of Assam, Bihar, Orissa and West Bengal; northern region which includes Haryana, Punjab, Uttar Pradesh, Himachal Pradesh and Jammu and Kashmir; western region covering Gujarat, Maharashtra, Madhya Pradesh and Rajasthan; and southern region covering Andhra Pradesh, Tamil Nadu, Karnataka and Kerala.
- 3 Major part of the wasted grains are fed to livestock, Feed requirements are calculated by converting the livestock products into Livestock Output Unit (LOU) and using the feeding ratio per unit of LOU. The major part of the meat other than chicken is a byproduct of the livestock industry. Even with regards to chicken meat, not more than half is broilers which are fed the concentrates. The remaining half is from the culled layers which again is a by-product.
- 4 Non-household demand is estimated at 11-12 per cent of human demand for foodgrains or 10-11 per cent of the projected gross output [Kumar et al 1996]. These estimates are close to the allowances (12.5 per cent of foodgrains production) used by the ministry of agriculture, government of India (GOI) while computing the availability of foodgrains for human consumption Following the norms of GOI, the grossing factor used is 1.082 for rice, 1 138 for wheat, 1.422 for coarse cereals, and 1.143 for total cereals, pulses and total foodgrains to account for non-household demand. Thus, nonhousehold demand works out to 18 mt and 29 mtin 2001-02 and 2006-07, respectively

APPENDIX 3: CLASSIFICATION OF LOW YIELD AND HIGH YIELD STATES BY CROP

| Crop        | Low Yield States                       | High Yield States              |
|-------------|----------------------------------------|--------------------------------|
| Paddy       | WB, UP, MP, BH, OR, AS, MH, GJ, KR     | AP, TN, PB, KN, HY             |
| Wheat       | UP, MP, RJ, BH, MH, GJ, HP, WB         | PB, HY                         |
| Coarse      |                                        |                                |
| cereals     | MH, RJ, GJ, HY, OR                     | KN, UP, MP, AP, TN, BH, HP, JK |
| Jowar       | MH, KN, MP, AP, RJ, UP, GJ             | TN                             |
| Bajra       | RJ, KN                                 | MH, GJ, UP, HY, TN, MP, AP     |
| Maize       | UP, RJ, MP, BH, GJ, JK, MH, OR         | KN, AP, HP, PB                 |
| Pulses      | MP, RJ, MH, AP, KN, BH, GJ, OR, TN, WB | UP, HY                         |
| Gram        | MP, RJ, UP, MH, HY, KN, BH, GJ, AP     |                                |
| Arhar       | MH, MP, GJ, KN, AP, OR, TN             | UP, BH, HY                     |
| Oilseeds    | MP, AP, RI, GJ, UP, KN, MH, WB, OR, AS | TN, HY                         |
| Groundnut   | AP, GJ, KN, MH, MP, RJ, UP, OR         | TN                             |
| Rapesced ar | nd                                     |                                |
| mustard     | RJ, UP, MP, WB, AS, BH                 | HY, GJ, PB                     |
| Soybean     | _                                      | MP, MH, RJ, UP                 |
| Cotton      | MH, GJ, AP, RJ, MP, TN                 | PB, HY                         |
| Sugarcane   | UP, AP, GJ, BH, HY, PB, MP, AS         | MH, KN, TN                     |

Notes. AP Andhra Pradesh, AS: Assam, BH: Bihar, GJ Gujarat, HY. Haryana, HP. Himachal Pradesh, JK: Jammu and Kashmir, KN: Karnataka, KR: Kerala, MP: Madhya Pradesh, MH: Maharashtra, OR: Orissa, PB: Punjab, RJ: Rajasthan, TN: Tamil Nadu, UP: Uttar Pradesh, WB West Bengal

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# NATIONAL SEMINAR



## ON "PARTICIPATORY TECHNOLOGY DEVELOPMENT IN HORTICULTURE"

Kerala Horticulture Development Programme proposes to organise a two day seminar on "Participatory Technology Development in Horticulture" on 21st and 22nd of November 1996 at Trivandrum. Participatory Technology Development aims at developing site specific technology through farmer centred methods and is being viewed the world over as a viable approach to technology development. Interested persons participating in the seminar may respond on or before 10th October 1996 to:

The Programme Director, Kerala Horticulture Development Programme,

PDR Bhavan, Foreshore Road, Cochin - 682 016.

(Phone: 0484-368713/371055/56. Fax: 0484-370495)





# Public Distribution System, Food Subsidy and Production Incentives

#### PS George

The public distribution system (PDS) in India has close links with food security for the vulnerable segments of the population, budgetary support for food subsidy and the price policy. This paper reviews some aspects of the operation of the PDS and raises some policy issues with regard to scope and coverage of PDS, production incentives to farmers, and the amount of food subsidy.

#### I Introduction

THROUGH state interventions in the foodgrain markets have been in existence in India for a long time, extensive use of this mechanism has been adopted from the second world war period [George 1988; Knight 1954]. A public distribution system that regulated the movement of toodgrains from the surplus production states to deficit states formed one of the core elements of the food management system.2 Over the years there has been a number of attempts to modify the scope and coverage of the public distribution system (PDS). While price stability for the consumers in urban and major food deficit areas was the focus in the early years of planned development, some form of equitable distribution was also envisaged as the objective in the subsequent plan periods. Thus, the Seventh Plan has specified that the PDS will be a permanent feature of the strategy to control price, reduce price fluctuations and achieve an equitable distribution of essential goods [Venugopal 1992]. The procurement operations and distribution through the PDS outlets involved a certain amount of government subsidy. Further, procurement was somewhat linked with the policy of providing a minimum support price to the farmers. Thus, the public distribution system in India has close links with food security for the vulnerable segments of the population, budgetary support for food subsidy and price policy. This paper attempts to review some aspects of the operations of the public distribution system in India and to raise a few policy issues for further consideration.

## Some Basic Indicators

Trends in production, net availability and procurement of foodgrains in India indicate certain broad patterns. As indicated in Tables 1 and A1, between 1951 and 1995, production of foodgrains in India has increased from 48.1 million tonnes to 167.2 million tonnes. Net availability of foodgrains, obtained by making adjustments for net imports and government stocks, indicates that during this period it has increased from 52.4 million tonnes to 167.8 million tonnes. Procurement

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of foodgrains had been somewhat negligible until mid-1960s and then it has increased from 4 million tonnes in 1965 to about 28 million tonnes in 1993. The growth rate of procurement volume has exceeded the growth rate of production, so that the share of procurement in production has increased from 5 per cent in 1965 to 17.8 per cent in 1993 before it dropped to 13.5 per cent in 1995. The offtake from the PDS has recorded a gradual increase from 1.3 million tonnes in 1955 to a maximum level of 20.8 million tonnes in 1991. Except for 1966 and 1967 when the PDS offtake was about 19 per cent of the total availability, throughout the past 25 years, PDS accounted for about 10 to 14 per cent of the total availability of foodgrains.

#### III Procurement

Procurement of foodgrains directly from the farmers or from intermediaries such as traders or millers was taken up either under the support price obligations or to meet the requirements of the PDS. Most of the procurement operations until mid-1960s was to meet the PDS requirements, and this was not vigorously followed up when foodgrains

were available through the PL 480 imports. However, with the commitment to provide a minimum support price to the farmers and the establishment of the Food Corporation of India, procurement efforts are vigorously followed. A review of the procurement experience indicates the following tendencies.

(a) The volume of procurement has increased from 1.1 million tonnes in 1963-64 to about 27 million tonnes in 1993-94. As indicated earlier, procurement volume accounted for about 10-12 per cent of total production up to the 1980s, and it has further gone up to about 18 per cent in the 1990s.

(b) While rice accounted for most of the procurement up to mid-1960s, the share of wheat in the total procurement increased substantially from late 1960s so that the share of rice and wheat remained more or less the same during the 1970s and 1980s. However, there is a slight improvement in the share of rice in the 1990s. In terms of the share of procurement in the production of each crop, a higher percentage of wheat production was procured by government agencies in comparison to the share of rice.

(c) In terms of regional contributions, over the years Punjab has emerged as the major contributor of both rice and wheat.

TABLE 1: PRODUCTION, PROCUREMENT AND PUBLIC DISTRIBUTION

(Mill:on tonnes)

|                     | 1951 | 1955 | 1965 | 1966 | 1971 | 1981  | 1991  | 1993  | 1995  |
|---------------------|------|------|------|------|------|-------|-------|-------|-------|
| Net production      | 48.1 | 61.9 | 78.2 | 63.3 | 94.9 | 113.4 | 154.3 | 157.5 | 167.2 |
| Net availability    | 52.4 | 73.2 | 84.6 | 73.5 | 94.3 | 114.3 | 158.6 | 149.8 | 167.8 |
| Procurement         | 3.8  | 1.3  | 4.0  | 4.0  | 8.9  | 13.0  | 19.6  | 28.0  | 22.5  |
| Public distribution | 8.0  | 1.6  | 10.1 | 14.1 | 7.8  | 13.0  | 20.8  | 16.4  | 15.3  |

TABLE 2: SHARE OF STATES IN RICE AND WHEAT PROCUREMENT

(Per cent)

|                 | 1970-71 | 1975-76 | 1981-82 | 1985-86 | 1990-91     | 1993-94 |
|-----------------|---------|---------|---------|---------|-------------|---------|
| Rice            |         |         |         |         | <del></del> |         |
| Andhra Prad. 3h | 14.6    | 21.8    | 15.0    | 15.9    | 26.4        | 28.0    |
| Haryana         | 7.9     | 7.3     | 12.0    | 10.5    | 8.4         | 8.8     |
| Madhya Pradesh  | 17.9    | 4.0     | 5.0     | 5.8     | 5.0         | 5.6     |
| Orissa          | 8.0     | 1.4     | 1.8     | 1.4     | 2 1         | 2.7     |
| Punjab          | 16.4    | 25 6    | 42.4    | 42 7    | 38.8        | 38.5    |
| Tamil Nadu      | 3.7     | 11.6    | 7.9     | 9.6     | 7.1         | 4.1     |
| Uttar Pradesh   | 8.1     | 7.5     | 10.0    | 10.8    | 10.7        | 9.1     |
| West Bengal     | 8.3     | 5.9     | 0.7     | 0.7     | 0.8         | 1.1     |
| Wheat           |         |         |         |         |             |         |
| Haryana         | 13.9    | 10.7    | 16.3    | 22.6    | 23 6        | 26.9    |
| Punjab          | 57.6    | 58.3    | 62.9    | 62.6    | 71.5        | 50.6    |
| Uttar Pradesh   | 22.4    | 19.5    | 17.9    | 15.5    | 4 8         | 16.6    |

Source: Centre for Monitoring Indian Economy, India's Agricultural Sector, September 1995, p 38

Punjab accounted for about 40 per cent of the total rice procurement and about 50 per cent of the wheat procurement Table 2).

TABLE 3: COST OF PRODUCTION AND PROCUREMENT PRICE FOR WHEAT AND PAUDY IN PUNIAB

(Refaminal)

|         | w                          | heat                      | Paddy                      |                           |  |
|---------|----------------------------|---------------------------|----------------------------|---------------------------|--|
| Year    | Cost of<br>Produc-<br>tion | Procure-<br>ment<br>Price | Cost of<br>Produc-<br>tion | Procure-<br>ment<br>Price |  |
| 1982-83 | 125.2                      | 151                       | 103.9                      | 122                       |  |
| 1983-84 | 137.5                      | 152                       | 122.3                      | 132                       |  |
| 1984-85 | 136.3                      | 157                       | 137.0                      | 137                       |  |
| 1985-86 | 129.3                      | 162                       | 125.7                      | 142                       |  |
| 1986-87 | 151.5                      | 166                       | 129.2                      | 146                       |  |
| 1987-88 | 139.9                      | 173                       | 149.2                      | 150                       |  |
| 1988-89 | 150.0                      | 183                       | 159.6                      | 160                       |  |
| 1989-90 | 164.2                      | 215                       | 147.2                      | 185                       |  |
| 1990-91 | 190.8                      | 225                       | 194.7                      | 205                       |  |
| 1991-92 | 210.4                      | 275                       |                            | 230                       |  |

Source: Centre for Monitoring Indian Economy, India's Agricultural Sector, September 1995, pp 33 and 35.

TABLE 4: ALLOCATION AND OFFTAKE UNDER PDS (Million tonnes)

|         | W               | heat    | Rice            |         |  |
|---------|-----------------|---------|-----------------|---------|--|
| Year    | Allo-<br>cation | Offtake | Allo-<br>cation | Offtake |  |
| 1990-91 | 9.50            | 7.08    | 9.61            | 7 87    |  |
| 1991-92 | 10 36           | 8.79    | 11.36           | 9 95    |  |
| 1992-93 | 9.24            | 7.47    | 11.48           | 9.55    |  |
| 1993-94 | 9.56            | 5.86    | 12.41           | 8.81    |  |
| 1994-95 | 10 80           | 4.83    | 13.32           | 8.00    |  |

Source Government of India, Economic Survey

Table 5 Issue Price of Rice and Wheat (Rs/quintal)

|          |        | Wheat |           |     |
|----------|--------|-------|-----------|-----|
| _        | Common | Fine  | Superfine |     |
| 1989     | 244    | 304   | 325       | 204 |
| 1990     | 289    | 349   | 370       | 234 |
| 1991     | 317    | 437   | 458       | 280 |
| 1993     | 437    | 497   | 518       | 330 |
| 1994     | 537    | 617   | 648       | 402 |
| Percenta | gc     |       |           |     |
| income   |        | 103   | 99        | 97  |

Source: Centre for Monitoring Indian Economy, India's Agricultural Sector, September 1995, p 37. (d) Procurement methods have undergone various changes over time. While there had been levy on farmers, traders and millers, and also movement restrictions during certain periods, now most of these restrictions are somewhat relaxed. In view of the restrictions, sometimes the procurement system has been characterised as coercive [Dantwala 1993]. However, as Dantwala has pointed out, there is no coercion for wheat purchase, but the levy on rice millers and traders had some element of coercion.

(e) Procurement price: While in the early years the support prices and procurement prices were announced separately, of late the distinction between these two prices has disappeared so that the procurement price decisions are often influenced by the farm lobbies of the surplus states [Radhakrishna and Rao 1994; also Mitra 1978, Raj Krishna and Ray Chaudhari 1980]. A companson of the procurement price and cost of production of wheat and paddy in Punjab (Table 3) indicates that the procurement price has provided adequate guarantee of returns over cost to the farmers. In the early years of the green revolution, the margin between the procurement price and cost of production of wheat was more favourable to the farmers than the corresponding margin for rice. However, with greater adoption of high yielding varieties of paddy the difference in the margin between paddy and wheat has somewhat narrowed down.

(f) Dantwala has analysed the contention that procurement at below market price amounts to indirect taxation on farmers. According to him, the procurement system followed for wheat has arrested the decline in prices below the support price level. In the case of rice, when certain quantity is withdrawn from the market as levy, the market price for the remaining quantities would be higher than the open market price in the absence of levy. The weighted price of levy rice and open market price under levy was expected to be higher than the open market price in the absence of levy [Radhakrishna and Indrakant 1987; Subbarao 1978]. Thus, there is a strong view that procurement price did not provide any disincentive for the farmers. Further, there

is a view that the guaranteed favourable price level has improved the adoption proces of new technology which in turn has contributed to substantial growth in the private investment in agriculture [Tyag 1990]. The relatively high seasonal price stability has also changed the seasonal pattern of market arrivals.

IV Food Distribution

Foodgrains are distributed through inetwork of fair price shops spread all ove the country. It was visualised that a fair price shop should be available for 2000 persons In 1995 there were about 433 thousand fair price shops of which about 330 thousand were located in the rural areas. The area covered by the Revamped Public Distribution Scheme (RPDS) initiated in 1992 with a coverage of about 1750 blocks account fo about 102 thousand fair price shops.

The quantities supplied through the PDI outlets remained below 5 million tonnes up to 1963, and it had gone up to 14 million tonnes by mid-1960s. Throughout the 1970 the quantities remained around 10 million tonnes, and during the 1980s, the average was around 16 million tonnes. The offtake from the PDS outlets reached a peak leve of 20.8 million tonnes in 1991 and then it has somewhat declined to about 15 million tonnes in 1995. The following observation can be made about offtake from the PDS

(a) During the last few years, the allocation to the states for distribution through PD: has been around 11-12 million tonnes of ric and 9-10 million tonnes of wheat. However from 1992-93 onwards, the offtake indicate a decline. Between wheat and rice the declin in offtake was more pronounced for wheat than for rice. The data relating to allocation and offtake of rice and wheat for the lastive years are available in Table 4.

(b) Studies on PDS offtake have indicate that offtake was influenced by availabilit factors and the price differential betwee open market price and PDS price [see Georg 1983]. During the 1990s, production of foodgrain has been somewhat stable. Is uprice of rice and wheat had been revised for times between 1990 and 1994 with the resu that the 1994 price level was more than double the price in 1989 for rice and nearly double the 1989 level for superfine rice and wheat

The frequent increase in the issue pric has narrowed the gap between the ope market price and the price charged fo supplies through PDS. This narrowing pric differential together with easy access in the open market might have influenced the log offtake.

(c) With increased procurement an reduced offtake from the PDS the foodgrai stock in the central pool has reached somewhat high level. The shift in the season pattern of market arrivals has also transferre

TABLE 6: CENTRAL POOL STOCKS OF RICE AND WHEAT

(Million tonnes)

| Beginning of mo | nths    |      | Wheat | Rice | Total |
|-----------------|---------|------|-------|------|-------|
| January .       | Minimum | norm | 7.7   | 7.7  | 15.4  |
| · ·             | Actual  | 1992 | 5.3   | 8.6  | 13.9  |
|                 |         | 1993 | 3.3   | 8.5  | 11.8  |
|                 |         | 1994 | 10.8  | 112  | 22.0  |
|                 |         | 1995 | 12.9  | 17 2 | 30.1  |
|                 | •       | 1996 | 13.1  | 11.5 | 24.6  |
| July            | Minimum | norm | 13.1  | 9.2  | 22.3  |
| •               | Actual  | 1992 | 6.5   | 7.4  | 13.9  |
|                 |         | 1993 | 14.9  | 9.3  | 24.2  |
|                 |         | 1994 | 17.5  | 13.3 | 30.7  |
|                 |         | 1995 | 19.2  | 16.4 | 35.6  |

Source: Economic Survey, 1995-96, p 86.

some amount of stocks from the farm level to the government procurement agencies. The stock level in July 1995 was 35.6 million tonnes (16.4 million tonnes of rice and 19.2 million tonnes of wheat). While the actual stock of wheat and rice had been below the minimum norms for most periods up to April 1993, during the subsequent periods, the

Table 7: Annual Cost of Food Subsidy (Rs crore)

| Year    | Consumer<br>Subsidy                   | Cost of<br>Buffer Stock | Total |
|---------|---------------------------------------|-------------------------|-------|
| 1972-73 | · · · · · · · · · · · · · · · · · · · |                         | 117   |
| 1973-74 |                                       |                         | 250   |
| 1974-75 |                                       |                         | 272   |
| 1977-78 | 300                                   | 263                     | 563   |
| 1980-81 | 486                                   | 176                     | 662   |
| 1985-86 | 1373                                  | 518                     | 1891  |
| 1989-90 | 1774                                  | 167                     | 1941  |
| 1990-91 | 2071                                  | 476                     | 2547  |
| 1991-92 | 2892                                  | 433                     | 3325  |
| 1992-93 | 3583                                  | 397                     | 3980  |
| 1993-94 | 3175                                  | 1245                    | 4420  |
| 1994-95 |                                       |                         | 5100  |
| 1995-96 |                                       |                         | 5250  |

Table 8: Rate of Consumer Subsidy (Rs per tonne)

| Year    | Wheat<br>Domestic | Imported | Rice<br>Domestic |  |  |
|---------|-------------------|----------|------------------|--|--|
| 1973-74 | 165.9             | 587.1    | -19.5            |  |  |
| 1974-75 | 169               | 533.3    | 53 7             |  |  |
| 1975-76 | 107 4             | 408.2    | -81.5            |  |  |
| 1976-17 | 1168              | 420.5    | -73.2            |  |  |
| 1977-78 | 316.3             |          | 92 I             |  |  |
| 1978-79 | 327.2             |          | 190.6            |  |  |
| 1979-80 | 281.4             |          | 177.1            |  |  |
| 1980-81 | 402 0             |          | 340.3            |  |  |
| 1983-84 | 307.2             |          | 408.3            |  |  |
| 1984-85 | 313.4             |          | 458.7            |  |  |
| 1989-90 | 1069.0            |          | 1242.0           |  |  |
| 1990-91 | 1165.0            |          | 1275 0           |  |  |
| 1991-92 | 1391-0            |          | 1315 0           |  |  |
| 1992-93 | 2281 0            |          | 1667 0           |  |  |
| 1993-94 | 1761.0            |          | 1647 0           |  |  |

Source: FCI reports

TABLE 9: PROCUREMENT AND DISTRIBUTION COST

|                   |         |         |         |         | (N.S. HAMILL) |
|-------------------|---------|---------|---------|---------|---------------|
|                   | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94       |
| Procurement cost  |         |         |         |         |               |
| Wheat             | 318     | 415     | 418     | 473     | 521           |
| Paddy             | 373     | 439     | 556     | 551     | 728           |
| Distribution cost |         |         |         |         |               |
| (Rice and wheat)  | 763     | 875     | 919     | 1124    | 1210          |
|                   |         |         |         |         |               |

Source: FCl Annual Reports.

Table 10. Cost of Carrying Stock

|                         |        |         |         |         |         | (KS timine) |
|-------------------------|--------|---------|---------|---------|---------|-------------|
| I                       | 975-76 | 1989-90 | 1990-91 | 1991-92 | 1992-93 | 1993-94     |
| Storage charge          | 38     | 299     | 210     | 243     | 340     | 243         |
| Handling expenses       | 12     | 58      | 63      | 72      | 89      | 80          |
| Storage loss            | 38     | 23      | 34      | 62      | 46      | 55          |
| Administrative overhead | 50     | 61      | 61      | 56      | 93      | 82          |
| Interest charges        | 151    | 86      | 270     | 343     | 368     | 630         |

Source. FCI Annual Reports.

actual stock had been far above the minimum requirements.

A number of measures such as release of subsidised wheat to Modern Food Industries India for supply of bread at reduced prices, supply of subsidised food grains to hostels mainly occupied by backward categories, mid-day meals scheme for the benefit of students enrolled in primary schools, and open market sale of wheat and rice by the Food Corporation of India were initiated during 1994 and 1995. In spite of these measures, the stock position continued to be well above the required minimum level.

(d) The major criticisms of the distribution system relate to three aspects: (1) there is a sectoral bias towards urban areas; (2) there is a regional bias; and (3) the leakage in the system introduces class bias especially when it does not provide food security for the poor class. From a historical point of view, it is true that in the 1960s and 1970s, the coverage of PDS was largely confined to major cities and a few states. However, using data available from the 42 round of NSS, Dev and Suryanarayana (1991) have indicated that for most of the states, with the exception of West Bengal, the urban bias may not be present. Based on certain criteria they have concluded that the PDS is rural biased at the all-India level for rice and coarse cereals. On the question of protecting the poor, both in the rural and urban areas the poor depended on the open market for a large share of their foodgrain purchases than the PDS. Further, there was no significant variation in the level of dependence on the PDS among the different income groups. Other studies also have concluded that a larger share of the benefits from the PDS accrues to the upper income groups [see for example Jha 1991]. However, in the absence of adequate empirical basis regarding the outcome of the efforts made on targeting the PDS to the backward regions and poorer segments of the population, it is rather difficult to judge if the situation has improved or not

(Retonne)

#### V Food Subsidy

The food subsidy has two components one representing the consumer subsidy and the other relating to the cost of carrying buffer stock. The government of India fixes the procurement and issue prices of foodgrains handled by the Food Corporation of India. Often the difference between these two prices is not sufficient to meet the handling cost of the Corporation, and therefore the government reimburses the difference between the economic cost and the issue price to the FCI as consumer subsidy. The Corporation also maintains the buffer stock of foodgrains and the government reimburses the buffer stock carrying cost to the Corporation.

During 1972-73 the total food subsidy was Rs 117 crores which has increased to Rs 662 crores by 1980-81. From the 1980s the amount of subsidy has gone up at a rapid rate to Rs 5,250 by 1995-96. During the 1970s consumer subsidy accounted for about 55 per cent of the food subsidy. However, during the 1980s, the share of consumer subsidy in the total food subsidy has gradually increased up to 90 per cent by 1989-90. However, by 1993-94, the cost of butter stock operation has also increased so that the share of consumer subsidy in the food subsidy has declined to about 72 per cent (Table 7).

The total consumer subsidy depends on the quantity of foodgrains distributed through the PDS and the rate of subsidy which in turn is determined by procurement price, handling charges of the Food Corporation of India and the issue price. It was already pointed out that the offtake from the PDS has witnessed a gradual increase during the 1980s. Until mid-1960s, the consumer subsidy was mainly incurred on wheat only and subsequently the subsidy was incurred on both rice and wheat. Throughout the 1970s the rate of consumer subsidy on wheat was more than the subsidy rate for rice, and in the 1980s the position was reversed. However, during the 1990s, the rate of consumer subsidy on wheat has again crossed the rice subsidy rate (Table 8).

The rate of consumer subsidy is influenced by procurement price, handling charges and issue price. The pattern of changes in the procurement price and issue price have been already indicated. The handling charges include the procurement cost and the distribution cost. The changes in the handling cost indicate that it has gone up from Rs 145.7 per tonne during 1974-75 to about Rs 1,800 per tonne during 1989-90 and to about Rs 1,800 per tonne in 1993-94. The breakup of the handling charges between procurement cost and distribution cost for 1989-90 to 1993-94 is available in Table 9.

The cost of carrying buffer stock is influenced by the size of buffer stock and

the charges for various items such as storage, handling, interest on capital, administrative overheads and storage loss. An analysis of the cost incurred on these items indicate that interest on capital accounted for the major share of the cost of carrying stock and the storage charge was the next important item (Table 10).

#### POLICY ISSUES

The brief review of the PDS indicates a number of policy issues for further consideration. In the absence of careful studies on some of these aspects, here it is proposed only to raise some of these aspects for further discussion, rather than specifying a preferred policy alternative. For convenience, the various policy issues are grouped under three broad categories of PDS coverage, production incentives and food subsidy.

#### COVERAGE

The policy statements on PDS coverage are essentially based on the assumed role attributed to it. Often the coverage related roles attributed to PDS include food security, avoiding distress purchases, equity in distribution with respect to income inequality and regional inequalities. Depending on the specific roles attributed by the analysts, there have been differing views on the relative success or failure of PDS. These observations relate to the fulfilment of the main objective of providing food security to the poor, inherent urban-bias, leakage to the non-poor and interstate variations in the coverage of population below the poverty line [see Dantwala 1993; Tyagi 1990; Dev and Survanarayana 1991: Jha 1991: George 1979]. The adequacy or otherwise of the offtake from PDS can be determined only after clarifying the objective of the PDS and estimating the desired offtake to fulfil this objective. Therefore mere observations based on increase or reduction in offtake at a given period cannot be interpreted as fulfilment or otherwise of the PDS objective. Based on various considerations often it has been suggested that the scope and coverage of PDS should be limited to providing food security to the vulnerable segments of the population. If this suggestion has to be followed up through specific measures, it is important to identify the target group, determine the quality entitled by each household, specify the consumer price level and evolve measures for minimising leakages of both types (similar to type 1 and type 2 eriors in the testing hypothesis). If the objective of the PDS is specified in relation to a specific target group, issues such as rural-urban bias or rich-poor bias may turn out to be non-significant since the performance will be judged against tulfilment of the target. However, irrespective of how the target is defined, there are still valid policy questions relating to specification of the mode and mechanism for serving the target group and minimisation of the leakages. The measures suggested for achieving these include linking up PDS with food for works programme, limiting the supplies to coarse/inferior quality grains, restricting distribution in backward regions, and public participation in identification and distribution of food. Yet another alternative suggestion relates to dismantling the whole distribution mechanism and providing entitlement to the target group through food stamps along the pattern followed in some countries.

#### PRODUCTION INCENTIVES

The PDS, as operated in India, has procurement as an important component. It was visualised that a meaningful production programme should ensure a minimum support price to the farmers which becomes the floor price during periods of bumper harvest. The support price, normally announced during the early part of the crop season was expected to influence the farm level decisions regarding the allocation of land and other resources among different crops. After the harvest, the actual

Table A1: Net Availability, Procurement and Public Distribution of Foodgrains

| Year         | Net Production<br>of Foodgrains<br>(Million Tonnes) |                | Procurement<br>(Million<br>Tonnes) | Public Distri-<br>bution (Million<br>Tonnes)# | Col 4 as<br>Per Cent<br>of Col 2 | Col 5 as<br>Per Cent<br>of Col 3 |
|--------------|-----------------------------------------------------|----------------|------------------------------------|-----------------------------------------------|----------------------------------|----------------------------------|
| (1)          | (2)                                                 | (3)            | (4)                                | (5)                                           | (6)                              | (7)                              |
| 1951         | 48.1                                                | 52 4           | 3.8                                | 80                                            | 7.6                              | 15.3                             |
| 1952         | 48 7                                                | 52 0           | 3.5                                | 6.8                                           | 7.2                              | 13 1                             |
| 1953         | 54.1                                                | 56.6           | 2 1                                | 4.6                                           | 3.9                              | 8 1                              |
| 1954         | 63.3                                                | 63.9           | 14                                 | 2 2                                           | 2 2                              | 3.4                              |
| 1955         | 61.9                                                | 63 2           | 1.3                                | 16                                            | 2 1                              | 25                               |
| 1956         | 60.7                                                | 62 6           | Neg                                | 2.1                                           | Neg                              | 34                               |
| 1957         | 634                                                 | 66.2           | 0.3                                | 3.1                                           | 0.5                              | 47                               |
| 1958         | 58.3                                                | 61.8           | 0.5                                | 4 0                                           | 0.9                              | 6.5                              |
| 1959         | 69 ()                                               | 72.3           | 1.8                                | 5.2                                           | 26                               | 7.2                              |
| 1960         | 67.5                                                | 71.2           | 1.3                                | 4 9                                           | 1 4                              | 6.9                              |
| 1961         | 72 0                                                | 75.7           | 0.5                                | 4 ()                                          | 0.7                              | 5.3                              |
| 1962         | 72.1                                                | 76.1           | 0.5                                | 4 4                                           | 0.7                              | 5.7                              |
| 1963         | 70.3                                                | 74 8           | 0.8                                | 5.2                                           | 1.1                              | 69                               |
| 1964         | 70 6                                                | 78.1           | 14                                 | 87 4                                          | 20                               | 11.1                             |
| 1965         | 78 2                                                | 84.6           | 4.0                                | 10 1                                          | 5 2                              | 11.9                             |
| 1966         | 63 3                                                | 73.5           | 4 0                                | 14 1                                          | 6.3                              | 19 2                             |
| 1967         | 65 0                                                | 73 9           | 4.5                                | 13.2                                          | 69                               | 17 8                             |
| 1968         | 83 2                                                | 86 8           | 68                                 | 10.2                                          | 8.2                              | 11.8                             |
| 1969         | 82 3                                                | 85.5           | 6 4                                | 94                                            | 78                               | 110                              |
| 1970         | 87 1                                                | 89 5           | 67                                 | 8 8                                           | 77                               | 9.9                              |
| 1971         | 94 9                                                | 94 3           | 8.9                                | 7 8                                           | 93                               | 8.3                              |
| 1972         | 92 0                                                | 96 2           | 77                                 | 10.5                                          | 83                               | 10.9                             |
| 1973         | 84.9                                                | 88.8           | 8 4                                | 11 4                                          | 99                               | 12.8                             |
| 1974         | 91.6                                                | 97.1           | 5.6                                | 10.8                                          | 6 2                              | 11.1                             |
| 1975         | 87.4                                                | 89.3           | 9.6                                | 11.3                                          | 109                              | 12.6                             |
| 1976         | 105 9                                               | 95 8           | 12 8                               | 92                                            | 12.1                             | 9.6                              |
| 1977         | 97.3                                                | 99.0           | 99                                 | 11.7                                          | 100                              | 11.8                             |
| 1978         | 1106                                                | 110.2          | 11.1                               | 10.2                                          | 10.0                             | 9.2                              |
| 1979         | 115 4                                               | 114 9          | 13 8                               | 11.7                                          | 12 0                             | 10.2                             |
| 1980         | 96.0                                                | 101.4          | 11.2                               | 15.0                                          | 11.5                             | 14.8                             |
| 1981         | 113.4                                               | 114.3          | 13.0                               | 13 0                                          | 114                              | 11.4                             |
| 1982         | 116.6                                               | 116.9          | 15.4                               | 14.6                                          | 13.2                             | 12.6                             |
| 1983         | 1137                                                | 1147           | 15 6                               | 16 2                                          | 13.7                             | 14 1                             |
| 1984         | 133.3                                               | 128 6          | 18 7                               | ן דין<br>15 8                                 | 14 0<br>15.8                     | 10.4                             |
| 1985         | 127 4                                               | 124 3          | 20 1                               |                                               |                                  | 12.7                             |
| 1986         |                                                     | 133 8          | 19 7<br>15 7                       | 17 3<br>18 7                                  | 15 0<br>12 5                     | 12.9<br>13.8                     |
| 1987         | 125.5                                               | 134 8          |                                    | 18.6                                          | 11.5                             |                                  |
| 1988         |                                                     | 130.8<br>147.2 | 14 I<br>18 9                       | 16.4                                          | 12.7                             | 14. <b>2</b><br>11.1             |
| 1989<br>1990 |                                                     | 147 2          | 24.0                               | 16.0                                          | 160                              | 11.0                             |
| 1991         | 154 3                                               | 158 6          | 24.0<br>19.6                       | 20.8                                          | 12.7                             | 13.1                             |
| 1991         |                                                     | 148 4          | 179                                | 18.8                                          | 12.7                             | 127                              |
|              |                                                     | 148 4          | 28 0                               | 16.4                                          | 17.8                             | 109                              |
| 1993<br>1994 |                                                     | 154 2          | 26.0                               | 14 ()                                         | 16.1                             | 91                               |
|              |                                                     |                |                                    |                                               |                                  | _                                |
| 1995         | 16, 2                                               | 167 8          | 22.5                               | 15.3                                          | 13 5                             | 91                               |

Notes Neg Negligible; @ Net availability = Net production + Net imports changes in government stocks, # includes quantities released under the Food for Work Programme during the years 1978 to 1990.

Production figures relate to agricultural year: 1951 figures correspond to 1950-51 and so on. Figures for procurement and public distribution relate to calendar years.

Sources: 1 Ministry of Food. 2 Directorate of Economics and Statistics, Department of Agriculture and Co-operation. procurement price was expected to be specified on the basis of various considerations. However, as mentioned earlier, the distinction between the support price and procurement price have been eliminated and for all practical purposes the procurement price in a given year is treated as the support price for the following year. Though there have been some disagreement regarding the adequacy of incentives and the inefficiencies in resource use, it is true that the procurement operations have provided some price incentives for farmers to enhance foodgrains production, especially through switchover to high yielding varieties [Schultz 1968; Lipton 1975; Dantwala 1967; Parikh 1992; Pursel and Gulati 1993 and Rao 1992]. Though there is a view that the coercive nature of procurement has introduced some loss of farm income, it is not possible to overlook the fact that market fluctuations in farm prices have been reduced, especially in the surplus states and this has in fact provided a certain degree of production incentive. However, there are indications of a strong relationship between procurement price and market price, and that procurement operations beyond the PDS requirements have induced a transfer of a food subsidy to the producers. In this context it is useful to analyse if the support price operations for providing production incentives should be directly linked up with the public distribution arrangements. Though the mutual dependence has certain advantages, it can be visualised that these two activities can be considered in isolation. Further, the output price is only one of the production incentives, and from a policy perspective it can be considered along with other options such as input subsidy. Utilisation of the amount spent on food subsidy for infrastructure development (for example irrigation) is another suggested option for increased output.

### FOOD SUBSIDY

As indicated earlier, the amount of food subsidy depends on a number of factors such as procurement volume, PDS offtake, storage levels and efficiency, gap between issue price and procurement price, handling efficiency of the various organisations and interest charges. In the context of general discussion on reduced food subsidy a number of suggestions have been made. These suggestions directly or indirectly involve one or more of the following measures: (1) restrict the volume handled through PDS by means of effective targeting and reduced leakages; (2) match the procurement, both in terms of commodity composition and volume, with distribution targets so that storage levels can be controlled; (3) increase the efficiency of handling operations, especially the operations of the Food Corporation of India.

While all these suggestions are consistent with the available empirical evidence, the administrative and organisational mecha-

nisms to implement these suggestions are somewhat clusive. In the absence of suitable machinery to implement these suggestions, it is rather difficult to visualise how food subsidy can be reduced while retaining the current mechanisms. In this connection it is useful to consider a functional separation of the various activities currently handled in connection with the public distribution system. Though there are certain vital links among these functions, it is important to realise that the accountability and operational efficiency can be brought under meaningful control if they are separately managed by independent decision-making processes. The procurement operation under support price obligation and procurement for PDS are essentially two activities and it is improper to account the cost of maintaining support price as a food subsidy. While the quantities obtained under support price operations would definitely ease the procurement burden of the PDS organisation it is not necessary that these two should be exclusively tied up. If the procurement operation under support price obligations is handled independently, it will be possible to judge the efficiency of the operation. It could also be possible to minimise the subsidy element in this operation through a support price fund with contributions from both the government and the producers. Similarly the storage operation can be managed independently within the broad guidelines regarding the minimum storage requirements. The distribution agency may obtain the supplies from the procurement agency or from other sources at competitive prices. The bifurcation of these three functions under autonomous decision-making units would introduce some degree of efficiency and accountability. In order to implement this, it is not essential that the FCI should be dismantled, but it is important that the operations are reorganised and sufficient autonomy provided for each unit for independent decision-making within the broad policy framework. However, the bifurcation of the functions could take care of only the second and third set of measures mentioned above and the first measure regarding proper targeting should be handled simultaneously through effective administrative arrangements.

### Notes

[Paper presented at the National Seminar on Agricultural Development Perspective for the Ninth Five-Year Plan, IIM, Ahmedabad, June 13-15, 1996.]

- 1 Arthasastra recommends effective public action through food subsidies as the basic remedy for famines. The suggested measures include distribution of seed and food from the royal store on concessional terms and food for work programmes for building forts, irrigation work, etc [Rangarajan 1992].
- 2 The other elements included a production strategy withemphasis on the use of new technology in areas of computative advantage and a price support backed by food procurement operations.

3 Ine wholesale price index of all agricultural committees has increased by 74 per cent during 1989-90 to 1994-95.

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## Women's Employment in Newly Industrialising Countries

Jeemol Unni

Women and Industrialisation in Asia edited by Susan Horton; Routledge, London, 1996; pp 314 + xix, £ 50.

WOMEN's participation in the labour force has been increasing in most countries in the last few decades. The increase in women's participation in Asia is, however, less marked than in the industrialised countries and Latin America. Within Asia, while women's participation has clearly risen in South Korea, Indonesia, Philippines and Thailand (through rural participation rates declined in the latter), the Indian case is marked by relatively low and stagnant female participation in the workforce. The Indian case is similar to the development experiences of other countries. in the shift out of women workers from the unraid family worker status to that of employees. However, while in most countries women move to regular jobs, in the case of India it is to the less advantageous status of casual workers.

The book under review is an editied volume consisting of eight chapters. In the first chapter the editor provides an overview of the papers. In the remaining seven chapters various authors provide an enlightening review of the changing employment status and conditions of women in mainly East and South-East Asian countries and India These countries are at varying stages of the process of industrialisation. In terms of the proportion of its workforce engaged in industry, India is perhaps the least industrialised of the seven countries.

The seven countries studied are Japan. South Korea, Malaysia, Thailand, Philippines, Indonesia and India. They range from low income developing countries like India and Indonesia to upper middle income developing countries like South Korea, and one OECD country, Japan. Two of the seven, India and Philippines, have had relatively slow growth of per capita GNP over the last 25 years, while the others have had growth exceeding 4 per cent per annum. The book is unique in that few such comparative analyses across countries in women's status in employment are attempted using national labour force surveys. This has also been made posible by adopting a similar format of basic analysis for each country. Of course, differences in methods of data collection and concepts make comparability difficult in any such international comparison.

In the overview, Horton highlights the interesting similarities and differences across

countries. The women's age-specific participation ratios exhibit a 'plateau' pattern in India, Indonesia, Thailand and Philippines. This implies that there is no withdrawal of women from the workforce due to marriage and to fulfil their reproductive role. This is perhaps possible in these four countries due to the predominance of self-employment and/ or perhaps due to the extended family system which continues to prevail. The classic 'double-peaked' pattern is seen clearly only in Japan and South Korea, Malaysia has a somewhat modified 'double-peaked' pattern. Of course, such cross-sectional patterns have to be interpreted carefully since they contain both cohort and life-cycle effects.

Women's employment shifted out of agriculture and into manufacturing, commerce and services over the period studied in most countries. In the course of development there is also an occupational shift away from agricultural occupations to clerical, production and sales activities. Duncan indices were constructed for each country to study the differences in male-female industrial and occupational distributions. The Duncan indices were found to be very small implying very similar distributions, for both industry and occupation across sex in all countries, except Philippines, which was closer to the Latin American case. This is attributed to the higher participation of the workers in these countries in agriculture, irrespective of sex.

Another important dimension, frequently left untouched in labour force studies, which is analysed in this book is women's earnings vis-a-vis men's. The pattern is similar to industrialised countries in that women's earnings tend to decline relative to men's with age, reflecting time spent out of the workforce by women. In Indonesia, Japan and Thailand, where the age-earnings profiles are available over time, they tend to shift upwards. A likely explanation is the narrowing gap in men's and women's education levels during the course of development.

The popular Mincerian earnings functions, derived from the human capital model, have been estimated for the seven countries for two years (data for only one year were available for India). Most studies have used similar explanatory variables, such as age

and education, sometimes marital status. Some studies have, however, included occupation and industry which are potentially more endogenous. While most of the studies have used individual level data from household labour force surveys, the Japanese case has used aggregative published data, whereas the South Korean case used establishment survey data.

The five case studies using individual level data, obtained both OLS and selectivitycorrected estimates. For the latter, participation equations were estimated using mainly demographic variables, which were thought to affect participation but not earnings, to identify the model. The most important conclusion, according to the editor, of undertaking this correction was that this was equally important for men as well as women. Secondly, it also revealed that besides the choice of whether to participate or not, there is also a selection-bias affecting the choice between employee and other employment status, which affects both men and women. The results of the estimation are not discussed in much detail in most of the studies. In general, the standard results are obtained that women have lower returns to age and the classic higher returns to education than men.

The earnings equations have been used to conduct a standard Oaxaca decomposition to examine the components of the malefemale earnings differential. Such a decomposition exercise is expected to decompose the gross gender difference in wage earnings into that part which is due to the differing characteristics of men and women and that which is due to labour market discrimination. Again since this is done for two points in time the change over time is also analysed. In general, the difference in the earnings gap due to differences in male-female characteristics is much smaller than that due to the differences in the coefficients. There is also a tendency for the proportion of the difference due to individual characteristics to decline over time and that due to the coefficients to increase over time. The explanation for the narrowing gap in the former is given as the increase in women's education relative to men's during the course of development.

Horton in her overview does not provide any clear explanation for the interpretation of the differences in the coefficients, including the increase in its proportion over time. In the case of Thailand, Mathana Phananiramai, notes that 68 per cent of the differences, in wage differentials is not explained by differences in the characteristics between men and women. This may be explained by labour market discrimination,

such as sex discrimination in pay or employment. It is also noted that the proportion of wage differentials due to characteristics seems to decline while the proportion due to discrimination seems to increase over time. An interesting inference drawn from this by the author is that "merely accelerating the education of women cannot close the wage gap between men and women".

In the case of Malaysia, it was noted that while women have lower returns to age than men, the returns to education are systematically higher for women. The Oaxaca decomposition showed that relatively little of the earnings gap is explained by differences in characteristics. Differences in coefficients explain the largest share of the earnings gap, in which the effect of the age coefficient dominates implying the effect of experience. The authors draw the confusion that while the returns to education of women are very high the net effect of the education variables in explaining the earnings gap is small. Thus, the implication can be drawn from these two cases together that discrimination of women in the labour market is not necessarily related to the differences in educational levels between men and women. Other labour market and non-labour market factors, such as frequent entry into and exits from the market, also lead to earnings differentials. While universal education and priority to higher education of girls and women is the first step, unless their entry into and retention in the labour market is ensured through other social and policy changes, women's status in the labour market will always remain one step below that of men. It is unfortunate that with such an interesting set of cross country studies the editor has not clearly focused on such overriding concerns.

The study is of course limited by the use of the neoclassical framework of the earnings equation, highlighted above. This prevents the authors from asking certain questions and limits the analysis of wage carnings data to questions regarding experience, education, etc. The question of the change in the distribution of carnings over time, very simply in terms of changes in real wage earnings across sectors and by sex, are not addressed. The fact that data on earnings of the selfemployed workers are not easily available is highlighted. In the overview, the editor recognises the limitation that information on women's work and market earnings does not directly inform us about their welfare. Women's participation may be at the cost of longer working hours/days, inferior quality child care, higher propensity for marital break down, and unhealthy work conditions, which may offset the benefits of obtaining work for higher earnings. She also accepts that the major research gaps are in work on earnings. Besides welfare, issues regarding the standard of living of the workers and their nousenoids are not addressed. In these countries, most of which have been through the economic reforms programmes for 10 to 20 years, an interesting dimension to explore would have been the impact of changes in labour market structure, towards industry and employee status of workers, on the standard of living of the workers.

In spite of the limitations of the framework, in some of the case studies the authors do explore other dimensions. In the Indonesian case, for example, Dwayne Benjamin poses some interesting questions. In Indonesia, participation in the wage labour force and wage earnings have increased in the 1990s as compared to the 1980s. Does this imply that wage income is becoming a more important source of income for households? Its female wage income in particular becoming more important for households? While the share of labour/wage income was rising in Indonesia, the increase was proportionately larger for men. The author concludes that it is likely that women are replacing men on family farms and family enterprises, but whether this reflects discrimination or choice cannot be discerned from these data. In the South Korean study, Moo Ki Bai and Woo Hyun Cho start with a central hypothesis that the Korean labour market is segmented into high wage firms and low wage firms, or sectors. The employment problems of women, such as low productivity and low wages, arise from the fact that women are mainly employed in this low wage sector. In the Indian case study, Sarthi Acharya highlights the growing predominance of women's work in the unorganised sectors of manufacturing industry.

To conclude, in the context of such an inter-country analysis, a number of questions can be raised. Is there any difference in the earnings and employment status of women who enter the manufacturing sector as opposed to the tertiary sector? Some of these rapidly industrialising countries have pursued

a labour-intensive export-oriented manufacturing sector growth. In other countries, where such industrialisation did not quite take off the manufacturing sector growth was eclipsed by the growth of the service sectors. Did the type of industrialisation make any difference to the entry of women in the labour force and her earnings/employment status? The cases studied in this book indicate that even in a country like South Korea, which followed the first path, women entered the low wage sectors. It can be hypothesised that where the women entered the organised sector, either in manufacturing or tertiary sector, their earnings were higher and their status was better protected. Unfortunately, the entry of women has been mainly into the unorganised sectors of manufacturing and tertiary services, so that their employment and earnings status has been mainly lower than that of men.

The implication of this is that while education is a major factor influencing women's employment status, there are many other economic, social and political factors which play important roles. One such factor is the tightness of the labour market or the demand for labour. However, given demand, government policy towards female labour and the household organisation which may release women for work outside the house, play crucial roles. If government policy is conducive, it would provide state sponsored child-care centres and skill training to upgrade the quality of female labour to facititate women's entry and upward mobility. There is, therefore, an inter-play between labour demand, government policy and household organisation which affects the way labour demand eventually affects female employment. While such an analysis may have been outside the scope of this book, it would definitely help to understand factors influencing women and industrialisation which are beyond the pure economic framework.

### SECULARISM: SOCIO-LEGAL ISSUES

S N. DHYAN

The book, which is basically a response to the politics of religion, begins with an analytical exposition of the genesis and evolution of the concept of secularism as it has been conceived, understood and accepted in India and the West. Then, in order to discover and understand the Muslim psyche on the issues elated to secularism, the Islamic theology, jurisprudence and Shariah have also been studied.

It gives an insight of judical version and interpretation of secularism in a critical and constructive manner.

235 pp.

1996

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### **Demythologising Early Indian History**

### Sukumari Bhattacharji

Society and Religion from Rigveda to Puranas by Gadkari, Popular Jayant Prakashan, Mumbai, 1996; Rs 350.

ANCIENT Indian history - social, religious and cultural - is a happy hunting ground for many authors. Today the craze is more noticeable because many authors of a particular political complexion have an axe to grind and the subject offers them an opportunity to twist the existing data in order to propound their theories. Ancient Indian history is a very handy peg on which one can hang chauvinism, fundamentalism, seemingly innocuous vested political interests and presentation of warped social values. The stated aim of some of these authors is to re-interpret ancient Indian historical material, but research or cultivation of history is really of secondary importance, the ulterior motive is to select, reject and present data suitable to their perspective and frequently this is the glorification of the reactionary elements in Indian history.

When the atmosphere is so vitiated, it is a relief to find a book like the present one. The author, a lawyer by profession, has studied ancient Indian history painstakingly and has taken the trouble to write a book on the subject. He starts from the Rigveda and analyses literature from which he culls the relevant historical material and concludes with comments on the socio-economic situation.

Gifts to officiating priests mentioned in the latter part of the Rigveda prove the beginning of the convention of sacrificial fees paid by the sacrificer to the priest and a list of the various items of such gifts includes horses, camels, chariots, bulls, cows, women, slaves with ornaments, even a carpenter (vi. 45). These clearly indicate the production of surplus which accumulated in the hands of some tribal chiefs. From this stage to the rise of oligarchies was but one step "... as surplus grew the tendency to appropriate the same also grew among the victorious and powerful leaders of the tribes, who virtually became the ruling cliques" (p 19). The author takes into consideration a very important fact, the hostility, rivalry and clamour for supremacy between the brahmins and the kshatriyas, something like the conflict of church versus state in medieval Europe. Since the Brahmana Granthas were written by the priesthood, it is quite likely that the brahmanas have elevated themselves to a higher position than they actually enjoyed" (p 45). Quite a valid hypothesis. not proposed by most previous scholars. Exploitation of the vaishyas and shudras by brahmins has been substantiated with textual evidence. The growth of larger territorial states from the emergence of towns which depended on contiguous areas of peasant and craftsman habitation for the supply of the daily necessities of the townpeople has been shown. With this there was a parallel process of commingling of various religious sects, beliefs and practices, the resulting syncretism of faith and worship has been traced briefly but convincingly.

Socio-economic growth and expansion led to the rise of monarchies which again necessitated a standing army comprising vaishyas, shudras and men from defeated tribes and communities. In this context the author makes a very pertinent point: "With the change of functions, these new incumbents could not have continued to belong to their original place in four-fold varna division and therefore, the new sections of arms-wielding people must have become entitled to be recognised as kshatriyas in course of time" (pp 67-68). How the older varna division was going through radical change, how the changing economic and political needs forced a permutation and combination of the various castes has been shown effectively. Similarly, the process of the formation of guilds broke down the social barriers of tribes by craftsmen "coming together after breaking down or overcoming the tribal barners" (p 68). A little later he comments on caste miscegenation (sankera) describing it as a "perverse distortion of the real social process taking place in the territorial expansion of a common society comprising diverse tribes and cultures" (p 70).

While society had grown in size, territory and complexity of political organisation, there came a time when religions assumed an unwarranted importance. The growth and diversification of knowledge was arrested. This led to a kind of ossification of the social fabric and an insularity in the conceptual world. " .. the knowledge of the complex technicalities and contrived procedures of the yajna ceremony of the Brahmana Granthas was considered to be Vedic knowledge during this period, while the knowledge of crafts, arts and physical labour was reduced to subservient position. The non-producing upper castes were thus able to create an inferiority complex in the masses which were the direct producers" (p 77). Thus began a reverse process of aban-doning the vitally important subjects at the cost of which the so-called Vedic lore prospered. Sacrifices multiplied together with the number of priests, the expense skyrocketed removing the whole liturgy beyond the means of the common man who slowly receded to the outer periphery. There arose the non-orthodox schools of fait — Buddhism, Jainism and various other non-conformist sects.

Meanwhile, with the proliferation of the sutra literature, reactionary values gradually gained ground. Kings, priests, the nobility were worshipped; the shudra and the woman came to be regarded as sub-human. With the moving away from ritualism there arose the abstruse tenets and discourses of the Upanishads which still enjoy an aura, a charisma of a superior order. The author's analysis is worth quoting "... the priesthood desired to convert the [Upanishadic] concept into such an incomprehensible mass of mystery as to inspire fear and awe, and eventually, a feeling of inferiority among the lay people. This was the only way in which the class superiority of the priesthood could be maintained" (p 89). This was so especially in view of the fact that with the peoples' disaffection with liturgical religion, the priests lost the seats of honour and deluding the people with their possession of some superior arcane knowledge was the only way in which they could claim awe and homage of the common people, "The Upanishadic concept of avidya developed from the negative idea of mere ignorance to the positive idea of false knowledge" (p 92). Existential experience rests on plurality of substance, but Upanishadic monism denies plurality and upholds one single entity, Atman-Brahman.

Buddhism, a godless religion "was revolutionary because it proposed a cause and effect relationship behind every worldly phenomenon, thereby inspiring a spirit of enquiry into them. The mysticism of the Upanishads, on the contrary, closed the doors on the possibility of such investigation" (p 106). No wonder, then, that Buddhist logic reached the highest peak of logical enquiry. Then again, Buddhism envisaged a more egalitarian society, "the sanghas symbolised classless societies within the fold of class societies. The Buddha's sanghas were designed on the basic of the rules of equality in the pre-class tribal societies" (p 112). In the final analysis, however, the author states that "though the basic tenets of Buddhism were contrary to brahmanism, the rulers, as well as laymen were able to accept or at least respect, both the faiths without rancour or confrontation" (p 141).

With the rise of the non-conformist sects the machinery for extortion spread; while earlier it rested with the monarch, now the rising nobility of merchants who introduced mortgage, interest, usury, confiscation enjoyed the cream of the surplus produced by the peasants and artisans.

The author treats of two texts of cardinal importance in shaping Indian society -

Kautilya's Arthashastra and the Manusmriti.
Some of Kautilya's dictums commend him
he has a realistic and scientific approach
to society, he fully realises the significance
of material wealth, its protection, utilisation
and the means of increasing it as well as its
investment for public welfare. In social laws
Kautilya approves of a woman forsaking
her husband in six extreme situations—a
liberalism never found again among the later
law-makers.

The Manusmriti, later by over half a century than the Arthasahstra, betrays tendencies to greater rigidity regarding the control of the weaker sections of society with an iron hand. A work of the Kushan period, it grew and covered large territories of northern India at a time of greater material prosperity when wealth was accumulating in the hands of a privileged few. Trade guilds grew in power and after the decline of the Maurya dynasty, they gained a measure of independence. Intermarriage among members of the guilds reshuffled the caste organisation and many new subcastes emerged and were recognised. "...the new brahmana class, especially the vratyas, spread while building up a multi-caste heterogeneous society, and religion with a multiplicity of gods, along with the advance of the plough agriculture in the new regions also spread" (p. 151). Syncretism became quite prominent in the rise of the new religion which has evolved into what is known as Hinduism today. But the Manusmriti "is remarkably consistent in harping upon the perpetual and absolute inequality among human beings and proclaiming the superiority of the brahmanas" (p 155).

The next set of formative texts are the Puranas. Unlike the Vedic texts these are open to shudras and women. The Puranas together with the two epics are the authentic scriptures of Hinduism and they reflect a great upheaval in the religion - puja (idol worship), vows, pilgrimage, charity, devotion, etc, emerge as new values. "This was the result of unprecedented development of agriculture-based society among the new communities which were idol-worshippers" (p 181). Shaivism and Vaishnavism came to the forefront and innumerable sub-sects rose with the passage of time. Pilgrimages indirectly led to the diffusion of knowledge and a conceptual unification of India.

In the epilogue the author gives a brief resume of the arts, crafts, literature, astronomy, mathematics and ends with a section on untouchability. On the last subject the author submits that people did not become untouchable because of the filthy nature of their jobs, but filthy jobs were forced on the undesirable sections of the people, viz, captives and subjugated people who were not slaughtered because the spiritual climate of the country was saturated with non-

violence. This is a better explanation of the phenomenon of untouchability.

The author has a pleasant style with a smooth flow of the prose which makes the book eminently readable. He is logical in the arrangement of the material and the range of his reading is quite wide, not only on Indian history but also in allied fields. All this renders his presentation convincing.

There are, however, some errors, many of which are grammatical oversights and some in transliteration of Sanskrit words into English. Sudas has been consistently rendered as Sudasa, 'kamabadhya' is not to be 'beaten' but 'killed' at pleasure (p 47), 'takman' is malaria, not cold fever (p 55), 'gomata' should be 'gomat' (p 9), 'bruhi' is in the imperative mood and means 'speak', not 'I shall speak' (p 73), 'pratyagatman' has been rendered as 'prainvatman' (p 89. 133), 'sanctimonious' is used for 'sacred'. Valmiki is 'a savage robber' (p 181) only in the late 16th century Bengaly translation, in the original he is an ascetic. 'Aapurta' has consistently been rendered as 'purta', Tvastri as Tashta, 'havis' does not mean 'share' but 'oblation'. Minor errors like these are quite frequent but the real hurdle lies elsewhere: except very occasionally, the author does not place his historical material in time. Texts, socio-economic phenomena, ritual practices

philosophical tenets are mostly arranged in sequence but without reference to any time-frame. In a book on history this is a serious blemish. But all can be easily rectified in the next edition. These errors are mentioned because materialist explanation of Indian history is the crying need of the day, but such authors swim against the tide and have to be doubly careful in their data before they can convince the readers. We have to run twice as fast to reach half as far.

The basic conclusions of the book are sound. When many historians seek to twist history to prove cosy theories like 'Indian society had always been closely knit', 'shudras were comfortably accommodated in society', 'women have always been respected and accorded an equal status', 'untouchability is a rare regional phenomenon confined to small pockets', 'the Indian people have always been too inclined to religious life to be concerned with material prosperity', when all this is the prevalent trend, a book like this is most welcome. It demythologises Indian history, uncovering the selfish and wilful imposition of poverty and loss of human dignity on the masses by a handful of privileged people, much of whose religion, philosophy and scriptures are deliberately planned for the suppression of the majority of the people so that their own vested interest is not harmed.

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# Public Sector Enterprises in India Is Privatisation the Only Answer?

### K P Kalirajan R T Shand

Privatisation is a major theme in public sector reform. This article argues on the basis of empirical evidence that improving the performance of public enterprises is an alternative measure where privatisation is a difficult policy option to implement in the short term. A bench-mark for measuring productive performance of public enterprises has been evolved and applied to measure productive performance and production behaviour.

A VIEW, often cited in the literature, is that public sector enterprises are inefficient and should be handed over to the private sector. This has made privatisation a central theme in public sector enterprise reforms. But we argue that the most important questions that should be addressed in such reforms are why they are inefficient and what reform measures should be implemented to make them efficient. Answering these questions and directing reform measures towards improving performance is an alternative path in conditions where privatisation is a difficult policy option to implement in the short term. It could also be regarded as a pre-condition for privatisation.

There are contrasting views on privatisation in the literature. One insists that private ownership ensures the necessary qualities of motivation and incentive in decision-making and implementation which are lacking in the case of public ownership [Hayck 1944 and Kornai 1986]. Examples can be cited to illustrate the existing inefficiency in public sector enterprises in many countries. The other view argues that private ownership is not the sine qua non for improving motivation and incentive to produce maximum possible output. Eliminating the 'soft budget' approach to public enterprises is the most important factor towards improving the productive performance of public sector enterprises [Bardhan 1992]. The example cited most often in the literature in this context is Singapore where there are a large number of efficient pubic sector undertakings. However, there is a major difference in the composition of public sector enterprises in Singapore and in India. Sick and loss making firms will not be considered for public sector ownership in Singapore, whereas they constitute a major proportion of such enterprises in India. An important question addressed in this paper is that of the impact of 'soft budgets' on the productive performance of Indian public enterprises.

It is customary to gauge the performance of any business undertakings by the yardstick

of net profits. Given that the public sector has different objective functions from the private sector and that 'soft budgets' play a crucial role in public enterprises, measuring their performance in terms of profits may not be meaningful. A measure of performance should be defined which is independent of whether firms are subject to 'soft budgets' or 'hard budgets'. In this paper, a bench-mark is chosen for measuring the productive performance of public enterprises, and the objective is to compare the realised performances of public enterprises in India in relation to that measure.

The following section briefly discusses the inter-relationship between 'soft budgets' and productive performance of public enterprises, and provides a brief description of the public sector in India. The next section explains the chosen bench-mark chosen for the empirical analysis and the estimation methods used. With a brief description of data, empirical results are analysed in the following section. A final section brings out the overall conclusions of this paper.

### 'Soft Budgets' and Public Sector Enterprises

Budget constraints in public sector enterprises, generally, are unduly soft, and political accountability prevails over performance accountability. Performance accountability requires that resources are not wasted and are used to their full capacity. A necessary condition for performance accountability, therefore, is that firms should not enjoy 'soft budgets'. In Kornai's (1980) terms, 'soft budgets' refer to the following elements of the economic environment faced by firms: subsidies, favourable administered prices, easily arranged tax reliefs, and easy credit availability and repayment. Kornai (1986) has elegantly explained how the 'soft budgets' environment influences production performance of public sector enterprises, so the arguments are not repeated here, but briefly, 'soft budgets' usually allow firms to produce outputs by using inputs liberally and not use them to their full capacity. This means that 'soft budgets' tend to encourage such firms to waste scarce resources. In other words, 'soft budgets' discourage competition and consequently, reduces productive efficiency. Competition is always associated with the private sector in the literature, but there are no valid theoretical arguments as to why competition cannot be associated with the public sector, once 'soft budgets' are climinated

The important question in this context is how far 'soft budgets' have constrained public sector enterprises in India from achieving best possible productive performance without wasting resources. To the extent that they have, it is logical that public sector reforms should aim at improving productive efficiency as a first priority, and this can be regarded as a necessary pre-condition for engendering interest in the private sector to buy public sector enterprises.

As a consequence of the Industrial Policy Resolution of 1956, public sector enterprises in India have played a strategic role in the economy. Key sectors of the economy are dominated by public sector enterprises in terms of employment generation and productivity levels. The public sector in India comprises of the following three types of organisations administration by a government department; the joint-stock company governed by company law and controlled by the government as the principal chareholder, and autonomous public corporations. In the 1950s, there were only 21 public sector enterprises with an invested capital of Rs 81 crore. In the 1960s, the number of enterprises and the invested capital grew to 85 and Rs 3,902 crore respectively. In the 1970s, the number of enterprises doubled to 169, and the investment quadrupled to Rs 15,534 erore. The increases accelerated in the 1980s, numbering 244 and Rs 99,329 crore respectively [Department of Public Enterprises 1993].

A major reason for this rapid and accelerated expansion is that public enterprises spread to all areas of the economy. Table 1 indicates the growth in value of sales in public sector enterprises in manufacturing and service sectors. Both manufacturing and service enterprises have consistently increased their value of sales. However, sales value as a percentage of capital employed has declined continuously from 1985-86 to 1991-92. In fact, the general overall performance of the public sector enterprises has deteriorated over time, with an increase in the number of loss-making enterprises.

It is customary to gauge the performance of any business undertaking by the yardstick of net profits. Given that public sector enterprises have different objective functions from private sector enterprises and that 'soft budgets' play a crucial role in such enterprises, measuring their performance in terms of profits may not be meaningful. A measure of performance should be defined which is independent of whether firms face 'soft budgets' or 'hard budgets'.

One such measure uses the ratio of realised output to potential output, given a set of inputs and technology. This is referred to as technical efficiency in the literature. Thus, firm-specific potential measured as maximum possible output for a given set of inputs forms a bench-mark from which the productive performance of the concerned firm is measured. To avoid wastage of resources, the central objective of enterprises, whether private or public, should be to produce the maximum possible output from a given set of inputs and technology. Maximum possible output is achieved, when an enterprise follows the best practice techniques of the chosen technology. Therefore, in public enterprise reforms, the central focus should be on the question of whether or not enterprises are following the best practice techniques of the chosen technology.

### II Bench-Mark Specification

The bench-mark of the potential output can be defined in terms of the following stochastic frontier production function [Kalirajan and Shand 1994]:

$$y_{ij}^* = f(X_{ij}) \exp(V_{ij})$$
 (1)

where f(x,t) is the appropriate production function,  $y_{it}^*$  represents the maximum possible production level with given technology of the i-th firm in the t-th time period, and  $x_{it}$  is a vector of core inputs used in production. Variable  $y_{it}^*$  is obtained by the i-th firm in the t-th period from the input set  $x_{it}$ , using the best techniques available from the given technology,  $v_{it}$  is a random

variable which is assumed to be normally distributed independently of input vector  $\mathbf{x}_{it}$ . Due to the presence of the random variable,  $\mathbf{v}_{it}$ , this equation represents a stochastic frontier. Further,  $\mathbf{v}_{it}$  is expected to capture the influence of factors outside the control of enterprises that cause the actual output of enterprises to vary around some mean level.

Some enterprises may be producing inside and not on the frontiers defined by equation (1) owing to the negative effects of nonprice or organisational factors. For example, lack of incentives, the soft budget option, poor work ethics, inefficient transmission of information about production processes to government decision-makers, and the ineffectiveness of government control over enterprises<sup>2</sup> could singly or collectively cause deviations of realised output from frontier levels of output. It is very difficult to model the influence of each of the above non-price and organisational factors on output, but the combined influence of these factors can be introduced as shown in equation (2):

$$y_{ii} = f(x_{ii}) \exp(e_{ii}) = f(x_{ii}) \exp(v_{ii} - u_{ii})$$
 (2) where  $u_{ii}$  is a non-negative random variable representing the combined effects of non-price and organisational factors in the i-th enterprise on technical aspects of production in the t-th period. The enterprise fully realises its potential (produces at the production frontier) in the t-th period if and only if  $v_{ii}$  equals zero. This specification implies that enterprises cannot produce more than a theoretically possible level and is more consistent with economic theory than the conventional production function approach. The greater the observed value of  $u_{ii}$ , the further the enterprise will be from the production frontier and less efficiently it will be producing. The level of technical efficiency in the i-th enterprise at the t-th period can now be defined as:

 $TE_{it} = exp(-u_{it}) = y_{it}/y_{it}^{\bullet} = Actual output/$ Maximum possible output (3)

### Estimation Methods

While estimating equation (2), the following three cases can be distinguished for  $u_0$ :

(1) u<sub>n</sub>s remain constant over time or are time-invariant. This means that the distribution of technical efficiency for a

TABLE 2: SUMMARY OF VARIABLES OF INDIAN PUBLIC ENTERPRISES USED FOR ESTIMATION

| Variable     | Year | Mean    | Standard<br>Deviation |
|--------------|------|---------|-----------------------|
| Value added  | 1989 | 9327.66 | 18684.00              |
| (Rs lakh)    | 1990 | 8484.65 | 18165.80              |
| ,            | 1991 | 8503.27 | 17901.66              |
| Labour       | 1989 | 8602.68 | 13453.60              |
| (in numbers) | 1990 | 7821.94 | 12898.82              |
| •            | 1991 | 7529.32 | 12638.61              |
| Fixed assets | 1989 | 7238.40 | 12616.74              |
| (Rs lakh)    | 1990 | 7304.16 | 12516.68              |
|              | 1991 | 7719.80 | 13014.16              |

TABLE 3: MAXIMUM LIKELIHOOD ESTIMATES FOR PARAMETERS OF THE STOCHASTIC PRODUCTION FUNCTION

| Variable     | Parameter | Frontier Estimates |
|--------------|-----------|--------------------|
| Constant     |           | 0.8707             |
|              |           | (0.2740)           |
| Labour       | a,        | 0.2283             |
|              | •         | (0.0610)           |
| Fixed assets | a,        | 0.6969             |
|              | -         | (0.0506)           |
| Dummy I      | a,        | 0.7109             |
|              | ,         | (0.1304)           |
| Dummy 2      | a,        | 0.4382             |
| •            | •         | (0.1230)           |
| Sigma-square |           | 11.7482            |
|              |           | (5.1050)           |
| Gamma        |           | 0.9898             |
|              |           | (0 01514)          |
| Mu           |           | - 18.2039          |
|              |           | (6.0576)           |

Notes: (1) Variables in brackets are asymptotic standard errors.

(2) Dummy 1 = 1 if observation is from heavy engineering industry = 0 otherwise. Dummy 2 = 1 if observation is from medium and light engineering industry = 0 otherwise.

TABLE 1: GROWTH IN VALUE OF SALES FROM PUBLIC SECTOR ENTERPRISES

(Rs crore)

| Year    | Manufacturin | g Enterprises       | Service I | Enterprises         | Total  |                     |
|---------|--------------|---------------------|-----------|---------------------|--------|---------------------|
|         | Sales        | Capital<br>Employed | Sales     | Capital<br>Employed | Sales  | Capital<br>Employed |
| 1982-83 | 30970        | 17959               | 11019     | 8567                | 41980  | 26526               |
| 1983-84 | 34708        | 19908               | 12564     | 9943                | 47272  | 29851               |
| 1984-85 | 52631        | 24310               | 15153     | 12072               | 54784  | 36382               |
| 1985-86 | 44532        | 30238               | 17828     | 12727               | 62360  | 42965               |
| 1986-87 | 49701        | 35898               | 19387     | 15937               | 69088  | 51835               |
| 1987-88 | 59313        | 38669               | 21955     | 16948               | 81268  | 55617               |
| 1988-89 | 71702        | 47504               | 21435     | 20125               | 93137  | 67629               |
| 1989-90 | 82517        | 58909               | 23553     | 25851               | 106069 | 84760               |
| 1990-91 | 91816        | 69633               | 26860     | 32451               | 118676 | 102084              |
| 1991-92 | 101972       | 79840               | 33833     | 38652               | 135805 | 118492              |

Source: Public Enterprises Survey 1991-92, Department of Public Sector Enterprises Vol 1, Ministry of Industry, Government of India, New Delhi, 1993.

particular period of time is perpetuated in other periods. Furthermore, the efficiency level of each enterprise remains constant over time. Any deviation from the production function results from random shock and not from changes in efficiency.

- (2) u<sub>n</sub>s are correlated over time for a particular enterprise. Under this specification, any variation in technical efficiency will follow a traceable course.
- (3) u<sub>it</sub>s are uncorrelated with other units across enterprises as well as over time. In this case, levels of technical efficiency are determined by the specific production or institutional characteristics of the i-th enterprise during the t-th period of time, and these differ not only across enterprises but over time for particular enterprises.

To estimate and quantify the dynamic characteristics of technical efficiencies of enterprises, the distribution of technical efficiency is assumed to follow case (3) which is probably closest to reality. The specification of u<sub>n</sub> in this study differs from that in previous studies in that the nonnegative component of equation (2) is assumed to vary across enterprises and over all periods following a multivariate distribution. In addition, technical efficiency (u<sub>n</sub>) follows a truncated half-normal distribution and the point of truncation is not predetermined at zero.

In this study, we use the maximum likelihood method discussed in Zhao (1994) to estimate the production frontier. Finally, it should be noted that, despite the advantages of this model, it also has limitations. In particular, the conditionality of the variance of the distribution of technical efficiency on the residual term will not vanish, even if the sample size is increased. Estimations of technical efficiency for individual observations are thus not consistent from a statistical point of view, even though the mean efficiency is consistent.

### III Data and Estimation Results

The estimation of bench-mark and technical efficiency measures for public enterprises in India is based on survey data for 50 manufacturing enterprises published by the Department of Public Enterprises (1993), ministry of industry. Enterprises are from three industries (heavy engineering, medium and light engineering, and transportation equipment). Panel data covering the period 1988-89 to 1990-91 have been used for estimation. Sample data characteristics used for empirical estimation are given in Table 2. All values are given in 1989 constant prices. The means of value added declined by about 9 per cent from 1989 to 1991, while the means of fixed assets increased by about 7 per cent

The following unconstrained Cobb-Douglas model is used to estimate enterprise - specific technical efficiency:<sup>3</sup>

 $\ln (\text{Value added}) = \text{constant} + a_1 \ln (\text{labour}) + a_2 \ln (\text{capital}) + a_3 \text{ Dummy 1}$ 

$$+ a_4$$
 Dummy  $2 - u_{11} + v_{11}$  (4)  
where  $1 = 1, 2, ..., N$  (enterprises);

t = 1989, 1990, 1991.

Economists normally use the time trend as a proxy for technical progress in the estimation of both time series and panel data. It is rational to assume that technical progress may not be significant during the selected period of analysis in India. Maximum likelihood estimation is used to estimate the coefficients of the frontier production functions and the parameters of the distributional form of technical efficiency.

Before examining the production frontier and variations in technical efficiency, it is necessary to check the appropriateness of the generalised stochastic production frontiers where the random variable 'u' follows a truncated half-normal distribution (with an unrestricted mean). This can be tested using a generalised likelihood ratio. The negative of twice the logarithm of the generalised likelihood ratio has approximately Chi-square, with a parameter equal to 2. The Chi-square statistic is 22.8 for equation (4), far exceeding 9.21, the critical value at the 99 per cent confidence interval. This suggests that the null hypotheses is rejected decisively, making model 4 an inappropriate specification for the data set.

The value of 'Gamma' for equation (4) which is obtained in the estimation process is 0.98 indicating that variation in residuals in the production function is explained mainly by variation in enterprise-specific technical efficiency and not by random chance factors (Table 3). However, this conclusion is not valid if the estimated model

is subject to substantial heteroscedasticity. To test for heteroscedasticity, a White's test is carried out by regressing the disturbance term  $(v_i)$  on the core explanatory variables, their squares and cross products. The  $R^2$  is 0.072 with insignificant t-statistics for all variables at a conventionally accepted confidence interval. This means that we cannot reject the hypothesis that  $v_i$  is homoscedastic for the data set.

Equation (4) is used in the estimation of technical efficiency of sample enterprises. All the coefficients are significant at least at the 5 per cent level. The industry dummy variables in the production frontier functions are positive. This means that the production frontier differs from one industry group to another and that the heavy engineering industry has the highest frontier (highest potential output for a given set of inputs and technology) followed by the light engineering industry.

The mean technical efficiency of public enterprises in India indicates that these enterprises were less efficient in 1991 than in 1989 (Table 4). On average, public sector enterprises realised only about 60 per cent of their potential output. Mean technical efficiency at industry level (Table 5) shows a similar trend at this more disaggregated level. This carries the crucial implication that output in public enterprises can be increased without increasing levels of inputs (labour and capital) but just by improving technical and management practices. Medium and light engineering and transportation and equipment industries in India have provided shelter to very inefficient enterprises during 1989-1991.

This does not mean that these industries do not have individually very efficient enterprises. In fact, in the medium and light engineering industry, the most efficient enterprises seem to have been increasing

TABLE 4: TECHNICAL EFFICIENCY OF INDIAN ENTERPRISES

(Per cent)

| Year | Frequency | Mean  | Maximum | Minimum | Standard<br>Deviation |
|------|-----------|-------|---------|---------|-----------------------|
| 1989 | 47        | 65.67 | 90.51   | 13 90   | 18.38                 |
| 1990 | 50        | 60.15 | 90.64   | 12.27   | 22 25                 |
| 1991 | 50        | 61.64 | 91.40   | 15.04   | 22.39                 |

TABLE 5: TECHNICAL EFFICIENCY OF INDIAN ENTERPRISES BY INDUSTRY

| Sector                       | Year | Frequency | Mean  | Maximum | Minimum | Standard<br>Deviation |
|------------------------------|------|-----------|-------|---------|---------|-----------------------|
| Heavy engineering            | 1989 | 14        | 66.86 | 90.51   | 33.35   | 14.84                 |
|                              | 1990 | 15        | 63.77 | 90 64   | 38 80   | 15 93                 |
|                              | 1991 | 15        | 61.89 | 91.40   | 26.77   | 17 96                 |
| Medium and light enginnering | 1989 | 22        | 65.97 | 83.32   | 17.36   | 17.06                 |
|                              | 1990 | 23        | 59 59 | 83.25   | 12.27   | 23 63                 |
|                              | 1991 | 23        | 62.97 | 90.33   | 14 05   | 23.63                 |
| Transportation equipment     | 1989 | 11        | 63.58 | 85.07   | 13.90   | 25.49                 |
|                              | 1990 | 12        | 56.70 | 84.01   | 16 15   | 27.09                 |
|                              | 1991 | 12        | 58.79 | 82 85   | 15.04   | 26.33                 |

TABLE 6: TECHNICAL EFFICIENCY OF TOP AND BOTTOM FIVE ENTERPRISES

| Name of<br>Enterprise              |   | Average<br>Technical<br>Efficiency<br>(Per Cent) | ,   |
|------------------------------------|---|--------------------------------------------------|-----|
| Bridge and Roof                    |   |                                                  |     |
| Company (India)                    | Н | 90.85                                            | . 1 |
| HMT Bearing                        | M | 83.80                                            | 2   |
| Reyrolle Burn                      | M | 83.48                                            | 3   |
| Garden Reach Ship-<br>builders and |   |                                                  |     |
| Engineers                          | T | 83.36                                            | 4   |
| Indian Telephone                   |   |                                                  |     |
| Industries                         | M | 82.38                                            | 5   |
| Scooters India                     | Т | 31.00                                            | 48  |
| Bharat Dynamics                    | M | 21.79                                            | 49  |
| Central Inland Water               | • |                                                  |     |
| Transport Corpn                    | T | 17.68                                            | 50  |
| Semi-Conductor                     |   |                                                  |     |
| Complex                            | M | 15.11                                            | 51  |
| Cycle Corporation                  |   |                                                  |     |
| India                              | T | 11.83                                            | 52  |

Notes: H = Heavy Engineering; M = Medium and Light Engineering; T = Transport Vehicles.

their efficiency, as the maximum efficiency level increased to 90 per cent in 1991 from 83 per cent in 1989 and in 1990. Thus there was some dynamism in performance over time.

To gain a better understanding of the productive performance of individual enterprises in each industry, it is a useful exercise to identify the top five efficient enterprises and the bottom five efficient enterprises in the sample. Table 6 shows the top five efficient and the bottom five inefficient public enterprises in India in the selected industries. Our findings coincide almost exactly with conclusions reached by the department of public enterprises based on a number of other performance measures which are published in the Public Enterprises Survey, 1991-92. For example, the 1991-92 Survey argues that the Garden Reach Shipbuilders and Engineers in the transportation equipment industry has shown improvement in shipbuilding, general engineering and production of pumps, and that capacity utilisation was about 100 per cent during the period of analysis. Similarly, the Survey indicates that the Cycle Corporation of India had the poorest performance among the sample enterprises, and that capacity utilisation declined from 25 per cent in 1989 to 16 per cent in 1991. Results in Table 6, using our single performance measure, are in conformity with the above findings concerning these two enterprises.

Thus, the results can be interpreted as an indication that public sector enterprises in India can be made to improve their efficiencies by implementing reform measures directed towards achievement of hest practices (technical performance enhance-

ment) without having to consider the question of privatisation. However, at the other end of the spectrum of technical efficiency, for those firms with very low levels there may be no alternative to closing them down.

### IV Conclusions

This paper argues that technical performance enhancement (TPE) should be the central focus in the first instance in public sector enterprise reform in India. Thus, the more important issue, which has to be addressed quantitatively, is the extent to which individual public sector enterprises are falling short of their maximum possible output from their existing input set and technology. Our empirical analysis shows that a majority of public enterprises have not only failed to achieve their maximum possible (frontier) output, but have declined in technical efficiency over time, i e, have widened the gap from their production frontiers. This means that a huge amount of resources have been and are being wasted. It would be useful and a necessary step to identify the causes for such poor and declining production behaviour, but owing to lack of appropriate data at this time, this analysis could not be undertaken.

Our conclusion therefore is that, regardless of the issue of privatisation, reform measures directed towards raising productivity of the use of existing resources with existing technology can contribute substantially to improving the performance of public sector enterprises. Further, to the extent that privatisation policy for public sector enterprises remains a sensitive issue and difficult to implement in India, implementation of reform policies to improve technical efficiency of enterprises under public ownership by 'hardening' the budget option and using the existing mix of inputs in a technically more effective and productive way becomes all the more attractive. The further key option is to upgrade existing technology

and thereby raise the production frontiers of public sector enterprises.

### Notes

- 1 For a detailed account, see Ahluwalia (1985).
- 2 The latter two problems were identified by Danilin el al (1985) under the so-called 'command economy hypothesis'. These issues, in the context of the Indian public sector, have been discussed by Ahluwalia (1992).
- 3 When a translog form was estimated and the estimates used to test the complete global separability assumption the results showed that the assumption could not be rejected. This means that the underlying production technology may reasonably be represented by the Cobb-Douglas case.

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### Political Economy of Privatisation in India

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India's biggest failure in its economic reforms programme is that there has not been a transformation of public enterprises. While privatisation appears to be the only way out, it has not made much of a headway. This paper attempts to examine why this has been so specifically exploring the incentives that influence the decisions of India's politicians and policy-makers while dealing with the issue of privatisation of public enterprises.

### I Introduction

INDIA has a huge public enterprise sector. It consists of nearly 1.300 enterprises, owned and managed by the central government. state and union territory governments, and local governments in the country. These enterprises manage, according to the World Bank (1994), as much as 55 per cent of the economy's (excluding households) capital stock and account for one-fourth of nonagricultural GDP. They dominate many sectors of the economy: surface irrigation; water supply in rural and urban areas; railways; river transport; ports; postal services; telecommunications; mining (including hydrocarbons and coal); one-third of registered manufacturing (particularly steel, petrochemicals, capital goods, pharmaceuticals, fertilisers); power generation and distribution; oil and gas production and marketing; air transport; one-third of bus transport; storage; and banking and insurance.

Although there are differences in the performance of individual public enterprises, most are overstaffed1 and suffer from other operational inefficiencies. It is not merely public enterprises such as Bihar State Electricity Board, Uttar Pradesh Road Transport Corporation, Indian Iron and Steel Company, Scooters India, Heavy Engineering Corporation, National Textile Corporation, Fertiliser Corporation of India and Hindustan Fertiliser Corporation, which are inefficient. Even seemingly wellpositioned public enterprises are also operating inefficiently. A study [Gupta 1988] has shown that even Rashtriya Chemicals and Fertilisers, which is considered by many to be one of India's better-run public enterprises, has performed poorly: its pretax profits relative to its net worth ranged between 2.1 per cent and 10.2 per cent during the period 1978-79 to 1986-87, which is much lower than what the government of India (GOI) effectively paid for the resources that it borrowed to invest in it, with inefficiency in the use of inputs (e g. gas and power) being a major factor responsible for this outcome. Similarly, the GOI's National Thermal Power Corporation which received a rating of excellent for achieving its output target in 1991-92, in effect did poorly in that year: output indeed went up, but the use of material inputs rose even faster [World Bank 1995].

Public enterprises have been a major contributor to India's huge public sector deficit - that is, deficit of all public entities in the country, including the central, state, union territory and local governments, departmental and non-departmental public enterprises and public entities such as the Oil Co-ordination Committee. According to a recent estimate [Gupta 1992], the deficit of public enterprises in the energy sector alone adds up to over 4 per cent of GDP. The public enterprises' deficits have added to the country's current large stock of domestic and external public debt (India's external debt, at about \$100 billion, is the third largest among developing countries), which in turn results in massive annual liabilities on account of interest payments - the interest payments of the GOI alone, which has financed much of the investments in the country's public enterprises, as also the losses that many of them have incurred, through borrowings on its account, added up to Rs 520 billion, 4.8 per cent of GDP, in 1995-96. Indeed, the GOI's interest payments currently eat up as much as 46 per cent of its total current receipts,2 up from 39.1 per cent in 1990-91 and 26.8 per cent in 1985-86.

What is more distressing is the phenomenon of many public enterprises in India reporting losses despite being overprotected. This means that these enterprises' operational inefficiencies are so huge that they exceed the benefits resulting from the substantial protection that they enjoy and, as a consequence, they incur losses. With protection levels coming down, with competition increasing, and with many qualified people leaving public enterprises because of substantially better opportunities available in the private sector, the public enterprises' financial performance may worsen.

Many people vehemently disagree with the view that most of India's public enterprises operate inefficiently. GV Ramakrishna, until recently a member of India's Planning Commission, for example, is reported to have claimed that thinking of all public enterprises as inefficient and unprofitable is fallacious, and to substantiate his claim, he is reported to have said that over 131 healthy public enterprises, including those in the infrastructure sector, are making annual profits of about Rs 80 billion (The Times of India, Ahmedabad, January 13, 1995). Two points need to be raised here. First, what is the source of these profits? Is it efficiency in the use of inputs, or protection and/or monopoly or administered pricing? Further, how do the profits compare with what the government effectively paid for the resources that it borrowed to invest in the public enterprises in question? If one evaluates the performance of India's public enterprises in this manner, one will discover that most of them are operating inefficiently as the study on Rashtriya Chemicals and Fertilisers, referred to above, illustrates.

Why are public enterprises in India so inefficient? The answer lies in the environment that public enterprises in India operate in, and in the effect this environment has on the public enterprise managers' incentive: to develop new, better and less expensive products, develop new markets, minimise capital and current costs, and maximise profits. Iyer (1991) provides a graphica account of the unhealthily close and dysfunctional network of formal and informa links and relationships between the government and public enterprises, as also of some of the other components of the environment public enterprises in India operate in. Descriptions which illustrate this environment include: the government's deep involvement in the actual management o public enterprises, with the concerner administrative ministries' tendency to function as if they were a kind of super management on top of the Board o Directors;4 parliament's involvement in public enterprises' affairs in several ways including through numerous questions and enquiries ranging from questions of overal performance and policy issues to the minutes details of day-to-day functioning; and expansion of the horizon of Article 12 o the Constitution to treat even industrial manufacturing and commercial publi enterprises as 'state' and thereby subject them to the various obligations that go wit such a treatment.

Some people believe that the performance of India's public enterprises can be substantially improved. They assert that what India urgently needs is the putting in place of a programme of public enterprise reform which, among other things, will have to include reform in government at both the political and bureaucratic levels. An objective assessment of the situation however suggests that public enterprise reform in India is not possible.

A recent study [Kikeri et al 1994] has documented what public enterprise reforms in a number of countries have aimed at and the problems that they have faced. The reforms aimed at exposing public enterprises to domestic and external competition and level the playing field by eliminating easy access to credit both from the budget and the banking system; by freeing public enterprise managers from non-commercial goals and government interference in dayto-day decision-making; and by developing institutional mechanisms, such as contract plans (or MOUs) and performance evaluation systems, to hold managers accountable for results. In response to these reforms, some public enterprises have indeed performed better, but three problems persist. First, the reforms are technically and politically difficult to implement. Often, well-designed programmes have fallen short in implementation

Second, performance does improve when the full reform package is put in place, but the necessary steps are numerous and hard to co-ordinate, and entire reform programmes have seldom been enacted. For instance, governments often discontinue budgetary support but continue to guarantee borrowings from banks and pay and employment reforms have yielded little without increased managerial autonomy and accountability.

The third and more important problem of public enterprise reform is sustainability. Faced with a financial crisis or pushed by external forces, a government may initiate fundamental and far-reaching reforms in public enterprises that give managers the mandate and the power to run their enterprises in a commercial manner. As the reforms are put in place, economic and financial performance does improve, but as the crisis fades or the external pressure weakens, government ownership facilitates the revival of non-commercial objectives, which in turn often leads to renewed poor performance.

India's experience with public enterprise reform is no different. Indeed, India's biggest failure in its economic reforms programme is that there has not been a single transformation in public enterprises. There have been some marginal changes in wage conditions, managerial autonomy and so on, but these are very limited. Even if something

significant does happen, the chances are that it will not sustain.

It therefore appears that privatisation is the only way out. Yet privatisation has not made much of a headway in India. Why? The present paper attempts to answer this important question and in so doing it explores the political economy aspects of the privatisation process in India. To be specific, the paper explores the incentives that influence the behaviour of India's politicians and policy-makers while dealing with the privatisation issue in the country.

The paper is divided into five sections. Section II provides an idea of how properly designed and implemented privatisations may benefit India. Section III describes India's privatisation experience and paves the way for Section IV which explores the incentives that influence the behaviour of India's politicians and policy-makers while dealing with the privatisation issue in the country. Finally, Section V presents some concluding remarks.

### II Benefits from Privatisation

Privatisation, if designed and implemented properly, may benefit India in six ways. First, it will improve the environment public enterprises operate in and thereby strengthen their managers' incentives to be efficient, which in turn can contribute to making the Indian economy substantially more efficient, as can be seen from the available evidence on privatisations in India. The government of Andhra Pradesh's Allwyn Nissan (ANL), which incurred losses from the very beginning, in 1985, has done substantially better after its privatisation in 1988: the market share of the company, renamed as Mahindra Nissan Allwyn (MNAL) after privatisation, in the fiercely competitive light commercial vehicle market rose from 17 per cent before privatisation to 21 per cent at the end of 1990-91; the company made an entry into the export market and improved its status from being a loss-making company to a net profit-making one in 1990-91 [Reddy 1992]. The Board for Industrial and Financial Reconstruction has recently approved MNAL's merger with Mahindra and Mahindra (The Economic Times, Ahmedabad, August 4, 1994). The merger is expected to enable Mahindra and Mahindra make a substantially more efficient use of MNAL's plant and equipment and of its dealership and other infrastructure.

Bajaj (1994) has documented the privatisation of the government of Uttar Pradesh's Auto Tractors (ATL) which was established in Pratapgarh, a backward district of Uttar Pradesh, for manufacturing tractors and diesel engines. With ATL's losses accumulating to Rs 479.4 million at the end

of 1989-90 and there being no evidence of its being able to operate profitably, it was decided in November 1990 to close the plant down. The company was shortly thereafter converted into a joint venture with Sipani Automobiles (SAL), with SAL taking over the possession of the plant in March 1991. SAL has concentrated on the production of engines. It produced 1,249 engines in 1991-92 and 1,541 in 1992-93 (more recent information on this is not available), against 273 in 1988-89 and 267 in 1989-90, and has already started making a net profit.

Incidentally, Bajaj (1994) has reported that with ATL located in a backward district, posting as its chief executive was not considered an important position by senior civil servants. The result was that most of the time the civil servants posted to ATL were trying to get out. Politicians used the public enterprise as a source of patronage to enhance their influence by distributing jobs and favours. In this way they were seeking to maximise their influence rather than improve the performance of the enterprise. The interest of the enterprise was far removed from their mind.

No other privatisation in India has been documented. But some recent studies [e g, Megginson et al 1994] have compared public enterprises' performance before and after privatisation in a number of countries. These studies show considerable efficiency gains that have resulted from privatisation.

Second, privatisation may create conditions for substantial additional investment as also, especially if privatisation is accompanied by labour market reforms, conditions for the generation of a large number of productive employment opportunities, which in turn may contribute to removing poverty. According to a recent study [Kikeri et al 1994], privatisation revived a near-dead textile company in Niger, which now operates profitably at close to full capacity with a larger work force. The company exports much of its production and has won a large domestic market share against imports.

Third, consumers may also gain from privatisation. A recent study [Galal et al 1994], which examined the welfare consequences of selling selected public enterprises in Chile, Malaysia, Mexico and the UK, found that quite apart from any benefits from improved service, consumers for the most part gained or remained unaffected by privatisation. In the five cases in which consumers did lose. the (generally small) losses were attributable mostly to prices moving closer to their scarcity values. The study concluded, for example, that consumers in Chile were unaffected by the sale of ENERSIS, the sole electricity distributor in Santiago: paying consumers were better off, but this gain was balanced by losses to those who had hitherto

beengetting the electricity free through illegal connections. Which means that if only those who had previously been paying for electricity had been considered legitimate consumers, and that's the way it should have been, the study would have shown substantial increases in consumer welfare. These findings are especially relevant for the Indian situation, given the substantial losses that public entities in the power sector suffer because of illegal connections.

Fourth, given the environment that public enterprises in India currently operate in, they can spread their sickness even to efficient private enterprises in sectors in which both public and private enterprises coexist. Thus, a sick mill belonging to National Textile Corporation, a GOI enterprise, directed by the government to keep on running so as to keep its workers employed and to keep on selling its fabrics at a heavily subsidised price, can easily drive an efficient private sector mill producing comparable fabrics out of business. One can imagine what may happen to private investors currently planning to enter India's power sector if loss-making state electricity boards continue to operate. Privatisation can be of major help in addressing this problem and thereby in allowing the Indian economy to fully realise the potential benefits from industrial liberalisation that has been put in place.

Fifth, privatisation can be of help in reforming public intervention. India suffers from excessive public intervention, with public ownership and management of hundreds of enterprises being one form of public intervention. These enterprises are engaged in innumerable activities: manufacturing steel; building ships; generating and distributing electric power; running domestic and international airlines; exploring, producing and refining oil; operating domestic and international telecom network; running hotels; manufacturing polyester film; making condoms; producing fruit pulp and juice; running banks as also life and general insurance and electronic entertainment businesses; and so on. Privatisation will result in the correction of such distortions and allow the government to concentrate on things which it has failed to do but which it alone can do. As the recent outbreak of pneumonic plague in Surat and its rapid spread to other parts of India has highlighted, the government has failed to effectively intervene in the country's public health sector - and, as The Times of India has commented in a recent (January 2, 1995) lead editorial, "a dirty country cannot be globalised". And public health is not the only example of failure of public intervention in India. There are many such examples: protection of the environment, provision of primary education, maintenance of law and order, and so on.

Finally, privatisation can be of major help in reducing India's huge public sector deficit. This can happen in three ways. To begin with, the proceeds from the sale of public enterprises can be used to finance the public sector deficit or, in case the proceeds exceed the deficit, to reduce the outstanding public debt, both domestic and external. This in turn will reduce the burden of interest payments and thereby the deficit.

Another way in which privatisation can be of major help in reducing India's public sector deficit is by substantially reducing, if not totally eliminating, the public enterprises' various demands on the country's public sector finances. These demands, which add up to substantial amounts, include demands for budgetary support to loss making public enterprises, on the ground that this will enable the concerned public enterprises to restart and produce goods, Consider, for example, the additional budgetary support of Rs 1.1 billion that the GOI recently approved for the sick units of Fertiliser Corporation of India (FCI) and Hindustan Fertiliser Corporation (HFC), both GOI enterprises. The GOI's minister for chemicals and fertilisers is reported to have claimed that the additional budgetary support will enable FCI's and HFC's factories to restart and produce urea (The Times of India, November 20, 1994). That amounts to saying that every sick enterprise in the world can produce goods if subsidised. But that is no reason to provide budgetary support to a sick enterprise. The same money can be used much more productively elsewhere. The minister's gameplan was to throw good money after bad to keep workers happy. Privatisation will do away with all this nonsense and thereby help to reduce the deficit.

There is still another way in which privatisation can be of major help in reducing India's public sector deficit. With privatisation helping in putting the enormous assets, running into trillions of rupees, that public enterprises in India have built and acquired over the last nearly five decades, to substantially more productive uses, direct and indirect tax revenues from privatised firms can be expected to exceed by a wide margin the revenues on account of taxes and dividends currently received from public enterprises. The following two examples illustrate how this can happen. Malaysia sold a government sports lottery in 1985. By 1989 the revenues generated through levies on the privatised lottery were three times greater (in real terms) than the revenue from the former public enterprise [Galal et al 1994]. In Chile the net annual receipts from ENERSIS, the sole electricity distributor in Santiago, declined after privatisation because the government no longer received dividends on its equity, but tax revenue increased as

performance gradually improved [Galal et al 1994].

### III India's Privatisation Experience

India's privatisation experience can be discussed under six heads: selling a public enterprise's fractional equity, with the controlling ownership and management continuing to remain in the public sector: putting up of a public enterprise for sale. with the intention of transferring its control and management to the private sector, but the sale not going through; putting up a public enterprise for sale, the sale also going through, but scuttling the entire deal later; winding up a public enterprise; transferring the control and management of a public enterprise to the private sector, but with a substantial proportion of the equity, enough for managerial intervention, continuing to remain in the public sector; and complete privatisation, or what Bhagwati and Srinivasan (1993) call true privatisation, under which the control and management of a public enterprise is transferred to the private sector (though some public sector equity holding, without managerial intervention, may continue).

### SELLING FRACTIONAL EQUITY

Beginning July 1991, the GOI has put in place a programme to sell a part of its equity held in selected central public enterprises. The Economic Survey 1995-96 (Government of India 1996) provides year and public enterprisewise details of the equity sold during the period July 1, 1991to December 31, 1995. Three things emerge from these data. First, of the 246 non-departmental central public enterprises (CPEs), only 40 CPEs' equity was sold during this period. Second, the quantity of equity that was sold did not add up to much: in 19 of the CPEs in question, the equity sold added up to less than 10 percentage points; in seven, between 10 and 20 percentage points; in six, between 20 and 30 percentage points; in seven, between 30 and 40 percentage points; and in one, between 40 and 50 percentage points. Finally, the controlling ownership and management of all the 40 CPEs continued to remain with the GOI.

That's not all. Most of the equity that has been sold so far, has been sold only to public entities in the financial sector, with the Unit Trust of India alone, for example, accounting for 69.4 per cent of the total sales in 1991-92. This was done, as the minister of finance put it in response to a calling attention motion in the Rajya Sabha, "as it was the government's intention to ensure that the benefits accrued to public sector institutions rather than private entities in the

event of the sales taking place at an underpriced level" (*The Times of India*, Ahmedabad, August 7, 1993).

Public Enterprise Sale Not Going Through

A review of the available material suggests many cases of public enterprises which were put up for privatisation, but which could not be privatised. Examples are. Indian Iron and Steel Company, Scooters India and Great Eastern Hotel.

Indian Iron and Steel Company: The Indian Iron and Steel Company (IISCO), a subsidiary of Steel Authority of India (SAIL), a GOI enterprise, had accumulated losses of Rs 8.9 billion as on March 31, 1994 against its paid-up capital of Rs 3.9 billion; it thus had a negative net worth of Rs 5 billion at the end of 1993-94. According to a GOI diagnosis [Government of India 1991], IISCO's problems included: technological obsolescence; ageing plant and equipment; outmoded operational practices; and overmanning.

With the IISCO management not able to raise on its own the resources required for turning the company around, and with the GOI also not in a position to provide the required resources through budgetary support, the GOI decided to privatise the company and even found a buyer in Mukund. But as IISCO, which earlier used to be in the private sector, was acquired by the GOI under two acts of the parliament (viz, The Indian Iron and Steel Company (Taking Over of Management) Act of 1972 and The Indian Iron and Steel Company (Acquisition of Shares) Act of 1976), parliamentary approval is necessary for the privatisation to be put in place. Two bills to repeal these acts and thereby seek the parliament's approval for IISCO's privatisation were listed for introduction in the Lok Sabha on December 23, 1993 but, given the vehement protest of the Left Front and other other opposition members of the Lok Sabha, they had to be referred to a parliamentary committee. The GOI's minister of state for steel sought the support of the committee, called the Parliamentary Consultative Committee for privatisation of the Indian Iron and Steel Company, but his fervent • appeal did not receive any favorable response.

In March 1994 the IISCO's case was referred to the GOI's Board for Industrial and Financial Reconstruction (BIFR). The BIFR, set up in 1987 to implement the Sick Industrial Companies (Special Provisions) Act of 1985, appointed the Industrial Development Bank of India (IDBI) as the operating agency. The IDBI received a plan for the revival of IISCO. The plan, submitted by SAIL, was contingent on the GOI's ministry of steel providing a budgetary support of Rs 11 billion for reviving IISCO.

But the GOI has rejected the possibility of providing any budgetary support for turnarounding the ailing Burnpur (West Bengal)-based IISCO. Given India's political economy, this certainly is a bold decision—some people had argued that the then ruling Congress Party at the centre had no alternative but to provide the budgetary support in question, because in case it did not it would lose West Bengal in the 1996 general elections.

But what will happen to IISCO now? According to a recent report in *The Economic Times* (Ahmedabad edition, December 1, 1995), IISCO is now almost certain to be privatised, with Mukund, which earlier had offered to takeover IISCO, likely to bid again.

Scooters India: The Scooters India (SIL), a GOI enterprise, was incorporated as a public limited company in 1972 and started commercial production in 1975. It has two units located at Lucknow and New Delhi, with the Lucknow unit manufacturing two-wheelers and three-wheelers and the New Delhi unit, which is under lease, manufacturing electrical ceiling fans.

SIL has performed very poorly. Its accumulated losses amounted to Rs 4.8 billion on March 31, 1994 against its paid-up capital of Rs 78.1 million; it thus had a negative net worth of Rs 4.7 billion at the end of 1993-94, up from Rs 2.5 billion at the end of 1990-91 and Rs 0.7 billion at the end of 1985-86. According to a GOI study (1991), SIL continued to be in a had shape because (a) it had outdated plant and machinery, (b) it had excessive manpower, (c) it had poor marketing and servicing network, and (d) it was unable to compete in a highly competitive market.

The GOI decided, in 1987, to sell the Lucknow unit to Bajaj Auto, a major scooter producer in the private sector, but the decision could not be implemented because of the employees' opposition — SIL's 3,125 employees opposed the GOI's privatisation move because it was feared that it might result in a retrenchment of 1,625 employees [Business Standard, March 8, 1988, cited in Pendse 1991].

In May 1992 SIL was referred to the BIFR. A package for its rehabilitation and restructuring has recently been approved (The Economic Times, Ahmedabad, September 12, 1995). Complete details of the package are not available, but there is reason to believe that the package involves writing off of SIL's liabilities (interest and excise duty payable, and loan repayment) and voluntary retirement of workers. A joint management committee to oversee implementation of the package has also been set up.

Great Eastern Hotel: The Great Eastern Hotel, a government of West Bengal

(GOWB) enterprise, is an over 150-year old hotel, located in Calcutta. In 1994 the Communist Party of India (Marxist)-led GOWB decided to privatise the hotel and transfer the control and management to Accor Asia Pacific, a subsidiary of Accor SA of France, which planned to convert it into a 250-room five-star hotel at a cost of about Rs 950 million. Accor agreed to buy the hotel on the precondition that it would be allowed to retrench all of its 640 employees. The GOWB responded to this by offering the employees 36 to 40 months' salary, apart from provident fund and gratuity dues. But four labour unions, including those affiliated to the CITU and the INTUC, rejected the GOWB's offer.

Jyoti Basu, chief minister, GOWB had announced that the hotel would have to be closed if it was not privatised, given that the GOWB did not have the funds to subsidise it. But the CITU leaders are reported to have impressed upon the chief minister that the privatisation of Great Eastern Hotel just before the Lok Sabha and the West Bengal Assembly elections would not be politically wise. According to them, the Congress Party could use this as a weapon against the CPI(M), especially when the CPI(M) had opposed the privatisation of Bailadila mines (The Times of India, August 22, 1995). This suggests that the issue of privatising the Great Eastern Hotel may be revived, given that both the Lok Sabha and the West Bengal Assembly elections are now over and given that the CPI(M)-led Left Front has been returned to power in West Bengal, with Jyoti Basu as the chief minister.

Scuttling Sale of Public Enterprises

There has been at least one such case: the sale of the government of Uttar Pradesh's UP State Cement Corporation (UPSCCL). The UPSCCL had accumulated losses of Rs 1.6 billion as on March 31, 1990 against its net worth of Rs 0.7 billion; it thus had a negative net worth of Rs 0.9 billion at the end of 1989-90. The UPSCCL's problems included: inherent defects in plant design, inadequacy of trained technical personnel, poor maintenance, overmanning and recurring labour problems, low capacity utilisation, and high cost of production.

Considering the mounting losses, the government of Uttar Pradesh (GOUP) decided, in April 1990, to privatise UPSCCL. It found a buyer in Dalmia Industries. In February 1991 the GOUP and Dalmia Industries entered into a joint venture agreement which provided, among other things, for (a) the GOUP transferring 51 per cent of UPSCCL's equity to Dalmia Industries, with the balance of 49 per cent remaining with the GOUP, (b) the joint venture taking over all the employees of

UPSCCL, and (c) Dalmia Industries taking over the management of UPSCCL. The decision to transfer the equity and handover the management was opposed by the UPSCCL's employees. A petition was filed in the Allahabad High Court, which prohibited the GOUP from converting UPSCCL into a private corporation. The GOUP responded to this by transferring only 49 per cent of the equity, with the stipulation that another 2 per cent of the equity will be transferred after the court's decision. The GOUP also handed over the UPSCCL's management to Dalmia Industries. But as there was labour unrest, the transfer of management could take place only with the help of the police. The police also had to resort to firing to control the workers, as a result of which nine workers died.

After some time, a number of labour unions of the employees filed a petition, stating that as the interests of workers had already been safeguarded by the specific provisions in the agreement that no worker would be retrenched and that the service conditions would not be changed to their detriment, the petition earlier filed by them may be dismissed.

The events, however, took a dramatic turn. There was a change in government in Uttar Pradesh, with the new government deciding to cancel the agreement with Dalmia Industries and resuming the equity shares transferred to it through an ordinance issued on October 11, 1991. There has been a further deterioration in the UPSCCL's financial situation, with its accumulated losses on March 31, 1994 adding up to over four times its net worth. More recent information on its financial situation is not readily available.

### Winding up a Public Enterprise

As part of the country's economic reforms programme, the Sick Industrial Companies Act of 1985 was amended in December 1991 to bring public enterprises under the purview of the Board for Industrial and Financial Reconstruction (BIFR), Consequently, until the end of 1995, 138 cases of sick public enterprises were registered with the BIFR. The BIFR has recommended winding up in 14 of these cases.7 The public enterprises which the BIFR has recommended for winding up include: NTC (Gujarat), NTC (Madhya Pradesh), NTC (Uttar Pradesh), NTC (West Bengal), British India Corporation, Cawnpore Textiles, Elgin Mills, Mandya National Paper Mills, and National Bicycle Corporation.

But none of these public enterprises has been wound up so far. Indeed, the government seems to have abandoned, at least for the time being, even the idea of winding up public enterprises. The GOI's minister of industry is reported to have announced that whenever the BIFR ordered the winding up of a sick public enterprise, the GOI did not accept the order as 'final'. According to him, no stones would be left unturned to restructure, revive and strengthen public enterprises and the route of winding up would be adopted only as the last resort (The Times of India, Ahmedabad, October 21, 1995).

Transferring the Control and Management of Public Enterprise With Substantial Equity Remaining With Public Sector

There have been cases of public enterprises whose control and management has been transferred to the private sector, but a substantial proportion of their equity, enough for managerial intervention, has continued to remain in the public sector. The case of Maruti Udyog (MUL) is an excellent example of this kind of privatisation experience in India.

Until mid-1992 MUL used to be a public enterprise, with the GOI holding 60 per cent of its equity and Suzuki Motor Corporation (SMC) of Japan holding the remaining 40 per cent. Currently, SMC holds 50 per cent of MUL's equity, with the GOI holding 49.74 per cent and MUL employees the remaining 0.26 per cent. This allows the GOI to effectively intervene in decision-making at MUL. One can argue that this is not necessarily a bad thing, provided the intervention is in MUL's commercial interest. And this is where the rub is.

Consider, for example, the GOI's stand on the issue of MUL's proposed expansion and modernisation programme involving an investment of Rs 23.7 billion. MUL wants to modernise and expand in order to withstand the increased competition resulting from the opening up of India's passenger car sector while tightening the grip over its market share. The GOI wants MUL to finance the expansion and modernisation programme through borrowings and internal accruals, while SMC wants to use these routes as well as equity through an increase in the paidup capital. Responding to a question on SMC's objection to financing MUL's expansion and modernisation programme only through borrowings and internal accruals, SMC president Osamu Suzuki said: "There will have to be a balance between borrowing, equity and internal accruals. If anybody suggests that borrowings and internal accruals can be enough, he does not know business. Maybe some people in India are happy with the impasse. Maybe some car manufacturers are behind it as they resent Maruti's monopoly" (The Times of India. Ahmedabad, December 15, 1995).

And what is the GOI's objection to raising part of the required resources through equity?

The answer is simple, the GOI wants to retain its equity holding at the current level of 49.74 per cent, and in order to be able to do that it will have to shell out a substantial amount of money which it cannot afford to do. It cannot shell out the money largely because of its current difficult fiscal situation, but also because of the perverse signals that this will send out to all those who were denied budgetary support for the programmes that they had supported (e.g., programme for IISCO's revival) – they will argue that if the GOI can manage to find resources for investing in MUL's equity, it must find resources for, say, IISCO's revival as well.

The bottomline is that while MUL is no longer a public enterprise, the GOI's current actions are being guided much less by commercial rationality than by its desire not to dilute its current 49.74 per cent equity stake, so that it may continue to control MUL and effectively intervene in its affairs. The irony is that all this is being allowed to happen despite the noise that the GOI has made in recent years about getting out of non-core areas.

### Complete or True Privatisation

Finally, India's privatisation experience also includes cases of complete or true privatisation, under which the control and management of 'a public enterprise is transferred to the private sector (though some public sector equity holding, without managerial intervention, may continue). Indeed, a careful review of the available evidence, including the results of a recent The Economic Times survey on how 14 state governments have dealt with the privatisation issue (The Economic Times, Ahmedabad, February 17, 1996), clearly suggests many cases of complete or true privatisation in India. The public enterprises that have been completely or truly privatised in India include: ACC Babcock, Allwyn Nissan, Auto Tractors, East Coast Breweries and Distilleries, Goa Telecommunications, Goa Time Movers, Haryana Breweries, Hindustan Allwyn's refrigeration division, Orissa Mining Corporation's charge chrome plant, and Rajasthan State Tanneries Information on the total value of the public enterprises that have been completely or truly privatised so far is not available, but there is reason to believe that it does not add up to much.9

The foregoing discussion reveals the variety of ways in which India's politicians and policy-makers behave when it comes to dealing with the issue of privatisation in the country. But why do they behave the way they do? To be specific: Why doesn't the percentage of equity of the central public enterprises that the government of India has sold during the last roughly five years, add up to much? Why didn't the government of

India privatise the ailing Indian Iron and Steel Company, even though it had announced its decision to do so and had even found a buyer in Mukund? Why didn't the government of India privatise the ailing Scooters India, even though it had announced its decision to do so and had even found a buyer in Bajaj Auto? Why didn't the government of West Bengal privatise the ailing Great Eastern Hotel, even though it had announced its decision to do so and had even found a buyer in Accor Asia Pacific. a subsidiary of Accor SA of France? Why did the government of Uttar Pradesh scuttle the deal involving the privatisation of UP State Cement Corporation?10 Why haven't the public enterprises which have been recommended for winding up by the BIFR, have been wound up so far? Why is the government of India insisting that it must continue to control Maruti Udyog and effectively intervene in its affairs even though Maruti is no longer a public enterprise? Why did the government of Uttar Pradesh privatise Auto Tractors? Why did the government of Andhra Pradesh privatise Allwyn Nissan and Hyderabad Allwyn's refrigeration division? And so on.

I have developed a framework for addressing these issues. The framework explores the incentives that influence the behaviour of India's politicians and policymakers while dealing with the privatisation issue in the country. Section IV presents the framework.

### IV Incentives Influencing Behaviour of India's Politicians and Policy-Makers

While India's politicians and policymakers have generally opposed privatisation, they have also allowed the privatisation of certain public enterprises. A politician or policy-maker may oppose privatisation on ideological grounds - privatisation is a bad thing; public enterprises can be reformed. A politician or policy-maker may oppose privatisation also because s/he perceives privatisation as something which is not in his/her self-interest. A politician or policymaker may perceive the privatisation of a given public enterprise as damaging, directly or indirectly, the chances of his/her election/ re-election if that privatisation is likely to affect adversely one or more of the following interest groups: the public enterprise's employees, input suppliers, output dealers, and customers accustomed to subsidised output. Further, to the extent that a public enterprise can be used as a milch cow or as a source of patronage, or as both, its privatisation may be perceived by a politician or policy-maker as a development which is not in his/her self-interest.

On the other hand, when a politician or policy-maker allows the privatisation of a given public enterprise, he/she may do so, one may argue, because of one or more of the following considerations: ideological grounds (privatisation is good; it will benefit the economy in several ways), pressure from well-informed voters, and increasingly difficult public finance situation.

A careful review of the available evidence and discussions with knowledgeable people suggest that Indian politicians' and policymakers' opposition to privatisation has been influenced much less by ideological considerations than by considerations of self-interest. Indeed, the considerations of self-interest seem to have been so pervasive and overwhelming that it is these considerations which largely explain the issues raised earlier."

But this is not all. The increasingly difficult public finance situation has begun putting pressures on Indian politicians and policymakers to bahave differently. They have begun to realise that many sick public enterprises will have to be privatised for releasing scarce resources for more pressing public purposes and/or for some populist schemes that they had announced in their election manifestos. It is this recognition which, in my view, has triggered all the moves that have been made for complete or true privatisation in India. Also, it is this recognition which explains why the GOI is toying with the idea of selling Indian Iron and Steel Company to Mukund now.

But a given privatisation move does not necessarily turn into a complete or true privatisation. Much depends on how the process of transition from a privatisation move to a complete or true privatisation is managed. Given that most public enterprises in India are grossly overstaffed, a major consideration here relates to the employment implications of privatisation. In the Haryana Breweries privatisation case, the employment issue was handled by the buyer (Shaw Wallace and Company) and the seller (government of Haryana) entering into an agreement which clearly stipulated that "there will not be any retrenchment or downward revision of pay scale of existing workmen or employees" (Letter to Editor from R S Malik, commissioner and secretary, department of industry, government of Haryana, The Economic Times, July 26, 1994). Similarly, in the Allwyn Nissan (ANL) privatisation case, the employment issue was handled by the buyer (Mahindra and Mahindra) and the seller (government of Andhra Pradesh) entering into an agreement under which the buyer undertook to "protect the rights and service conditions of the employees on the payroll of ANL, abide by the written commitments of the present management to them and not envisage any reduction in the overall workforce" [Reddy 1992]. But in the GOI's Scooters India case, the privatisation move did not succeed as the employees opposed the move on the ground that it might result in retrenchment of roughly half the employees.

But all this does not necessarily suggest that in order for a privatisation move to succeed, the buyer must agree to employ all the workers. In the government of Uttar Pradesh's Auto Tractors (ATL) case. privatisation was not opposed even though the huyer (Sipani Automobiles) had made it clear that while preference would be given to the ATL employees, it would employ only as many workers as it considered necessary One may ask how such an outcome was managed. The answer lies in the fact that once it became evident that it would not be possible to operate ATL profitably, the government of Uttar Pradesh (GOUP) decided to close the plant, retrench all of its about 1,230 employees and pay them compensation and benefits, totalling about Rs 50 million, that they were entitled to, and it was only after all this had been done that the GOUP started exploring the options including that of privatisation, available to it, rather than exploring the privatisaior option while continuing to operate the plan [Bajaj 1994].

### V Where Do We Go from Here?

One may argue that although the progress on the privatisation front so far has not beer very encouraging, the momentum will pick up as time goes on, given the incentives fo privatisation that will result from a couple of pressures that are building up. First, the screw of budgetary support to finance public enterprise investments and losses is gradually being tightened - witness, for example, the developments on the IISCO front. Thi reflects India's public finance situation which continues to be bad. "There is", as Little (1996) has put it, "a time-bomb ticking away, since borrowing is at unsustainably high levels. India is heading for anothe crisis."

Second, the mechanisms which earlic served to protect public enterprises from the workings of competitive markets now stand eliminated to a large extent and as consequence public enterprises ar experiencing difficulties in responding to the new environment—witness, for example the exodus of qualified people from Bhara Electricals, National Thermal Powe Corporation, Indian Airlines, and so or This, combined with the gradual hardenin of the budget as also the reforms in the financial sector, may have the effect constantially weakening the public enterprise employees' opposition to privatisation

indeed, some of them may even start openly demanding privatisation.

While I do see a lot of merit in this argument, I believe that it will not be in India's interests to just wait for the above two pressures to work themselves out and thereby create the incentives for privatisation.

I believe that something more needs to be done - something that may make privatisation happen in India before India is driven to the wall. I believe that a major initiative for turning India toward privatisation needs to be launched. Its work programme will have four components, with the first component guided by the urgency of building and strengthening a constituency for privatisation in India. This will be considerably aided by the widest possible dissemination of information about the various benefits benefits not just on the public finance front, but on the efficiency and other fronts as well - that properly designed and implemented privatisations may bring to the Indian people. The people will have to be convinced that, given the extremely high opportunity costs, India cannot afford public sector misadventures in areas (e.g., running hotels, manufacturing polyester film, making condoms, and producing fruit pulp and juice) that properly belong to the private sector.

The second component of the work programme will address the issue of formulating a privatisation policy for India. This is important, for once the necessary climate conducive for privatisation has been created, it will be highly desirable to follow this up, as soon as possible, with the announcement of a properly structured and articulated privatisation policy. The policy will need to clearly address at least the following issues: why privatise?; what to privatise? (India cannot afford to limit its privatisation programme to certain sick public enterprises only; most of the other public enterprises (sick as well as non-sick) also will have to be privatised); when to privatise?; which organisation will serve as the nodal agency for privatisation and what will be its composition, powers and responsibilities?; what are the institutional mechanisms that will be put in place to gain public enterprise employees' support for privatisation?; and what is the role that India would like foreign investors to play in its privatisation programme?

The third component of the work programme will address the issue of capacity building for managing privatisations in India. Privatisation is a difficult process: it involves reconciling the government's political objectives and the business needs of a given public enterprise with the need to interest private investors in the enterprise and to generate efficiencies [Donaldson 1995]. It will therefore be absolutely necessary to come up with training programmes designed

to equip selected public enterprise managers and government officials in India with the knowledge and skills required for managing the various components of the privatisation process.

Finally, the proposed initiative will address the issue of evaluating India's post-privatisation experiences. This will involve rigorous work on estimating the impact of privatisation on efficiency and investment, on public finances and balance of payments, on employment, on management practices and strategies, and on managers' skills, attitudes and behaviour. Evaluations of post-privatisation experiences along these lines may generate ideas which may help India maximise the gains from privatisation.

### **Notes**

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- 1 Officials of Coal India (CIL), a GOI enterprise. are reported to have said that, under the national coal wage agreement, CIL is obliged to provide employment to the dependents of workers, irrespective of the vacancies, after the death of a worker while in service and after the termination of service of a worker on medical grounds after the age of 58. As a result of these provisions, CIL had to provide employment to over 62,000 people who are redundant (The Times of India, Ahmedabad, August 23, 1995) Available information suggests substantial overstaffing in many other public enterprises as well. A recent study [Banerii and Sahot 1994, cited in The World Bank 1995] reveals overstaffing of the order of 19-80 per cent in telecommunications, 91 per cent in Bombay Port (container section), and more than 33 per cent in steel, chemicals and textiles
- 2 Even this figure of 46 per cent understates the GOI's true interest hability as interest payments are calculated on a cash basis rather than on an accrual basis.
- 3 At least 100 senior personnel from Bharat Heavy Electricals (HEL), a GOI enterprise, are reported to have jumped the fence to join its MNC competitor, Asea Brown Boveri (The Times of India, Ahmedabad, January 13, 1995). Similarly, National Thermal Power Corporation, another GOI enterprise, is facing an exodus of its top brass (The Economic Times, Ahmedabad, December 1, 1995).
- 4 The Air India, a GOI enterprise, is reported to have sought the Ministry of Civil Aviation's "final clearance" for chartering an aircraft for a wedding in the air (The Times of India, Ahmedabad, October 6, 1994) – why couldn't

the Air India's management decide the matter on its own? Then, HMT, another GOI enterprise, is reported to have sought the government's permission to file suits against TUSRC of fran to recover expenditure incurred and damages for failing to honour the contractual obligations, it has also sought the government's approval to file a suit against a customer in Africa for overdue amounts against supplies (The Economic Times, Ahmedabad, October 16, 1995) – why could not the HMT management take decisions on the issues involved on its own and go ahead with their implementation, without seeking the government's permission/approval?

- 5 The proceeds from the sale of public enterprises should be treated as a financing (below-the-line) item, not as a receipt (above-the-line) item. A major advantage of such a treatment is that it eliminates all possible incentives to reduce a given public sector deficit with no or relatively small fiscal correction (Gupta 1993; also see Gupta and Levy 1993, and United Nations Development Programme 1993)
- 6 This subsection draws heavily on material in Bajaj (1994)
- 7 Of the remaining 124 cases of public enterprises registered with the BIFR, 26 were dismissed as non-maintainable, 29 were approved for revival, and 69 were pending for disposal
- s Press reports suggest that the GOI has won the battle, with the SMC agreeing to financing the MUL's proposed expansion and modernisation programme entirely by debt and internal accruals (The Economic Times, Ahmedabad, July 6, 1996)
- 9 The sale value of 76 per cent equity of ACC Babcock amounted to \$16.5 million (EPW Research Foundation 1995), that of 51 per cent equity of Haryana Breweries to Rs 75 million (The Economic Times, Ahmedabad July 16, 1994) and that of 74 per cent equity of Auto Tractors to Rs 55.5 million [Bajaj 1994]
- 10 The death of nine workers in the wake of transfer of the UP State Cement Corporation's (UPSCCL's) management to Dalmia Industries added a new dimension to the issue. The BJP took this up as one of the election issues and announced that it will scuttle the UPSCCL's privatisation if it came to power. The BJP won the elections and accordingly the agreement with Dalmia Industries was cancelled If the elections were held sometime later, things probably would have been different.
- 11 The following draws heavily on material in Gunta (1996)
  - The internal rate of return that the business of politics generates in India is pretty high. Politicians therefore want to get elected and re-elected. This explains the cut throat competition for votes that one witnesses votes for getting elected or re-elected, for example, as an MLA or an MP, and for getting elected or re-elected and then surviving as a chief minister or as prime ininister. And it is here that public enterprises, which elected politicians use as milch cattle, come in handy-access to the public enterprises' resources helps politicians in getting votes. This can happen in a variety of ways. First, public enterprises can be used to create and provide

jobs, often at wages/salaries higher than the market rates, to those who directly or indirectly help a politician in getting votes - in India it is much easier to create a job in a public enterprise than in a government department. This explains to a large extent the phenomenon of gross overstaffing and the resulting inefficiency in public enterprises. To illustrate: the cost of producing sugar in the government of Bihar's sugar mills recently ranged between Rs 9 and 245 per kg - six of the mills that were closed in 1992 were operating so inefficiently that their closure has enabled the government of Bihar, even with the employees continuing to be paid their wages/salaries, to reduce its budgetary support to finance their losses by Rs 70 million a year [Singh 1993]. Second, public enterprises can be used as parking places for selected members of a rival group within a political party, or for such other people whose support may be critical for the continued survival of, say, a chief minister. These people can be nominated or appointed as chairpersons or as members of the management boards of selected public enterprises. This is a standard practice in India, with the recent appointments to the boards of Gujarat's public enterprises being an example - the Gujarat chief minister is reported to have appointed supporters of one of his political rivals as chairpersons of Gujarat's public enterprises such as Gujarat Industrial Development Corporation and Gujarat State Export Corporation (The Economic Times, Ahmedabad, January 6, 1994). Finally, public enterprises can also be milched through leakages in, say, their spendings under various heads, both current and capital. Thus, plant and machinery required for implementing a public enterprise's investment projects, especially projects of a public enterprise operating in a regime of administered (cost-plus) pricing, may be acquired at inflated prices, with at least a part of the difference (between the market price and the actual price charged to the public enterprise) directly or indirectly accruing to an elected politician. And the resources so acquired can be used for facilitating the engineering of political defections, for financing the huge reelection expenses, and for many other purposes. Given the above state of affairs, no wonder most politicians and policy-makers oppose privatisation of public enterprises, especially now when, thanks to the economic reforms (e.g., substantial relaxations in the industrial licensing regime, removal of some of the price and distribution controls) that have been put in place, some of the opportunities for rent-seeking that they used to thrive on, have disappeared.

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### The ANC and South Africa

### Past and Future of Liberation Movements in World-System

### **Immanuel Wallerstein**

The achievement of power by the African National Congress in South Africa may mark the end of a world-systemic process that has been continuous since 1789, that of national liberation movements. Although antisystemic movements once in power failed to be liberatory, it is their very failure, and the resulting growth of independent anti-state movements, that provides hope for positive developments in the coming years.

THE African National Congress is one of the oldest national liberation movements in the world-system. It is also the latest movement to have achieved its primary objective, political power. It may well be the last of the national liberation movements to do so. And thus May 10, 1994 may mark not only the end of an era in South Africa but also the end of a world-systemic process that has been continuous since 1789.

'National liberation' as a term is of course recent, but the concept itself is much older. The concept in turn presumes two other concepts, 'nation' and 'liberation'. Neither of these concepts had much acceptance or legitimacy before the French revolution (although perhaps the political turmoil in British North America after 1765 that led to the American revolution reflected similar ideas). The French revolution transformed the geoculture of the modern world-system. It made widespread the belief that political change is 'normal' rather than exceptional, and that sovereignty of states (itself a concept that dates at most from the 16th century) resides not in a sovereign ruler (whether a monarch or a parliament) but in the 'people' as a whole.1

Since that time, these ideas have been taken seriously by many, many people - too many people as far as those in power are concerned. The principal political issue of the world-system for the past two centuries has been the struggle between those who wished to see these ideas implemented fully and those who resisted such a full implementation. This struggle has been a continuous one, hard-fought, and it has assumed multiple forms in the different regions of the world-system. Early on, there emerged class struggles in Great Britain, France, the US and elsewhere in the more industrialised zones of the world, which pitted an enlarged urban proletariat against both its bourgeois employers and the aristocracies still in power. There were also numerous nationalist movements which pitted the people of a "nation' against an 'outside' invader or against a dominant imperial centre, as in Spain and Egypt during the Napoleonic era, or as in the case of the multiple movements in Greece, Italy, Poland, Hungary,

and an ever-expanding list during the post-Napoleonic era. And there were still other situations in which the outside dominant force was combined with an internal settler population that made its own separate claims to autonomy, as in Ireland, Peru, and most significantly (though it is an often ignored case) Haiti. The movement in South Africa is basically a variant of this third category.

Even in the first half of the 19th century, as we can rapidly note, these movements were not limited to western Europe but included the peripheral zones of the worldsystem. And of course, as the years went by more and more movements were to be founded in what we later came to call the third world, or the south. In the period from circa 1870 to the first world war, a fourth variety emerged, that of movements in formally independent states in which the struggle against the 'ancien regime' was considered simultaneously to be a struggle for the renaissance of national vitality and therefore against the dominance of outside forces. Such were the movements that came into existence, for example, in Turkey, Persia, Afghanistan, China and Mexico.

What united all these movements was a sense that they knew who the 'people' were and what 'liberation' meant for the people. They also all shared the view that the people were not currently in power, were not truly free, and that there were concrete groups of persons who were responsible for this unjust, morally indefensible situation. Of course, the incredible variety of actual political situations meant that the detailed analyses made by the various movements were quite distinct, the ones from the others. And, as the internal situations changed over time, quite often the analyses of particular movements changed.

Nonetheless, despite the variety all these movements shared a second common feature as well, their middle-run strategy. Or at least it was shared by those movements which came to be important politically. The successful movements, the dominant movements, all believed in what we speak of as the two-state strategy: first attain political power, then transform the world. Their

common motto was expressed most pithily by Kwame Nkrumah: "Seek ye first the political kingdom, and all things shall be added unto you." This was the strategy followed by the socialist movements which centred their rhetoric around the workingclass, by the ethno-national movements which centred their rhetoric around those that shared a particular cultural heritage, as well as by those nationalist movements which used common residence and citizenship as the defining feature of their 'nation'.

It is this last variety to which we have given the name of national liberation movements. The quintessential movement of this kind, and the oldest of them, is the Indian National Congress, founded in 1885 and still existing (at least nominally) today. When the ANC was founded in 1912, it gave itself the name of the South African Native National Congress, adapting that of the Indian movement. Of course, the Indian National Congress had one feature that few other movements shared. It was led throughout the most difficult and important years of its history by Mahatma Gandhi, who had elaborated a worldview and a political tactic of non-violent resistance, 'satyagraha'. He elaborated this tactic first, in fact, in the context of the oppressive situation of South Africa, and later transferred it to India.

Whether the Indian struggle was won because of satyagraha, or despite satyagraha, is something we can long debate. What is clear is that the independence of India in 1947 became a prime symbolic event for the world-system. It symbolised both the triumph of a major liberation movement situated in the world's largest colony, and the implicit guarantee that the decolonisation of the rest of the world was politically inevitable. But it symbolised also that national liberation, when it came, arrived in a form less than, and other than, that which the movement had sought. India was partitioned. Terrible Hindu-Muslim massacres followed in the wake of independence. And Gandhi was assassinated by a so-called Hindu

The 25 years following the second world war were extraordinary on many counts. For

one thing, they represented the period of clear US hegemony in the world-system: unbeatable in terms of the efficiency of its productive enterprises, leader of a powerful political coalition that effectively contained world politics within a certain geopolitical order, imposing its version of the geoculture upon the rest of the world. This period was also remarkable for being the period of the largest single expansion of world production and accumulation of capital that the capitalist world-economy has known since its inception four centuries ago.

These two aspects of that era - US hegemony and the incredible expansion of the world-economy - are so salient in our minds that we often fail to notice that this was the era as well of the triumph of the historic antisystemic movements of the world-system. The movements of the Third International, the so-called Communist parties, came to control a third of the world's surface, that of the 'east'. In the 'west', the movements of the Second International were de facto in power everywhere, to some extent literally and usually for the first time, and indirectly the rest of the time insofar as the parties of the right fully acceded to the principles of the 'welfare state'. And in the 'south', one national liberation movement after another came to power - in Asia, in Africa, in Latin America. The only large zone in which this triumph was delayed was southern Africa, and this delay has now come to an end.

We do not discuss clearly enough the impact of this political triumph of the antisystemic movements. Looked at from the point of view of the middle of the 19th century, it was an absolutely extraordinary achievement. Compare the post-1945 period with that of the world-system in 1848. In 1848, we had in France the first attempt of a quasi-socialist movement to achieve power. The year 1848 is also called by historians the 'springtime of the nations'. But by 1851 all these quasi-insurrections had been easily suppressed everywhere. It seemed to the powerful people that the menace of the 'dangerous classes' had passed. In the process, the quarrels between the old landowning strata and the new more industrial bourgeois strata, which had so dominated the politics of the first half of the 19th century, were put aside in the successful, unified effort to contain the 'people' and the 'peoples'.

This restoration of order seemed to work. For some 15-20 years thereafter, no serious popular movements could be discerned anywhere inside or outside of Europe. Furthermore, the upper strata did not merely sit on their laurels as successful suppressors of liberation movements. They pursued a political programme not of reaction but of liberalism in order to ensure that the menace

of popular revolt would be buried forever. They commenced down the road of slow but steady reformism: extension of the suffrage, protection of the weak in the workplace, the beginnings of redistributive welfare, the building of an educational and health infrastructure that continuously extended its reach. They combined this programme of reform, still limited during the 19th century to the European world, with the propagation and legitimation of a pan-European racism - the white man's burden, the civilising mission, the 'yellow-peril', a new anti-Semitism - which served to incrustate the European lower strata within the folds of a right-wing, non-liberatory, national identity and identification.

I shall not review here the whole history of the modern world-system from 1870-1945, except to say that it was during this period that the major antisystemic movements were first created as national forces, with an international vocation. The struggle of there antisystemic movements, singly and collectively, against the liberal strategy of an iron hand within a velvet glove was an uphill struggle all the way. We may thus be amazed that, between 1945 and 1970, their struggle succeeded so swiftly and, when all is said and done, so easily. Indeed, we may be suspicious. Historical capitalism - as a mode of production, as a world-system, as a civilisation – has proved itself remarkably ingenious, flexible, and hardy. We should not underestimate its ability to contain opposition.

Let us therefore start by looking at this protracted struggle of the antisystemic movements in general, and the movements of national liberation in particular, from the perspective of the movements. The movements had to organise within a political environment that was hostile to them, one that was quite often ready to suppress or constrain considerably their political activity. The states engaged in such repression both directly on the movement as such as well as on its members (particularly the leaders and the cadres), and indirectly by the intimidation of potential members. They also denied moral legitimacy to the movements, and enlisted quite frequently the nonstate cultural structures (the churches, the world of knowledge, the media of communication) in the task of reinforcing this denial.

Against this massive barrage, each movement – which initially was almost always the work of small groups – sought to mobilise mass support and to canalise mass discontent and unrest. No doubt the movements were evoking themes and making analyses that resonated well with the mass of the population, but nonetheless effective political mobilisation was a long and arduous task. Most people live life day by day and

are reluctant to engage in the dangerous path of defying authority. Many persons are 'free riders', ready to applaud quietly the actions of the brave and the bold but waiting to see whether others among their peers are joining in active support of the movement.

What mobilises mass support? One cannot say it is the degree of oppression. For one thing, this is often a constant, and does not explain therefore why people who have been mobilised at T, were not already mobilised at T. Furthermore, quite often acute repression works, keeping the less audacious from being ready to participate actively in the movement. No, it is not oppression that mobilises masses, but hope and certainty the belief that the end of oppression is near, that a better world is truly possible. And nothing reinforces such hope and certainty than success. The long march of the antisystemic movements has been like a rolling stone. It gathered momentum over time. And the biggest argument that any given movement could use in order to mobilise support was the success of other movements. that seemed comparable and reasonably close in geography and culture.

From this perspective, the great internal debate of the movements – reform versus revolution – was a non-debate. Reformist tactics fed revolutionary tactics, and revolutionary tactics fed reformist tactics, provided only that they worked, in the very simple sense that the outcome of any particular effort was applauded as positive by mass sentiment (as distinguished from the sentiment of leaders and cadres). And this because any success mobilised mass support for further action, as long as the primary objective of state power had not yet been achieved.

The passions that surrounded the reform vs revolution debates were enormous. But they were passions that divided a small group of political tacticians. To be sure, these tacticians themselves believed that the differences in tactics mattered, both in the short run (efficacity) and in the middle run (outcome). It is not sure that history had proven them right in this belief, if one looks at what happened in the long run.

If one looks at this same process of mass mobilisation from the point of view of those in power, those against whom the movements were mobilising, one finds the obverse side of the coin. What those in power most feared was not the moral condemnation of the movements but their potential ability to disrupt the political arena by mass mobilisation. The initial reaction to the emergence of an antisystemic movement was always therefore to seek to maintain the leadership in isolation from its potential mass support – physical isolation, political isolation, social isolation. The states precisely denied the

legitimacy of movement leaders as 'spokespersons' for larger groups, alleging that they came in fact from different class and/or cultural backgrounds. This was the well known and well used theme of the 'outside agitators'.

There came however a point where, in a given locality, this theme of the movement as being merely intrusive 'agitators' no longer seemed to work. This turning point was the consequence both of the patient labours of the movement (quite often, once it had turned to a 'populist' mode) and of the contagious impact of the 'rolling stone' within the world-system. At this turning point, the defenders of the status quo were confronted with the identical dilemma of the movements, but in obverse form. As opposed to reform versus revolution, the defenders of the status quo debated concessions versus the hard line. This debate, which was constant, was also a non-debate. Hard-line tactics fed concessions, and concessions fed hard-line tactics, provided only that they worked, in the very simple sense that they altered the perspective of the movements on the one hand and of their mass support on the other.

The passions that surrounded hard line versus concession debates were enormous. But they were passions, once again, that divided a small group of political tacticians. These tacticians themselves believed that the differences in tactics mattered, both in the short run (efficacity) and in the middle run (outcome). But here too, it is not sure that history has prover them right in this belief, if one looks at what happened in the long run

In the long run, what happened is that the movements came to power just about everywhere, which marked a great symbolic change. Indeed, the moment of coming to power is everywhere well-marked in general perception. It was seen at the time and remembered later as a moment of catharsis, marking the accession at last of the 'people' to the exercise of sovereignty. It is also true, however, that the inovements came to power almost nowhere on their full terms, and the real change everywhere has been less than they had wanted and expected. This is the story of the movements in power.

The story of the movements in power is parallel in some ways to the story of the movements in mobilisation. The theory of the two-stage strategy had been that once a movement achieved power and controlled the state, it could then transform the world, at least its world. But this was of course not true. Indeed, it was in hindsight extraordinarily naive. It took the theory of sovereignty at its face value and assumed that sovereign states are autonomous. But of course they are not autonomous and they never have been. Even the most powerful

among them, like, for example, the contemporary US, are not truly sovereign. And when we come to very weak states, like for example Liberia, to speak of severeignty is a bad joke. All modern states, without exception, exist within the framework of the interstate system and are constrained by its rules and its politics. The productive activities within all modern states, without exception. occur within the framework of the capitalist world-economy and are constrained by its priorities and its economics. The cultural identities found within all modern states, without exception, exist within a geoculture and are constrained by its models and its intellectual hierarchies. Shouting that one is autonomous is a bit like Canute commanding the tides to recede.

What happened when movements came to power? They found first of all that they had to make concessions to those in power in the world-system as a whole. And not just any concessions, but important concessions. The argument that they all used themselves was that of Lenin in launching the NEP: the concessions are temporary; one step backwards and two steps forward. It was a powerful argument, since in those few cases where the movement did not make these concessions, it usually found itself ousted from power altogether soon thereafter. Still the concessions grated, leading to intraleadership quarrels and puzzlement and questioning by the mass of the population.

if the movement was to remain in power, there seemed to be only one possible policy at this point, the postponement of truly fundamental change, substituting for it the attempt to 'catch up' within the world-system. The regimes that the movements established all sought to make the state stronger within the world-economy and its standard of living nearer to that of the leading states. Since what the mass of the population usually really wanted was not 'fundamental change' (which was hard to envisage) but rather precisely to 'catch up' to the material benefits of the better-off (which was quite concrete), the switch in post-catharsis policies by the leaders of the movements was actually popular - provided it worked. There was the ruh!

The first thing we need to know in order to determine whether a policy works is the period of time over which we shall measure this. Between instantaneous time and the Greek calends there is a long continuum of possibilities. Naturally, the leadership of movements in power pleaded with its followers for a longer rather than a shorter time-span of measure. But what arguments could they give the mass of the population for permitting them such leeway? There were two main kinds of arguments. One was material: the demonstration that there were some immediate, meaningful, measurable

improvements, even if small ones, in the real situation. Some movements found it easier than others to achieve this, since the national situations varied. And it was easier to make such arguments at some moments in time than at others, given the fluctuating realities of the world-economy. There was only a limited degree to which it really was within the control of a movement in power to effectuate such meaningful, even if small, improvements.

There was, however, a second kind of argument, one about which movements in power found it easier to do something. It was the argument of hope and certainty. The movement could point to the rolling stone of the world's collectivity of liberation movements, and use this to demonstrate that history was (visibly) on their side. They thereby proffered the promise that if not they then their children would live better, and if not their children then their grandchildren. This is a very powerful argument, and it did indeed sustain movements in power for a long time, as we now can see. Faith moves mountains. And faith in the future maintains antisystemic movements in power - as long as faith endures.

Faith, as well all know, is subject to doubt. Doubt about the movements has been fed from two sources. One source has been the sins of the 'nomenklatura'. Movements in power means cadres in power. And cadres are human. They too wish for the good life, and are often less patient about achieving it than the mass of the population. Consequently, corruption, arrogance, and petty oppressiveness have been virtually inevitable, especially as the glow of the moment of catharsis recedes. The cadres of the new regime seemed over time to look increasingly like the cadres of the ancien regime, indeed often worse. This may have happened in five years; it may have taken 25 years; but it did happen repeatedly.

Still, what then, a revolution against the revolutionaries? Never right away. The same lethargy that made it a slow process to mobilise the mass of the population against the ancien regime operated here too. It is kes something more than the sins of the nomenklatura to undo movements in power. It takes a collapse in the immediate economy combined with a collapse in the certainty that the rolling stone is still rolling. When this happens, we have had the end of the 'post-revolutionary era', as has recently taken place in Russia and Algeria and many other countries.

Let us turn our look back to the worldwide rolling stone, the process within the world-system as a whole. I have already spoken of the long uphill struggle of the movements from 1870-1945, and the sudden breakthrough worldwide between 1945-1970. The sudden breakthrough led to considerable

triumphalism and was inebriating. It sustained the movements in the most difficult zones, like southern Africa. However, the biggest problem the movements have had to face was their success, not so much their individual successes but their collective worldwide success. When movements in power faced internal grumbling because of less than perfect performance, they could use the argument that their difficulties derived in large part from the hostility of powerful external forces, and in large part this was an absolutely true argument. But as more and more movements were in power in more and more countries, and as the movements themselves were using the argument of their growing collective strength, the attribution of their current difficulties to outside hostility seemed to lose its cogency. At the very least, it seemed to contradict the thesis that history was visibly on their side.

The failures of the movements in power was one of the basic underlying factors behind the worldwide revolution of 1968. All of a sudden, one heard voices everywhere wondering whether the limitations of the antisystemic movements in power derived less from the hostility of the forces of the status quo than from the collusion of these movements themselves with the forces of the status quo. The so-called old left found itself under attack everywhere. Wherever the national liberation movements were in power throughout the third world, they did not escape this criticism. Only those not yet in power remained largely unscathed.

If the revolutions of 1968 shook the popular base of the movements, the stagnation in the world-economy in the following two decades continued the dismantlement of the idols. In the period 1945-1970, the period of the great triumph of the movements, the great immediate promise was 'national development', which many of the movements called 'socialism'. Indeed, the movements said that they and they alone could speed up this process and realise it fully in their respective states. And between 1945-1970, this promise seemed to be plausible because the world-economy was expanding everywhere and a rising tide was lifting all ships.

But when the tide began to recede, the movements in power in peripheral zones of the world-economy found that they could do little to prevent the very negative impact of world economic stagnation on their states. They were less powerful than they thought, and than their populations thought – far less powerful. Disillusionment with the prospects of 'catching up' was translated in country after country into disillusionment with the movements themselves. They had sustained themselves in power by selling hope and certainty. They were now paying the price of dashed hopes and the end of certainty.

Into this moral crisis jumped the snakeoil salesmen, otherwise known as the 'Chicago boys', who, with the massive support of a reinvigorated hard line on the part of the people in power in the worldsystem as a whole, offered everyone the magic of the market as a substitute. But the 'market' can no more transform the economic prospects of the poorer 75 per cent of the world's population than taking vitamins can cure leukemia. It is a fake, and we will no doubt soon run the snake-oil salesmen out of town, but only once the damage is done.

In the middle of all this has occured the miracle of South Africa, providing a glow of bright light in this dismal world scene.It is time out of joint. It is the 1960s triumph of national liberation movements all over again, and it occurred in the place everyone had always said had the worst situation and the most intractable. The transformation happened very fast, and with astonishing smoothness. In a way, it is an extraordinarily unfair burden the world has placed on South Africa and on the ANC. They not only have to succeed for their own sake, but for the sake of all the rest of us. After South Africa comes no other, to serve as the still optimistic mobiliser of popular forces, to be cheered on by the solidarity movements of the world. It is as though the very concept of antisystemic movements in the world were given one last chance, as if we all found ourselves at the decisive moment in purgatory before history draws its final verdict.

I am not sure what will happen in South Africa in the next 10-15 years. How can anyone be? But I do feel that neither South Africans nor the rest of us should put the burden of the world on their shoulders. The burden of the world belongs on the world. It is enough for South Africans to bear their own burdens, and to take their fair share of the world's burdens. I shall therefore reserve my remaining words to the burden of the world.

Antisystemic movements as a structure, and as a concept, were the natural product of the post-1789 transformation of the geoculture of the world-system. Antisystemic movements were a product of the system; they of course had to be. However critical a balance-sheet we may now draw, and I fear that I have drawn such, I so not see any historic alternative that would have been better in the mid-19th century to going down the path they look. There existed no other force for human liberation. And if the antisystemic movements did not achieve human liberation, they at the very least reduced some human suffering and held the banner high for an alternative vision of the world. What reasonable person does not believe that South Africa is a better place today than it was 10 years ago? And whom should we credit other than the national liberation movement?

The basic problem lay in the strategy of the movements. They found themselves historically in a double bind. After 1848, there was only one objective that was politically feasible and offered some hope of immediate alleviation of the situation. This was the objective of taking power in the state structures, which provided the principal adjustment mechanism of the modern world-system. But taking power in the world-system was the one objective that ensured the eventual emasculation of the antisystemic movements and their incapacity to transform the world. They were in fact between Scylla and Charybdis: either immediate irrelevance or long-term failure. They chose the latter, hoping it was avoidable. Who would not?

I want to argue that today, paradoxically, the very failure of the antisystemic movements collectively, including the failure of the national liberation movements to be truly and fully liberatory, provides the most hopeful element for positive developments in the coming 25-50 years. To appreciate this curious view, we must come to terms with what is happening in the present. We are living not the final triumph of world capitalism but its first and only true crisis.<sup>2</sup>

I want to point out four long-term trends, each of which is moving near to its asymptote and each of which is devastating from the point of view of capitalists to pursue the endless accumulation of capital. The first, and the least discussed of these trends, is the deruralisation of the world. Only 200 years ago, 80-90 per cent of the world's population, and indeed of each country's population, was rural. Today worldwide, we are below 50 per cent and rapidly going down. Whole areas of the world have rural populations of less than 20 per cent, some less than 5 per cent. Well, so what, you may say? Are not urbanisation and modernity virtually synonymous? Is this not what we hoped would happen with the so-called industrial revolution? Yes, that is indeed the commonplace sociological generalisation we all have learned.

This is, however, to misunderstand how capitalism works. Surplus-value is always divided between those who have the capital and those who perform the labour. The terms of this division are in the final analysis political, the strength of the bargaining power of each side. Capitalists live with a basic contradiction. If worldwide the terms of renumeration of labour is too low, it limits the market and, as Adam Smith already told us, the extent of the division of labour is a function of the extent of the market. But if the terms are too high, it limits the profits. Workers, for their part, naturally always want to increase their share, and struggle politically to achieve this. Over time, wherever labour is concentrated, workers are able to make their syndical weight felt, and this leads eventually to one of the profit squeezes which have periodically occcurred throughout the history of the capitalist worldeconomy. Capitalists can only fight workers up to a point, because after this point too much reduction of real wages threatens to cut into effective world demand for their products. The recurrent solution has been to allow the better-paid workers to supply the market and to draw into the world work force new strata of persons who are politically weak and are willing for many reasons to accept very low wages, thereby reducing overall production costs. Over five centuries. they have consistently located such persons in rural zones and transformed them into urban proletarians who remain, however, low-cost workers only for a while, at which point others must be drawn into the labour supply. The deruralisation of the world threatens this essential process and thereby threatens the ability of capitalists to maintain the level of their global profits.

The second long-term trend is what is called the ecological crisis. From the point of view of capitalists, this should be called the threat of ending the externalisation of costs. Here again we have a critical process. A crucial element in the level of profits has always been that capitalists do not pay the totality of costs of their products. Some costs are 'externalised', that is, spread pro rata over the whole of larger populations, eventually over the whole of the world population. When a river is polluted by a chemical plant, the clean-up (if there is one) is normally assumed by taxpayers. What the ecologists have been noticing is the exhaustion of zones to pollute, of trees to be cut down, and so forth. The world faces the choice of ecological disaster or of forcing the internationalisation of costs. But forcing the internalisation of costs threatens seriously the ability to accumulate capital.

The third negative trend for capitalists is the democratisation of the world. We have mentioned previously the programme of concessions begun in the European zone in the 19th century which we have these days labelled generically the welfare state. These involve expenditures on a social wage: money for children and the aged, education, health facilities. This could work for a long time for two reasons: the recipients had modest demands at first, and only the Furopean workers were receiving this social wage. Today, workers everywhere expect it, and the level of their demands are significantly higher than they were even 50 years ago. Ultimately, these moneys can only come at the cost of accumulating capital. Democratisation is not and has never been in the interest of capitalists.

The fourth factor is the reversal of trends in state power. For 400 years, the states have

been increasing their power, both internally and externally, as the adjustment mechanisms of the world-system. This has been absolutely crucial for capital despite its anti-state rhetoric. States have guaranteed order but just as importantly they have guaranteed monopolies, which are the one and only path to serious accumulation of capital.

But the states can no longer perform their task as adjustment mechanisms. The democratisation of the world and the ecological crisis has placed an impossible level of demands on the state structures, who are all suffering a 'fiscal crisis'. But if they reduce expenditures in order to meet the fiscal crises, they also reduce their ability to adjust the system. It is a vicious circle, in which each failure of the state leads to less willingness to entrust it with tasks, and therefore to a generic tax revolt. But as the state becomes less solvent, it can perform existing tasks even less well. We have entered into this vortex already.

It is here that the failure of the movements enters in. It has been the movements, more than anyone else, which have in fact sustained the states politically, especially once they came to power. They served as the moral guarantor of the state structures. Insofar as the movements are losing their claims to support, because they can no longer offer hope and certainty the mass of the population is becoming profoundly anti-state. But states are needed most of all not by reformers and not by movements but by capitalists. The capitalist world-system cannot function well without strong states (of course some always stronger than others) within the framework of a strong interstate system. But capitalists have never been able to put forward this claim ideologically because their legitimacy derives from economic productivity and expansion of general welfare and not from either order or the guarantee of profits. In the last century, capitalists have relied increasingly on the movements to perform on their behalf the function of legitimating the state structures.

Today the movements are no longer able to do this. And, were they to try, they could not pull their populations along with them. Thus, we see springing forth everywhere non-state 'groups' which are assuming the role of protecting themselves and even of providing for their welfare. This is the path of global disorder down which we have been heading. It is the sign of disintegration of the modern world-system, of capitalism as a civilisation.

You can rest assured that those who have privilege will not sit back and watch this privilege go under without trying to rescue it. But you can rest equally assured that they cannot rescue it merely by adjusting the system once again, for all the reasons I have adduced. The world is in transition. Out of chaos will come a new order, different from the one we now know. Different, but not necessarily better.

That is where the movements come to once again. Those who have privilege will try to construct a new kind of historical system that will be unequal, hierarchical, and stable. They have the advantage of power, money, and the service of much intelligence. They will assuredly come up with something clever and workable. Can the movements, reinvigorated, match them? We are amidst a bifurcation of our system. The fluctuations are enormous, and little pushes will determine which way the process moves. The task of the liberation movements, no longer necessarily national liberation movements, is to take serious stock of the crisis of the system. the impasse of their past strategy, and the force of the genie of world popular discontent which has been unleashed precisely by the collapse of the old movements. It is a moment for utopistics, for intensive, rigorous analysis of historical alternatives. It is a moment when social scientists have something important to contribute, assuming they wish to do so. But it requires for social scientists as well an unthinking of their past concepts, derived from the same 19th-century situation that resulted in the strategies adopted by the antisystemic movements

Above all, it is a task neither for a day or a week nor on the other hand for centuries. It is a task precisely for the next 25-50 years, one whose outcome will be entirely the consequence of the kind of input we are ready and able to put into it.

### **Notes**

[This article was the keynote address at the Annual Meeting of the South African Sociological Association, Durban, South Africa, July 7-11,

- I For an elaboration of these ideas, see 'The French Revolution as a World-Historical Event' in Unthinking Social Science, Polity Press, Cambridge, 1991, pp 7 22
- 2 The argument in the following paragraphs summarises an extensive analysis in Terence K Hopkins and Immanuel Wallerstein, oordinators, The Age of Transition: Trajectory of the World System, 1945-2025, forthcoming, Zed Press, 1996
- 3 See Fernand Braudel, Capitalism and Civilisation, 15th to 18th Century, 3 Volumes, Harper and Row, New York, 1981-84.

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### Panchayats in Western Uttar Pradesh

### 'Namesake' Members

### **G K Lieten**

Comprehensive rural development and panchayati raj have been associated with the rural economy and polity of Uttar Pradesh since the early 1950s. On the basis of a case study in a green revolution area in the north-western zone of the state, the composition and the internal functioning of the panchayats are examined. The author concludes that personalised control over resources is the key word.

PANCHAYATS for many decades in India have been considered as the key to rural development and as the crux of grassroots democracy. The modern idea was introduced by the British colonial administration and got indigenised when tagged on to Gandhian ideas of village development. Typical, however, for the controversy which has always surrounded the notion of 'local government' are the words spoken by the architect of the Constitution of India, B R Ambedkar, during the parliamentary debates, indicating why he was unwilling to insert a clause on village panchayats. While introducing the Draft Constitution on November 4, 1948, he remarked sarcastically that "the love of the intellectual Indians for the village community is of course infinite if not pathetic". He associated their ideas with the "fulsome praise bestowed upon it by Metcalfe" who, in his address to the House of Commons in 1832, had argued that the village communities as little republics lasted where nothing else lasted:

That they have survived through all the vicissitudes may be a fact. But mere survival has no value. The question is on what plane they have survived Surely on a low, on a selfish level. I hold that these village republics have been the ruination of India. I am therefore surprised that those who condemn provincialism and communalism should come forward as champions of the village. What is the village but a sink of localism, a den of ignorance, narrowmindedness and communalism? [Constituent Assembly, Volume VII: 39].

Although many studies in the past had warned against optimistic assumptions, confirming the warning voiced by Ambedkar, and various committees (e.g., the Balwantrai Mehta Committee in 1957 and the Ashok Mehta Committee in 1978) have suggested ways of amending the idea to correct for malfunctioning, inactivity, corruption, factionalism, etc, Rajiv Gandhi in the late 1980s reintroduced the idea of panchayat as the nodal point of rural development. Lurking behind his initiative was the suspicion that Congress losses in the

states motivated his government to "go direct to the village level to mobilise votes. Additionally, panchayati raj also began to be perceived as a handle to harass state government" [Maheshwari 1984:164]. Rajiv Gandhi held a number of well-publicised meetings with district collectors and panchayat leaders and then, in 1989, introduced the 64th Constitutional Amendment Bill. The bill, later enacted as the 1994 Constitutional Amendment Act, was received as the harbinger of a definite breakthrough in the local government enigma.

A closer study of one area in western Uttar Pradesh will indicate to what extent the positive expectations are likely to be fulfilled. The results may throw some light on the appropriateness of the devolution of power to panchayats as long as property relations, in particular the access to land, remain unaltered. In order to get an idea of the composition of the panchayats and the involvement of the members, a survey was undertaken among close to 100 members in the seven panchayat bodies in the nyaya panchayat around Sisauli in Shahpur block in Muzaffarnagar. The surveys were conducted in 1992 and 1995, after the April 1995 panchayat elections. In addition to an analysis of the quantitative composition in terms of a number of social variables (like age, education, gender, caste and class), some forays will be made into some discursive aspects. These forays may help us to judge the potential of panchayat members as social reformers and of the panchavat as a vehicle of rural development and enfranchisement.

### **New Members**

"The panchayat system is in full force in the district, and the parties to a jury of this kind usually take an oath on a 'lota' filled with salt to abide by any decision that may be arrived at". Procedures have changed since Atkinson (1879:76) described the caste panchayats as a tribunal dispensing justice and as the upkeepers of the moral order, particularly of the caste rules imposed by the brahmins [Blunt 1931:104-131]. The purpose has also been changed from a law-making and law-enforcing body<sup>2</sup> to a development agency, and its legitimisation has been based in the democratic election process, open to all.

Despite a whole range of mandatory and discretionary tasks and functions, the formal panchayat structure in Uttar Pradesh appears to have remained a languid body. It appears not to have grown beyond its perceived primary task: the dispersion of the financial resources coming in from the higher echelons. In order to be allowed to do this, panchayats have to be constituted democratically through an election process. The general conclusion is that they have been: candidates have been nominated (2, 5 million candidates for 0.8 million seats in the 1995 panchayat elections), elections have been organised (though very irregularly in the past), people generally have been allowed to vote, and swearing in signatories have been obtained so that the panchayats could start functioning as the lowest elected organs of the state.

The first issue to be taken up is the socioeconomic composition of the councils. General statistics on one block in Muzaffarnagar indicate that the panchayat membership is a fair reflection of the socioeconomic composition of the population. In terms of educational standards, as many as 40 per cent were illiterate in the pre-1995 councils, but also as many members had studied at least through class 10. In the new councils, less than one-third were illiterate, and only one-fourth of the members had studied at least up to class 10. Whereas the spread of primary education may have caused the former decline, the entry of women (exactly onethird of the members, as stipulated by the 1994 Constitutional Amendment Act), may have caused the latter decline.

An interesting development has taken place in the occupational background of the members. In the earlier panchayats, middle peasants made up around 40 per cent of the council; agricultural labourers and a dozen small peasants together accounted also for around 40 per cent of the total. In the new councils, agricultural labourers have become the biggest group (44 per cent), and together with small peasants (15 per cent) they numerically dominate the panchayats. Rich peasants, although only one-fifth of the membership, provided and continue to provide five of the seven pradhans. In the previous councils, there was only one professional, a teacher, who acted as an 'upapradhan', or 'chotapradhan' (small pradhan). In the new councils, there is none.

The differences between the old and the new councils are very much the result of an almost complete turnover in the membership; as many as 88 per cent of the members were newcomers. The old guard has been replaced by a new pradhan who has taken along with him a panel of members, all of whom were unopposed in the elections. One additional reason for the drastic turnover was the constitutional provision that one-third of the members henceforth should be women.

In the previous council, more than 10 per cent of the members were migrant workers. Their participation in the meetings was out of the question, and it may be assumed that they have not attended a single meeting. Their absent status did not disqualify them as panchayat members; on the contrary, the involvement of the resident members also was practically non-existent.

The situation in panchayat A, for example, was typical for the other panchayats as well, two members resided near Muzaffarnagar town as brick kiln workers, one member resided with his family in Shamli town, and one member was absconding after having committed a murder. The other nine members did reside in the village, but since two of them are women they had to be excluded from the participatory process as well.

Indeed, in none of the cases hae women ever been involved in anything related to panchayat work or public work in general. Some of the women even did not know that they were a member. Once or twice the pradhan had dispatched a document for signing, but they did not know what it was for. Without being derogatory towards women in general, the impression is that women stand a better chance of becoming

a member of the panchayat if they are illiterate, frail of body and of mind and rather old. The women who at least knew that they were panchayat members very rarely went to the meetings. If they did, then they only did so in order to put their thumb impression or to sign and the came back. The usual procedure, however, is for the pradhan to send the document to be signed to their house.

This procedure, as a matter of fact, applies not only to the women, but to most of the male members as well. In the panchayat which we have been describing (panchayat A), after the necessary deductions we were left with seven male members residing in the village. They were potential candidates for participation in the functioning of the panchayat. Four of them declared never to have attended and never to have been invited for a meeting. Two other members have attended whenever the pradhan wanted, i e, one or two times a year. Even the upopradhan cannot recall having attended more than one or two meetings. The pradhan himself on the other hand claims that meetings were held once a month, as per the guidelines, and that 'everybody turns up, the women

A similar situation prevailed in panchayat B: the pradhan asserted that he meets every month, the upopradhan and one orphaned member who works for the pradhan contend that they meet every second month, one female member is occasionally called to the pradhan's house to sign a document which she does not understand, two members reside outside the village, and seven members have never attended a meeting.

Are the other villages different? One village apparently is. In Panchayat C, procedures appear to be more in conformity with the legal specifications: not only did the pradhan assert that his council meets once a month, but also the upopradhan and two other members could recall that during one year or so, some five meetings had taken place. In addition, five members recall that they possibly had attended two meetings. Even in this panchayat, the meetings were spaced irregularly and take place only 'whenever the pradhan wants us'.

According to the pradhan of panchayat C, the decision-making process is very elaborate: voting takes place after all the arguments are heard. He appears not to be standing alone in his position: three members asserted that some discussion takes place on the proposals and then a vote of approval is taken. But most of the

members insist that they only go to the pradhan's house in order to sign the papers and then return home:

The meeting is a formality. Often the work we have to decide upon has already been executed. Whatever still has to be done has already been decided by the pradhan and we just put our signature.

In panchayat B, and in the other panchayats in the block, disagreements on proposals usually do not take place because of the simple reason that the pradhan calls only his own people. In two cases, even the upopradhan was not called for any meeting.

### NAMESAKE MEMBERS

Disagreement with the pradhan leads to ostracisation from the institution. Disenfranchisement indeed appears to be the logical reward for insistence on democratic rights.

It is definitely the case that members who have fought the elections on the panel of the defeated pradhan will not be invited by the victorious pradhan to the meetings of the panchayat, assuming that such meetings occasionally do take place. Some of these members bitterly complain that even their signatures must have been forged since they have never signed any document. They are probably correct, as the following story shows.

Bishambhar Singh is in his early 40s and claims some political commitment as a member of Mulayam Singh's Samaiwadi Party. He is a bachelor who looks after the land (two acres) and the tamily of his deceased brother. Since he was planning to get into politics and aspired to become the pradhan after the 1995 election, in 1988 he decided to stand for membership: "People voted for me but now I realise I am here for namesake only. The pradhan never asks for our views and when we tell him our suggestions and our complaints about some developments, he just does not listen to us. I take this as an insult. We are members for namesake only. People make a joke of us".

One of the pradhans was a relatively young man who in 1983, at the age of 35, became the pradhan as the heir to his father. He owns 25 acres of good agricultural land and a brick kiln and has important political connections. Despite his enormous wealth and his dynastical ascent, he talked as a man imbued with democratic principles. He preferred to solve problems in an amicable way, and he wanted the panchayat members at the monthly meetings to come forward with their own proposals and to put them

on the agenda of the meeting. However, he does not like them to vote on the proposals:

Voting will only create 'tanatani' (tension), and I prefer to shelve controversial proposals for the time being. In this way, I can maintain an amicable atmosphere. As a matter of fact, we are one big 'viradari'.

The excellent words did not fail to impress, but doubts about the veracity of the sermon started cropping up when he had some difficulty in telling the names of the panchayat members whom he was supposed to have met at least once every month over the preceding four years. Doubts spinned into incredulity when it then turned out that the pradhan had provided us with the names of members who actually were not members of the present panchayat, but of the old panchayat which had been superseded four years earlier.

Whether the newly constituted panchayats will be any different is unsure: towards the end of 1995, half a year after their constitution, not a single meeting had taken place after the inaugural meeting.

It is not surprising that many of the new members deplore their membership. Only for some of them the dissatisfaction is because they had expected to be in a position, as they claim, to do something for the development of the village. For most of the dissatisfied members, however, this factor did not carry any weight; they were asked to stand for the elections, and in obeisance to the prospective pradhan they agreed to the proposal. Some of them even claimed that their nomination has been filed by the pradhan without their consent. Santosh Singh, an illiterate labourer, was exactly 30 years old when the pradhan approached him for membership:

I am a member for namesake only ('nam ke liye') The pradhan wrote my name, filled my nomination form himself, and informed me that I am a member. I thought that he was cracking jokes, but when I put my thumb impression, I was convinced that I had become a member. But it is absolutely 'bekar' (useless). A member is 'bakwaas' (stupid fool).

'The pradhan forced it on me', is a complaint often uttered by members. They consider themselves as 'zabardasti (coerced) members. In a number of cases, the coercion is a pure physical threat Forever wary of potential conflicts, they have learned not to talk openly about village affairs to strangers, and quite a few members were reluctant to respond to our queries. In a few cases, they even insisted that the pradhan be present at the interview.

The justification was of two kinds. They either pleaded that as poor people they did not know anything ('garib anparh admi': the poor-and-illiterate-people argument) or that the pradhan was the 'malik' (master) of the village and that he was the only person who would be able to say what was supposed to be done and what had been done. Many devious ways of making them speak up failed.

The compliance with the wishes of the pradhan in a number of cases is related to economic reciprocity: as agricultural labourers on the land of the pradhan, or as recipients of IRDP loans or of houses built under government programmes, they are obliged. Mahindar Singh is a brick kiln worker of the bhangi or valmiki (sweeper) caste. Just before the pradhan proposed his name for membership, he was given a loan for house construction:

I myself was interested in membership, but it is really an insult. I have never been called for a meeting. I suppose that the pradhan wanted to buy me over. He filled my paper and informed me that I am a member, I think because I have some influence over my community people.

Others, on the other hand, have complied with the offer of membership because they probably genuinely expected to get involved in work for the betterment of the village. This is an orientation quite common among the younger members. Some of the women also appeared to be genuinely interested in taking up some initiatives. Their expectations have come to nought.

Indira is still in her late 20s and now wonders why the pradhan had asked her to become a member. She had to fight a battle with her relatives, but because of the support of her husband she could accept the offer: "At home I don't have much work and so I wanted to do some social work, but becoming a member was a great disappointment. Women should become self-sufficient and self-reliant but although I am so-called member, even I am kept absolutely bekar".

Another example is that of the illiterate Muzaffar, a poor trader and casual worker. He was fancied by the pradhan because "he thinks that I am his man". Behind the back of the pradhan, the discourse changes from gracious compliance to a litany of accusations. They are accusations of what has happened, among others the proverbial corruption to which we shall return later, and of what has not happened. Muzaffar has a whole list of works which should be taken up by the panchayat but since "the pradhan is corrupt and careless about the

poor people", not much has been done. He lists four of them as the most important: village roads, (better) educational facilities, drinking water supply and health facilities.

PUBLIC WORKS AND PRIVATE CORRUPTION

Village roads, education, drinking water and health are the priorities high on the agenda of most of the members who apparently had given a thought to what could be done. Illustrative of this non-involvement, however, is the fact that more than one-fourth of the members, excluding the absent members, could not come forward with suggestions for any improvement which they considered necessary. The reason why around one quarter of the panchayat members could not offer any suggestions should probably be imputed to fear psychosis rather than to a dull mental process.<sup>3</sup>

The works which are listed by the members as requiring priority attention involve those basic and rudimentary provisions which one had expected to already have been put in place after many decades of rural development planning in one of the richest regions of India. It is not that the facilities are altogether absent. Primary schools (up to class V) have been constructed, but the maintenance leaves much to be desired and the teachers often do not turn up. Most villages have only a primary school, which makes it imperative for the young children to go to a supra-local junior high school for the next forms. Especially for girls, this is experienced as a step too high to take. Government primary health centres are absent or have not been functioning since their inception. In panchayat D, for example, neither doctor nor nurses have ever turned up, and the building by now has become decrepit. The inter-village roads are quite good but the intra-village lanes are in a decrepit state. Public water pumps have been installed, but only two or three per village. Some houses for harijans have been constructed and some IRDP loans for the purchase of carts ('buggy') have been provided.

As to the reasons why the public works have not been undertaken, the pradhans and the members differ fundamentally. The pradhans are quite exquisite while enumerating all the good deeds they have done with the available resources: according to them, roads have been constructed and repaired, loans have been distributed to the poor people, houses have been built for them, handpumps have been installed, etc. One of them, generally regarded as the most corrupt pradhan in the neighbourhood, blames

. . . . . .

insufficiency of funds and wrong allocation by the government as the reason for the slack performance:

We want to work even harder for the improvement of the village, but the funds are insufficient. And also, the government has earmarked the money for certain purposes. So we are constrained by this wrong allocation The pradhan should have more power to use the money where it is needed. And then there are the 'dalal' (middlemen) and 'goondas'. They are protected by the block officials and by the politicians. All this prevents the money from being used for village development.

The pradhans indeed are unanimous that they should have more discretionary powers in allocating the money which has been earmarked for village development. They prefer to go back to the days when decisions could be taken at the village level without the involvement of the block level and higher officials. It is alleged that they take their cuts before handing over the money. One pradhan knows for sure that people who want to get a loan will give money to the block officials, and that since the pradhan himself is excluded from the transactions and from the decision-making process, "unfortunately, harijans and poor peasants never get the loans". The members most sympathetic to the pradhan also put the blame on the shoulders of the block officers. These officers are said to pocket all the money and the pradhan is only considered as a 'kamzor', a weakling.

The field reality is somewhat different though: financial matters are the joint domain of the pradhan and the higher officials. Shekar, a brahmin who had been a member of the panchayat since the mid-1970s until 1995, agrees with the quotation (he himself got a loan for a cart) but disagrees with the shifting of the responsibility:

The pradhan himself is very shrewd He does everything on his own, and the block officials will deal with him only and with nobody else in the village. The pradhan and chotapradhan and the block officers can tell you who is getting the loans and how much money is being spent on the works. We do not know anything.

All the members, whether they are brahmin, jat or harijan, literate or illiterate, all have one common handicap: except for the pradhan, and in most cases the upopradhan as well, nobody knows how much money is available to the panchayat. The key to the safe is with the pradhan, the block officials and the bank managers. Most of the members put all the blame for the non-execution of works on the pradhan. Apart from considering him as lazy and as

an incompetent 'befkuf' (stupid fellow), practically all the members rebuke his secretive manner such that they are left in the dark about all the money which is supposed to come into the village. The following statements are typically used by the members to describe the pradhan:

The pradhan is a corrupt man par excellence. He has eaten up all the money. He is a 'chor' (thief) and a 'sharabi' (drunkard). He is lazy and stupid. He should be kept behind bars He should be punished. He is friendly with the goondas and only helps his chamchas (sycophants). He has destroyed the village.

The pradhans, with the exception of the pradhan in panchayat C, are accused of not only pocketing the money provided by government programmes, but of collecting money from the villagers for 'shramdan' programmes which did not materialise. Of course, they say, they have also taken up some works, but each time they have seen to it that they were paid properly, either as a bribe or just by using false signatures.

Panchayati raj could be made to function as a good system for the village in the sense that it already has contributed a small measure to the development works in the village, and in the sense that it could dispense justice and maintain peace. But because of the way it is organised now, the members feel, it all falls flat on account of the pradhan.

### 'FATAFAT' ELECTIONS

The solution proposed by some members who apparently have pinned their hopes on more power and resources coming their way, is that the pradhan should be more efficient and should be more of a 'zimmedar' (a trustworthy person). The members should get more power to intervene and to be involved. There should be honesty and efficiency. If only the sitting pradhan could be replaced by a good and efficient person, and if they themselves could do the job, "it would have changed the face of the village", as one of them contended. Such expectations of an improvement in the system are maintained by a number of members. meetings should be convened, works should not be undertaken without consulting the members, the money subsidies for the poor should go to the poor.

They are pious hopes which will lead to a false dawn, it seems, for the economic base supporting the political structure remains unaltered. Nay, argue many, panchayati raj cannot bring any solace. As long as the money is coming to the village, the pradhan and his intermediaries will get corrupted and it will help in spreading dishonesty. A

few members therefore plead for more power to the administration (the block officials), but many more want to go much further and see in president's rule or in military rule the only solution. Military order "as during the British days", in the context of absolute disorder and terror politics, has become an attractive proposition.<sup>4</sup>

After the dramatic events around 1990, faith in the survival and the usefulness of the democratic structure apparently has returned, but for many low-caste people the freedom of choice remains impaired by the jat musclemen. From among them we heard many stories confirming the general suspicion, elections are done the fatafat way, i.e., quickly by a number of men who stuff the boxes with ballot papers in support of their candidate. Depending on what the dominant jat section had decided, votes would be cast in favour of that candidate. This voting procedure is quite simply referred to as fatafat.

Sona is a middle-aged valmiki member. She has never attended a meeting of her panchayat and has hardly ever voted for parliamentary, legislative or panchayat elections. She was one of the many members who, when asked for their voting preference answered, "if allowed to vote" and continued:

Although I am illiterate, I know that voting is important because by voting we choose our leader, but these days the vote does not have a value. It is all 'goondagarhi'. During election time, the goondagarhi of the jats is most rampant. Elections are a question of fatafat. It went fatafat. They did not even allow us to come close to the polling station.

Politics is more and more being conceived of in terms of goondagarhi and 'bhrashtachar' (criminalisation and corruption). The assertion that "the police, the politicians, the big people, they all have their goondas", is a common one. It belongs to the village discourse and does suggest an adverse predisposition towards politics. This is not necessarily the case. It is rather an expression of disempowerment by the dominant faction.

### Social Void

Canchayat membership comes with age: more than four-fifths of all the members are in their 40s and 50s. The pradhans actually used to be in their 50s and 60s, had a long career of village politics behind them, and had been functioning as pradhan for at least two terms. The only first term pradhan before the 1995 elections was the relatively young P P Singh who has taken over the reigns from the deceased pradhan in his village. His young age was balanced by his superior wealth: his family cultivates 25

acres of land. In the new panchayats, the average age has come down slightly, but for younger people they obviously do not serve as a vehicle for starting a political career. Nor are they an arena in which young people can get involved and start social activities. Most of the members in the old council (around 85 per cent) and practically all the members in the new councils actually do not have any social involvement outside the panchayat membership.

Membership of social organisations is limited. The explanation could very well be that except for the BKU, there is not much organisational activity in which one can get involved.6 Active involvement on issues or in movements around social issues is even more limited. It is actually non-existent. Most of the members have never been called upon to intervene even in small social matters. Only seven members were prepared to state that they were involved in social issues, which in each case meant that they commanded so much authority or respect that they would be called upon to solve smaller conflicts within their community. The panchayat members in this area, and therefore also the agenda of the panchayats, are devoid of social concerns; they operate in a social void.

If panchayat bodies are to play a role not only in economic development but also in changing the mores and values of the people, panchayat members themselves should be expected to set an innovating trend, for example, in respect to the undermining of the caste system and the emancipation of women.

Until 1995, there usually was only one female panchayat member. The nominated members themselves usually pretended not to know much about the panchayat system, but when it comes to their own position they usually are clear about their priorities. Sona, the middle-aged, poor peasant valmiki, has been nominated by the pradhan to become a member. Although she has ideas about latrines, maternity centre, etc, she had never been asked to do anything or to attend a meeting. It is her 'kismat' (destiny), but she also considers herself lucky with a good husband:

I know many women who are suffering at the hands of their husbands. There should be more independence for them. Some financial freedom is required so that one can go and buy things in Sisauli without having to go and ask the husband. Education is important, but it also depends on how the husbands change and how society changes.

Indira is 15 years younger and has received some education in the village school, but

otherwise her situation is comparable to that of Sona. Hers also is a poor peasant family with a modern line-up – husband, wife and two children:

I want equality among men and among women, and between men and women also. Women should become self-sufficient and self-reliant, and they should get educated; only then things can change. Jobs are necessary for women. I want to go and work, in the hospital, stitching work, or so, but the men in the in-law's house do not allow it. I wish I could do something through the panchayat, but that also is not allowed.

Some of the better educated males of well-situated families have adjusted. Ravikant Pal insists that he treats the women in his joint family as human beings. His daughters have studied up to class 12 and one of them contracted a love marriage. A few other jats and harijans agree that the male should not continue to be the absolute 'malik', but argue that it is difficult to bring women into public life. This really starts already when the girls have finished class five and have to go to the high school in adjoining villages. This is considered difficult, for eve-teasing is going on, the atmosphere generally is not conducive to it, etc.

Social conditions are used as an apology for inaction. Most male members, however, do not see this as a problem: girls should go to school, but only to learn to read and write, and there is no need for them to go for higher education, for in that case they might 'go and sit on the head' of the males. Their freedom should be limited, and they should not indulge too much in public activities. They are regarded as not knowing anything, and of not being of much use in the panchayats: 'She should take proper care of the house only' is an often heard proposition.

The composition of the panchayats fairly reflects the village population. Around half of the members are jats and one-fifth are harijans. In the old councils, brahmins and kshatriyas accounted for only 9 per cent of the seats, slightly less than the backward castes. In the new councils, the OBC membership has increased to one-fifth and brahmins have all but disappeared from the councils.

Quite a number of jat members argue that the caste system is bad, that only humanity counts, and that therefore the politicians should stop this game of setting up one caste against another. An unambiguous defence of the caste system by the jats is hard to come by. With a handful of exceptions, however, they continue to locate themselves in caste terms, even if restricted to marriage only. In their discourse, jat members are on the defensive in the sense that rather than

defending the caste system, they argue that like any social arrangement, it has got some advantages, and that anyway, it cannot be abolished in one stroke.

In the meantime, not only bhangis and chamars but brahmins as well complain that village life, and the panchayat structure, are clearly dominated by jat families who sign for the seven pradhans.

The dominance and muscle power of the jats is so imposing that at election time, the lower caste members are not even allowed to vote, SCs and OBCs, unlike the brahmins. feel the caste oppression in daily life also. Earlier, the jats would not come near the houses of the harijans, and the harijans would not be allowed to sit on their charpoy or take food except that served straight into the hand.8 The SC members, who feel that they are still considered as 'acchut' (untouchable). also agree that social behaviour is not as bad as what it used to be. Many of the restrictions have waned. But as long as the money and the jobs are with the upper castes, respect for the lower castes will remain minimal.

That is one reason for some of them to have welcomed V P Singh, and why they have committed themselves to the SP. They hope that some change will be brought in from the outside; they themselves are unwilling to start any social movement which may break the rules set by the jats. All the Muslim members, practically all the SC members, and less than half the OBC members were supporters of the Samajwadi Party. The BSP did not have much appeal.

Only around 5 per cent of the members in 1995 had remained with either the INC or Janata Party, which in the old council could still count on the support of more than one-third of the members. Most of the jats had transferred their support from the Janata and Congress to the BJP, which was the favourite party of more than half of all the members and which had the allegance of the seven pradhans in the block.

### CONCLUDING REMARKS

The survey of close to 100 members of seven panchayats around Sisauli has uncovered an interesting and rather simplistic typology. By and large, panchayats exist in name only and most members appreciate their own membership as such: it is a formality only. A pattern of dominance by the pradhan has been allowed to grow to the extent that he is the only hinge on which depends the deployment of state resources and initiatives. The system is allowed to continue as long as it keeps joint business with officials from the higher echelons. Such

an important personalised position in none of the cases has been shown to lead to more than mere token interventions for the common good. It is the pradhan who decides the type and the modalities of the works to be undertaken with, in the best of cases, a passive involvement of some of the members.

The inactivity of the panchayat members is a reflection of the general absence of social involvement. Since politics and activism are the domain of the dominant personalities in the jat 'thok', no autonomously initiated movements can take place. Although on many social issues – the continuation of the caste system and the position of women for example – the ground is shifting, and a further shift is blocked by the position of the dominant thok leaders. They maintain the traditional social order to the extent that it further maintains caste/class and gender suppression.

The pious hopes of some members, including female members, of furthering human, social and economic development through the panchayats have proven to be out of touch with reality. The dismal performance of panchayats in another state (Madhya Pradesh) notwithstanding, has led Mathew and Nayak (1996:1771) to the conclusion that they provide a "democratic forum to grapple with social and political issues in the open" and that "the churning process will continue". For the time being, it is more an expression of hope and expectation. Its fruition may be conditioned by "people aligning on party lines". In our case study, in the absence of party politics the pradhan has continued to operate the panchayats as his private domain.

The closer study of one area in western Uttar Pradesh has indicated that the positive expectations surrounding the 1994 constitutional amendment are by and large unwarranted. The panchayats remain inappropriate instruments for rural development and for denting the landed power formations. The predictions made by Ambedkar half a century ago remain valid.

### Notes

1 They existed mainly among the 'advaitinal castes. Even among the jats, permanent panchayats existed only in a few areas as thok (lineage) panchayat [Pradhan 1966]. The offences triable by the caste panchayat varied, but usually included the following: (inter)caste adultery, breaches of commensal rules, drunkenness, breaches of caste trade rules, insulting brahmins, cow-killing, etc. The sentences included pilgrimages, compulsory begging, public humiliation, and, as a rule, fines to be used to feed the brotherhood and an extra fine to feed the brahmins [Blunt 1931:115-17]

- 2 This function of the caste panchayats has not altogether vanished from the area. It is occasionally still made use of when the village patriarchs wish to impose their rule and lifestyles on deviant family members, caste members or villagers. A recent and gruesome example in the district relates to the beheading by the panchayat of a young harijan couple who had eloped to Delhi and Haryana, and who after having been enticed back to their village with sweet promises, were conferred the ultimate verdict, executed with an axe by one of the fathers (The Times of India, August 10, 1993; Economic Times, August 14, 1993).
- 3 A non-response is often wrongly translated by the interviewer as a lack of knowledge and perception. Respondents often indeed prefer to talk up to the interviewer, agreeing with the assumed world view of the interviewer, the superior outsider, or to keep silent and refer the interviewer to the people who should know, i.e., the malik (the husband, the employer or the dominant village elite). Many of the interviewees actually, after having stated that they did not know what was needed in the village, told us to go and see the pradhan and to find out. If we insisted we could interview them, but only in the presence of the pradhan.
- 4 In particular, the traumatic events of the early 1990s have bewildered many villagers Political violence had never been absent from the area, but the flaring of religious and social tension in the wake of the assassination of Indira Gandhi and Rajiv Gandhi, and in the wake of the Mandal Commission and of the Ayodhya skirmishes, had instilled fear in many villagers
- The fortunes of the pradhan usually last longer than the party's fortunes. For example, Sukhbean Singh was already the pradhan of his village from 1960 till 1973. At that time, he was still with the CPI. He suffered from the general decline of the party, and his change-over to Congress did not help him until 1988 when he was re-elected.

- 6 Surprisingly, only 12 members, usually the bigger landowners, were stated to be involved with the BKU, most of them rather passively. Only six members were associated with educational institutions in the area. Two of the members were also members of a religious organisation (the Arya Samaj), and two members are somewhat actively involved in party politics
- 7 Ironically, only some of the OBC kahars are prepared to publicly stand by the caste system: "If we are all allowed to become equal, there will not be a difference between us and a cobbler or a sweeper. It will be the worst for all of us". Therefore, the caste system should continue to exist in order to demarcate the people, but "it should not be used by politicians to divide the people".
- 8 In the mid-1950s it was reported to Kolenda (1983:136) about the rajputs in the same area: "The rajputs are ever ready to have contact with our women, but with us men, they dont' even let us touch their clothes".

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### More on Land Rights for Women

### Indu Agnihotri

IN her long rejoinder to my review (EPW, March 8) of her book, Bina Agarwal has chosen to adopt an extremely vituperative tone bordering on a vicious personal attack (EPW, June 8). Notwithstanding her citation of long extracts from her book, the central questions raised in the review remain unanswered. To set the record straight, I shall reiterate some of these.

Agarwal admits that only 1.04 million hectares of land is available for distribution and that this would constitute approximately 0.56 per cent of the country's arable land. The question that I had raised was that if land reform, per se, has ceased to be on the agenda for most political parties, except those on the left, then where would the land that women should be in control of be made available from? In the absence of an emphasis on land reform the demand for land rights for women can easily end up being reduced to a demand for land for women from the already propertied classes. This would not be representative of the range of positions taken up in the women's movement; nor would it shift the focus to the dalit and landless sections of rural women, something that is urgently needed and being felt within the movement. This aspect gains renewed importance in the wake of prevailing landlessness and pauperisation (as obvious from figures cited in Agarwal's book and from the more recent changes in economic

The question arose partly because in Agarwal's book the discussion on land reforms is unfortunately largely on a negative note except in the early part where the farm size productivity debate is cited to counter the argument that recognition of women's title to land would lead to further fragmentation and an increase in the number of economically non-viable holdings.

The discussion on group 'pallas' which Agarwal wants to focus on would have to be preceded by a renewed commitment to land reforms which in a sense is totally missing at the present political juncture when reforms are aimed at handing over land to multi-nationals for agro-industries.

In the discussion on Operation Barga, contrary to the alleged 'oversensitivity' on my part, I had been very forthright. The question I had raised was that the patriarchal bias in West Bengal's land distribution

programme needs to be probed and that there was a background of debate on this issue among activists on the left. The point made was that it is not enough to accuse the Left Front of not giving land to women. The patriarchal bias with regard to land rights is not a leftist prerogative. It goes back deep into history and as Agarwal herself shows is shared by other peasant-based communities/economies in south Asia. It was in this context that the question about the need to focus on aspects of production and women's role in the production process was raised. Why is the act of ploughing made out to be the function most central for the definition of a 'tiller', I had queried. That this is a key issue would be borne out by historians, anthropologists and policymakers alike. Why should all other functions and agriculture-related work in which women, by all accounts play a major and even crucial role, be underplayed? This was one of the reasons given by me in asking Agarwal for more discussion on production. Added to this was the expectation that Agarwal, being a trained economist, could cull out evidence and focus on women's role in production to a far greater extent than others.

The actions of the colonial state which seemingly only recorded the rights in land as they existed in fact constituted an active intervention in denying rights to entire communities and peoples, including women, and creating new rights where none existed earlier. In their passionate search for loyalists, leaders of the community, yeoman, and the much flaunted superior agriculturists, the British created new stereotypes. The damage caused to women's position in the wake of dysfunction of the economy under colonial rule was neither unintended nor negligible. The reference to archival records was made in this context, to argue that digging into the unpublished proceedings of the British government may help throw more light on the making of the Indian peasant as a 'male'. Also, perusal of unpublished and nonofficial records, even with reference to the Garos would lay bare the nature and impact of British policy interventions in a region where women's participation in agriculture remains central to the economy of the region. The interlinkages between changes in production patterns, women's status and

colonial policy have been brought out well in a recent study of Indian indentured labour on plantations in the Caribbean.

Agarwal maintains that her arguments on women's class position have been misrepresented. On the contrary what was stated in the review was that while the observation that changes in the women's family and marital status directly impact their economic position was valid, for Agarwal to go on from that and attribute excessive ambiguity and fluidity was both problematic and naive. Class is an eminently powerful element of perceived identity and status, both in the way others see us and the way we see ourselves. In the rural Indian context class and caste distinctions can certainly not be wished away - not even through the setting up of multi-class organisations. In fact the strength of multiclass organisations, including those such as AIDWA, lies in the recognition of these very differences and it is success registered in consciously tilting the balance in favour of women from the oppressed social groups which would turn the women's movement into a multitudinous and potent agency for social change. In the absence of such a perspective the thrust for multiclass or even mixed-sex organisations could easily hijack the slogans of democracy and equality into perverse rhetoric while women's emancipation could become a plank for enhancing the 'rights' of women from the privileged sections. In other words, selective critiques of patriarchy, devoid of the context and content of democracy can become and, have in the past, led to appropriation of the slogans raised by the women's movement for selective gains.

Lastly, while I have chosen to ignore the petty insinuations contained in Agarwal's rejoinder I do wish to put on record my sense of shock and anger at learning from friends that the author had actually made telephone calls to verify or establish the exact nature of my political affiliations. These in fact have never been a closely-guarded secret; nor have I chosen to flaunt them. In fact to the best of my ability, I have tried to use my political vision to expand my intellectual horizon. If Agarwal believes in serious intellectual debate on a free and frank basis then attempts to dismiss questions by resorting to political 'labelling' is hardly a step in the right direction. To set the record straight, Agarwal has written a good book but, I maintain, and I hope, her's is not the last word on the subject.

### Intellectuals, Nation and the People

### S Shukle

TWO basic issues arising from Andre Beteille's very full obituary tribute to S C Dube (EPW, March 30) should not be allowed to be obscured.

Many intellectuals of Dube's generation felt committed to serve the Indian nation and its state, however much some of us may entertain reservations about its character. This position should be demarcated from the one, like the author's, that involvement even as much as Dube's could be legitimate but that the ideology and class orientation is illiberal and conservative, even reactionary from our point of view. Some of us therefore do not choose this involvement, in fact feel committed to and are active in opposing or criticising the state and working against it, in addition to the academic work we might do. Beteille's position does not deny any public role for the intellectual, but it is much closer to his desk and classroom, or much more glued to them - and as a matter of honest conviction, if one may say so, less radical. But to the extent his comments appeared to imply isolation, maybe unintendedly, one has to differ and say Dube's was as much a possible role as any other that Beteille might prefer. Intellectuals' deep and active involvement in the postcolonial states of the second half of this century should be positively responded to and encouraged - and not discouraged even by implication.

The other issue relates to the construction of academic discourse in our country. As pointed out in the initial intervention, radical, non-metropolitan, non-English academic intervention tends to get marginalised through the mechanisms of publication, channels of communication, allocation of positions, including academic positions, which are prevalent. The very structuring of these processes and the formation of attitudes tend to highlight the English language and conservative thought. This is not just a matter of how important Dube or anyonc else is or is not. The question of allocative justice in academia is an important matter by itself on more than one ground - fairplay, health of the academic system, etc, etc. But the issue raised here is, what ideas are helped to dominate or govern academic discourse? Which direction is society propelled in through these academic processes? The very social construction of academic and, therefore, to some corresponding degree social reality is at issue. These are not matters to be obscured by an initial avoidably petulant reaction of - to use the expression already used earlier in this discussion - a 'provincial'-origin academic to, if one might use a corresponding adjective, a 'metropolitan' academic's comments. The privileging of conservative ideas through the metropolitan elite's language, English, and the sidelining of those in Indian languages has already gone too far. Furthering it even more could lead to both more reactionary thought at either end of the social/linguistic scale and deeper social schisms obstructing the path of either serious thought or purposeful social action. It would further advance the process of closer integration of conservative (as well as even radical or progressive) English-speaking/metropolitan intellectuals with the dominant First World. Reflection on what we do with the memory of people like S C Dube and A R Desai - very different from each other except in their marginalisation by the conservative English/metropolitan intellectual Establishment – has to raise basic issues of what is happening to ideas and people in our society. The faults and deficiencies – and who is without any? – of Dube or the intemperate response of Krishna Kumar (perhaps worse than some similar faults of others, perhaps not) apart, one has to do something about this schism and produce – in not quite the Gramscian sense – an organic academic discourse and community which is also an adequate and wholesome social one.

In postscript, one must point out, students of education (the author is also one and had some responsibility for Krishna Kumar also being where in the academic world he is located) also study society with such competence and limitations as are theirs. Some sociologists also study education — a few with very high creativity and competence, others with less.

### **Product Reservation Policy for Small Industry**

### M H Bala Subrahmanya

PRODUCT reservation for small scale industry (SSI) is perhaps the most widely debated among the various policy measures adopted by the government for SSI since independence. My paper [Bala Subrahmanya 1995a] analysed its macro performance over a period of time and brought out that the policy has achieved nothing substantial for SSI. My clarifications [Bala Subrahmanya 1995b] on inferences and conclusions of my paper with reference to Nair's comments [Nair 1995] have been misunderstood and misinterpreted by Nair to a large extent [Nair 1996].

First, about competition. The thrust of my argument is that it is wrong to assume that whatever is reserved for SSI (i) do have economies of scale for SSI and therefore competition among SSI will emerge; and (ii) do not have economies of scale for large-scale production. To substantiate this viewpoint, I quoted that out of the 1076 reserved items, 233 items are not at all produced by SSI and 692 items have negligible presence in reserved SSI output. This shows that these items have really not witnessed the entry of a large number of small producers to encourage competition.

At the same time, it does not mean or imply that the remaining 151 items have economies of scale only for SSI and therefore, competition has emerged and do not have economies of scale for large-scale industry. It cannot be conclusively proved that the 151

items do not have economies of scale for large industry and therefore reservation is justified. The clandestine entry of large units into the manufacturing of reserved SSI items itself brings out that there are many items in the reserved list which are attractive to large units as much as to small units, if not more, in terms of economics of production.

Actually, small-scale enterprises emerge and grow due to three kinds of influences [Anderson 1982]:

(1) Wherever there are locational advantages (i.e., locational influences). (2) In industries which give scope for dispersed processes of production or sub-contracting (i.e., process influences). (3) In industries where products have small total markets or economies of scale for small-scale production (i.e., market influences).

These influences operate at every stage of industrial development. That is why, small-scale enterprises account for a significant share of units, employment and output in all economies, irrespective of the level of industrialisation [Nanjundan 1994]. Given these influential factors, small-scale units will emerge, irrespective of whether an item is reserved or not. Considering these, policies with promotional orientation could play a more effective role in SSI growth than protective measures like reservation.

Reserving an item, which does not have locational benefits, process benefits or market benefits for small manufacturers, will

definitely lead to non-competitive conditions. The statistical evidence that 233 reserved items are not at all manufactured by SSI questions the underlying logic of product reservation policy: "...Reservation provides protection by preventing the creation of fresh capacities in large-scale sector in product lines which are techno-economically highly suitable for being taken up in the small-scale sector" [Development Commission 1992]. In fact, Nair aptly reminds us that it is "the profit-maximising calculus that induces a producer, large or small, to enter an industry. One has to carry out detailed cost-benefit calculations for each such item before drawing any such inference" [Nair 1996]. By inference, Nair says that the government advisory expert committee, which recommends an item for reservation or dereservation, has overlooked these issues. According to Nair, the same holds good for the 692 items which have a negligible presence, in terms of value of output, in reserved SSI. Thus, Nair's rational arguments only substantiate my inference and conclusion.

Nair's assumption about my admission, that the statistics presented by me on the growth of the reserved sector vis-a-vis the unreserved sector can lead to conflicting inferences, is false. In fact, statistics clearly show that the unreserved sector is better off than the reserved sector, though marginally. In this context, it would be worthwhile to quote the findings of Sandesara. Sandesara (1993), who analysed the aspects of growth and structural change of modern small industry, compared the growth and capacity utilisation of reserved SSI with that of unreserved SSI using the two SSI Census. He found that at the aggregate level and in a majority of industries, the performance in reserved items was poor relative to unreserved items.

To quote Sandesara, "since reservation is an additional powerful incentive protecting small industrial units in reserved items from the more favourably placed large industrial units, catering to the same markets, one may expect their performance to be better than that of other small-scale units. However, our statistics suggest the opposite conclusion." He concludes "And thanks to reservation, producers in the reserved items may continue producing for long in the hope that their chances of survival and growth are better there than in unreserved items, so that the condition of poorer performance in the former continues to obtain longer than in the latter items".

To further prove my point, I compared the growth of items which have been under reservation since 1972-73 (Table 6) with the growth of items which were reserved in

1972-73 but were dereserved subsequently (Table 7) [Bala Subrahmanya 1995]. It is clear that it is the dereserved SSI items which grew faster than the reserved SSI items.

To counter my conclusions, Nair compared the growth of dereserved SSI (Table 7) with the growth of items which were unreserved in 1972-73 but were brought into the 'reservation list' subsequently (Table 8) [Nair 1995]. I have brought out the fallacy of Nair's argument in my reply in para 12. But Nair is quite off the mark when he argues that the comparison of Tables 6 and 7 has as little significance as the comparison of Tables 7 and 8(!).

According to Nair, reservation policy is a non-issue. But every government policy has been formulated with a specific objective. Therefore, it makes sense to assess or evaluate the performance of the policy with reference to its objective. Given this, no government policy can be a non-issue. Particularly, product reservation for SSI deserves due attention since it treats SSI and large industry as watertight compartments, without any significant achievement to its credit.

Nair further argued that Desai and Taneja (1990) among others, have produced evidence that reservation is not a significant issue. Perhaps Nair is not aware of their views on reservation brought out in the same paper. Desai and Taneja (1990) in their evaluation of SSI policy, structure and performance, said that "the list is an outcome of political pressures for reservations meeting the resistance of large firms and of bureaucrats afraid of obstructing the realisation of economies of scale." They concluded that "of the present incentives, only the interest concession on loans from official institutions seems worth retaining... The remaining incentives should be abandoned. In particular, market segmentation arrangements, in the forms of reservation, price preference and preferential purchase, appear to have no desirable effect, and some strong undesirable ones." Further Desai and Taneja (1990) pointed out that dereservation would enable the more efficient among the small firms already in the industry to grow. All this cannot be construed as an evidence to say that reservation is not a significant issue.

Finally, according to Nair, my major point in both the paper and the reply is that there is need to keep the reservation list constantly updated on the basis of logic regarding economies of scale and keeping in mind the emergence of new commodities. But nowhere have I so argued, explicitly or implicitly. A government advisory committee on reservation as mentioned earlier, has been functioning for the revision of the list from time to time. The conclusion of my article as also my reply is simple and clear: product reservation policy for small industry manufacturing deserves to be scrapped altogether. Depicting the policy with nationalistic colour is the last resort which one can seek to defend the policy.

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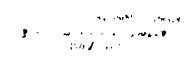
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|-------------------------------------------------------------------------------|--------------------------------------------------------|
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| 1. Income from Sales and Operat                                               | tion 46,416.82 38,340.30                               |
| 2. Other Income                                                               | 190.12 172.75                                          |
| 3. Total Expenditure                                                          | 44,127.53 36,500.68*                                   |
| 4. Interest (Net)                                                             | 154.57 225.05                                          |
| 5. Gross Profit after Interest but before Depreciation and Taxation (1+2-3-4) | 2,324.84 1,787.12                                      |
| 6. Depreciation                                                               | 559.51 417.28                                          |
| 7. Provision for Taxation (Net)                                               | 516.62 350.98                                          |
| 8. Net Profit (5-6-7)                                                         | 1,248.71 1,018.86                                      |
| 9. Paid-up Equity Share Capital                                               | 389.25 369.80                                          |
| Reserves, excluding revaluation reserves                                      | 7,485.68 6,217.53                                      |
| 1. Earning Per Share (Rs.)                                                    | 32.07 27.56                                            |
| . Cash Earning Per Share (Rs.)                                                | 46.44 38.84                                            |

Note:

\*Regrouped to reflect sales/purchases at gross value.

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(B) The above results have been taken on record by the Board of Directors at their meeting held on June 14, 1996. (C) During the year 1995-96, shares were allotted to employees, thereby increasing the paid-up equity capital. (D) During the year 1995-96, Kandla-Sidhpur and Sidhpur-Sanganer sections of the Kandla-Bhatinda product pipeline were commissioned.

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-P C Sarker

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### **Planning and Economic Liberalisation**

The Eighth Plan initiated during the period of the structural adjustment programme has been claimed to be a different kind of plan by its authors. To what extent and in what forms precisely has the drive for liberalisation of the economy affected the system of development planning?

2740

### **Urban Development in a Colonial Setting**

Normal capitalist development in the periphery is neither the intended objective nor the end result of colonial intervention. Hegemony for tribute realisation is the major aim. This hegemony and the plunder that it permits make it difficult for capitalist development in a colony to be along the same lines as in the metropolis. Towards the end of the 18th century, Bombay, having been drawn into the vortex of capitalist relations, was assigned its role in the world capitalist system. Through colonial manipulation, Bombay was made the main spatial regulator, in western and central India, for the transfer of tribute to the metropolis.

### Demographic Paradox

The male-female ratio in the total population has long been low in India and has been declining. But the low sex ratio does not hold for all age-groups. The sex ratio has been high among marriageable-age adults and a comparison of population data for India, France and Switzerland points to a demographic paradox. 2730

### **Financial Devolution**

The current balance of political forces, with a coalition of 13 parties forming the union government, affords an opportunity to correct the imbalance in union-state relations and address the question of the devolution of power downwards by the states.

2719

### **Child Marriages**

Child marnages had flourished till quite recently in the backward district of Rajgarh in western Madhya Pradesh. But a concerted campaign by the district administration over the past three years has succeeded in preventing a majority of engagements from culminating in marriages.

2721

### **Painful Transition**

The significance of the events of July 27 in Medan in North Sumatra in Indonesia is not that they mark the beginning of the end of Suharto's so-called 'new order', but that they signal the devastating ways in which political transition in the country is likely to come about.

2726

### Manipulating the UN

While the recent missile attacks on Iraq by the US have been generally acknowledged as a flagrant violation both of international law and Iraqi sovereignty, it is not often recognised that practically all UN actions in northern Iraq since 1991 have been in contravention of international norms. The US and its allies have deliberately misinterpreted UN resolutions to suit their purposes, manipulated UN processes to attain their objectives, taken action in the name of the UN without authorisation and in some instances managed to obtain subsequent legitimisation by the UN. 2760

### Into IMF's Arms

The government's reluctance to take unpleasant measures such as strict enforcement of tax laws and reduction of defence expenditure has compelled Pakistan to rush to the IMF for financial succour 2728

### **Lost Cause**

Although there is increasing evidence that a more equitable distribution of farmland actually leads to higher productivity, land reform has all but vanished from the political-economic agendas of third world countries, including India.

2725

### Tribals and Development

Tribals in the Nagarhole and H D Kote regions of Karnataka have been protesting against development projects sponsored by the World Bank which will result in their large-scale displacement and the destruction of their way of life. 2723

### LETTERS TO EDITOR

### **Different Strokes**

ACHIN VANAIK's article on the CTBT debate (August 24-31) was an informative and comprehensive review of the Indian stand on the issue and on the contrast between the Indian and the Japanese stands on nuclear disarmament. There is no doubt that Japan is the worst sufferer from nuclear weapons and its role in the nuclear debate has been exemparly. It is also true that public opinion in Japan has strongly criticised the continuing development and improvement of nuclear armaments. Vanaik is right in stating that Japan like India has its own border issues and despite those it has been advocating nuclear disarmament and CTBT whereas India has refused to sign the CTBT due to 'security reasons'.

Beyond this, however, I have several differences with Vanaik's point of view. First, to refute Vanaik's charge of "false anti-American credentials by Indian elite", India's objection to CTBT has nothing to do with anti-American propaganda. India has its own reasons for refusing to sign the draft. After all, Vanaik has himself mentioned that there are close trade links between the US and India. If India can co-operate with the US in economic matters why would it try to use the CTBT debate as a forum for anti-American propaganda and what is there to gain from such an action?

Secondly, Vanaik consistently tries to project that the Indian print media are biased and do not provide equal opportunities to anti-CTBT writers like himself. But by his own admission only two of his articles have been rejected since he became a freelancer. one of which was a debate with an individual. Furthermore, he admits that there are many writers favouring the government line (i.e., of not signing the CTBT). Why doesn't Vanaik view it as a popular opinion of the majority? Government itself is representative of the population and the media too are part of the population. Then it is right to say that both express public opinion here in the same way as they do in Japan.

Besides, Vanaik's article is an account of his personal career as a writer and antinuclear campaigner in India. He may have had to face various challenges in his campaign (rumours about his accepting money from the US, etc). But this cannot in any way justify his stand that the nuclear debate in India has been one-sided and ill-informed. It is true that in a democracy every person has the right to speak and express his opinion but it is also true that democracy is a way of government by the majority and it is imperative that the point of view of the majority prevail in the end. (As, for instance, the presence of pro-nuclear armament groups in Japan can't affect the government stand.)

Furthermore, it is not correct to place India's and Japan's security concerns on the same level. India cannot trust the world body in case of aggression from Pakistan or China when the US is providing military assistance to Pakistan despite repeated protests from India and "a section of its own population" and China, despite signing the CTBT, continued to test its arms till the last day and even forced changes in the CTBT draft. Japan, on the other hand, has no such security concerns. Its dispute with Russia over the Kun'le Island has not been very active or public in the recent past. Secondly, depite the anti-American stand by the Japanese public it is true that the US armed forces are at all times ready to protect Japan. Lastly, with the fall of communism in the USSR and a healthy friendship between Yeltsin and Clinton no one can foresee any security threats to Japan from Russia. On the other hand is the US stand on China where America was not able to stop it from conducting frequent tests and had to give MFN status to China despite its economic pact violations. So how can one expect the US to come to the aid of India in the case of a Chinese aggression?

Vanaik instead of giving an account of his personal struggle should have given concrete reasons for India signing the CTBT so that the 'ill-informed' and 'biased' public opinion of our country could have benefited

Anadi Misra

Lucknow

#### **Dubious Stand**

THROWING the nation's security interests to the wind, the Indian government on September 3 ratified a UN convention which prohibits development, stockpiling and use of chemical weapons and calls for their destruction – before a single one of the nuclear weapon states has done so – and is preparing to let the Comprehensive Test Ban Treaty (CTBT) be adopted by the UN General Assembly. In doing this, Indian officials are doing what comes naturally to them – acting as lackeys of the imperialist powers. India's patriotic forces must defeat this move towards slavery.

Rather than renounce its home-made chemical weapons before the nuclear five have done so, India can vastly increase its security, prosperity and self-reliance by immediately and strictly renouncing all further import of military hardware, including new fighter and trainer jets and insisting that the services get only equipment developed and produced within the country with at least 95 per cent indigenous content or do without them, no matter how dire the consequences. Only then is there a chance of India giving up its parasitism and putting in the requisite

effort. Think how many days of how many child labourers weaving carpets go into the purchase of a single jet fighter or trainer for a hundred crore in foreign exchange. Indictoses two such jets each month in peace-time in war with any but the 'coloured' nationately are likely to be as useless as Syria's which lost about 80 of its jets, technically a match for Israel's, for a single one of the latter during the Lebanon war. If you are not resourceful enough, industrious enough nimble enough to design and build such equipment, you do not have the qualities that make up the 'knowledge in depth' to use them

SATISH CHANDRA

Delhi

### **Custodial Deaths**

AS is well known, the police and other armed forces of the state as a matter of routine resort to third degree methods against those arrested by them in Andhra Pradesh during the last five years alone 107 custodia deaths have occurred. This is not counting the many people (672 in the same period killed in false 'encounters' with the police The police establishment in Andhra Pradesh has got away with this illegal and amora violence. Not a single police official has been punished till date. It is in this contex that the case of the custodial death o Ramakrishna Reddy at Madanpalle assume: importance. This is one case in which the evidence is strong and the witnesses are firm. Their evidence has already been recorded before the magistrate in the private complaint filed by the Andhra Pradesh Civi Liberties Committee (APCLC) Moreover the post-mortem report is also likely to prove the police guilty.

It is the hope of the APCLC that if the guilty policemen are brought to book in the case it will act as a deterrent to erring police men who resort to third degree methods eve so frequently in police stations throughou the country. The state government and the police establishment should complete their internal enquiry quickly and bring the gulty to book. This would set an example to the rest. Instead, we find local police official: conniving with the accused SIs to thwart the case using all sorts of methods, the lates being the filing of a series of false case: against the workers and the trade union leaders involved in the case and listing then as rowdy-sheeters. We therefore appeal to the readers of your journal to intervene it the matter and see that the police desist from such actions and that the guilty officials are brought to justice.

G NARENDRANATI

Vice-President, APCLC, Chittoor.



### Manipulated Market

FOR anyone familiar with the volatile behaviour of the Indian capital market, its current depressed state should not have come as a surprise. It reflects essentially the impact of certain fundamental factors, some internal to the working of the capital market and others relating to the economy in general. The foremost amongst these is, of course, the speculation driven nature of the market which has made it hyper sensitive, in the present instance to signs of political instability. The growth of the capital market and of the number and variety of players in it in recent years has far outstripped the growth of the real economy. It all began with the authorities attempt around the mid 1980s, to integrate the money and capital markets which encouraged the free flow of bank funds directly and indirectly into the share market. The financial system began to be dominated by a few players with political clout who showed scant regard for the rules of the game. From the other side, the so called equity cult was drummed up by some of the larger companies, such as Reliance Industries to avoid supervision and control by banks and financial institutions. These developments culminated in the Haishad Mehta boom. Share prices tumbled when the bubble burst in duc course but speculation was again stimulated by the emergence on the scene of foreign institutional investors (HIs) Within a period of about two years by early 1994, share prices had pierced the Harshad Mehta peak. Since then the Ells their attitude towards the emerging markets and their assessment of financial and political risks have dominated the Indian stock markets

The HIS initial influx boosted market operations to dizzy heights. The BSE Sensex touched a peak of 4,588 with a price carning ratio of over 49 it the end of August 1994 having overtaken the Harshad Mehta record of 4,506 achieved at the beginning of April 1992 Primary issues of share capital by private sector companies, which had been of the order of Rs 5 757 ctore in 1991-9? shot up to Rs 19,825 crore in 1992 93, Rs 23 275 rote in 1993 94 and Rs 27,261 crore in 1994 95 The period saw a series of measures to boost the capital market as part of the liberalisation of the economy establishment of the National Stock Exchange (NSE), enlistment of a large number of brokers (over 1,000 were registered with the various stock exchanges) and the emergence of an army (some 2 lakh) of sub-brokers, registration of nearly 400 FIIs, 37 foreign brokers and more than 510 merchant bankers by the SEBI and, above all, the listing of shares of public sector banks and other PSU undertakings. All these developments contributed to expansion of activity in the capital market way beyond what was warranted by the growth of the real economy

Significantly the mind boygling growth of the capital market has taken place during a period when there was hardly any rise in the rate of domestic gross investment, which fluctuated between 21 and 24 per cent. Even household saving in the form of financial assets has generally stagnated around 10 per cent of GDP. Private corporate sector investment showed only a small increase from 5.9 per cent of GDP in 1991 92 to 6 6 per cent in 1994 95. Against this backdrop, the level of operations in the capital market, even under the present supposedly depressed conditions, cannot be considered low From less than Rs 10 000 crore in the early 1990s, the size of the primary market comprising share issues and bond flotations by companies and funds raised through PSU bonds exceeds Rs 40,000 crore a year now. In the secondary market, the market capitalisation of seven PSU shares (SBI, IDBI, ICICI, MINI, SAIL, HPC Land BHFL) which were not available to investors a few years ago, amounts to about Rs 60,000 crore or nearly 40 per cent of the capitalisation of the BSE Sensex scrips. Despite the current fall in prices of major scrips, overall market capitalisation of BSF-listed companies, which had stood at Rs 189 405 crore in March 1993, Rs 344,462 crore in March 1994 and Rs 446 884 crore in August 1994, touched Rs 585,919 crore in April this year and was still Rs 497,113 crore in August. This is the result of the inclusion of PSU and other new scrips. Between August 1994 and August 1996, the BSL Sensex fell by 23 per cent but m irket capitalisation of BSF listed shares rose by 11 per cent. To take a different period between March 1993 and August 1996, the BSF sensex rose by 47 per cent but market capitalisation of BSF listed shares went up by 162 per cent

Therefore the despondency over the state of the capital market needs to make allowance for the fact that the size and tange of investment options available to players in the market, including the debt market have expanded beyond recognition. As a result, some decline in the prices of traditional scrips was only to be expected. The ordinary investor's disenchantment with the market is attributable to two factors, the questionable practices continued to be indulged in by the major players and the market element of unpredictability and volatility introduced by the operations of the FIIs. The quantitative growth of the market has not been accompanied by a corresponding improvement in the quality of operations. The promised control over speculation and greater transparency of operations have not materialised. On the contrary, all the major stock

exchanges have suffered drastic reductions in delivery-backed trading. The NSE has certainly not been an exception to this. In the case of the Bombay Stock Exchange, only 21.9 per cent of trades contracted resulted indeliveries in 1995-96, compared with 39.4 per cent in 1994-95. What is particularly disheartening is the fall in the ratio from 52 per cent in 1994-95 to a mere 17.9 per cent in 1995-96 in the case of the NSE, that is, below even that for the BSE. The comparable decline in the case of the Delhi Stock Exchange was from 35.8 per cent to 12.7 per cent and of Calcutta from 10.6 per cent to 4 per cent.

The number and variety of questionable practices on the stock exchanges, even those which have come to light, are mindboggling, ranging from irregular price fixing of initial issues to trade in duplicate shares and outright price-rigging. The SEB1 has blamed merchant bankers for the flood of public issues by shady promoters, but under the spell of liberalisation the SEBI had itself allowed the registration of a large number of merchant bankers without proper scrutiny. Now the SEBI has been compelled to launch an investigation into the whereabouts of some 382 companies that had come out with premium issues in 1994-95. Around 1,000 companies are reported to have disappeared after issuing capital in the past two years. The BSE has identified as many as 1,234 cases of price-rigging since just January this year and SEBI has apparently found NSE brokers indulging in the same irregularities as BSE brokers: failure to issue contract notes for all transactions or, while issuing contract notes, not obtaining clients' consent, dealing with unregistered sub-brokers and not segregating brokers' accounts from clients' accounts. SEBI has had to suspend the entire Pune Stock Exchange (PSE) board for allowing illegal badla transactions and evasion of margins by member-brokers, including PSE board members. Most recently we have the example of the FIIs manipulating the price of State Bank of India shares prior to the latter's GDR issue with the objective of picking up the GDRs at lower prices. The circulation of duplicate shares has been the most blatant of irregularities; likewise, the involvement of the UTI, LIC and GIC in the private placement of Reliance shares. It has taken the SEBI almost three years to castigate the investment institutions for their role in the Rs 1,000 crore private placement of shares of Reliance Industries. Despite all the evidence of wrongdoing, Reliance Industries was permitted to shift its registration from the BSE to the NSE when the former sought to take action against the company in the duplicate shares case. The recent speculative fervour in the stock exchanges has been stoked by the ebb and flow of investment by the PIIs. Based on the yield levels prevailing in the industrialised countries, the FIIs moved to the emerging markets in a big way in 1993 and 1994. The Mexican fiasco made them withdraw from these markets for a while and Indian share prices collapsed for the most part of 1995 because of the FIIs' lukewarm interest. During the first half of 1996, the FIIs increased their net investment by more than a billion dollars and share prices rose by about 30 per cent during January to June. Thereafter the FIIs reduced their net investment from \$ 356 mn in June 1996 to \$81 mn in August and \$ 123 mn in September, which has been not a little responsible for the depression in share prices during this period.

The manipulation by bears and bulls in the stock exchanges is thus to a great extent reinforced by the bearish or bullish view taken of the Indian markets by the FIIs. Between the end of June and early October. the BSE sensex fell by 16 per cent and the NSE-50 by 18 per cent. Indian companies' GDR prices have already touched rockbottom levels. Shares of as many as 1,500 companies are quoted below Rs 5, of them about 500 below Rs 2. Out of 6,802 listed scrips only 1,531 (22.5 per cent) were traded on almost all trading days of September, whereas 2,124 were not traded at all. The acute concentration of trading is evident from the fact that just 8.2 per cent of the scrips listed at the BSE accounted for 87.3 per cent of the total value of trading in September. In fact the top five scrips accounted for 80 per cent of the trade on the BSE in September.

The decline in share price indices during the past few months reflects to an extent the disenchantment of the common investor with company shares as an avenue for investment. What is required, however, is not more fiscal and financial incentives. but improvement of the functioning of share markets and genuine transparency in their operations. Despite some of the actions taken by the SEBI, the credibility in regard to the operations of brokers on the stock exchanges has hardly been significantly enhanced. Finance minister Chidambaram, in a recent meeting in New York, sought to appeal to the FIIs "to work closely with the Indian stock broking community and woo the small investor back into the market". He further said that "it is really up to the players in the market - the merchant bankers, FIIs. brokers and regulators - to do something and welcome the small investor back". While the infirmities of the market are indeed responsible for the slump in share prices, Chidambaram's lament that he "cannot see any fundamental weakness in the economy, yet the market keeps going down" flies in the face of facts. For whatever be the reasons for the behaviour of share prices, there is no gainsaying that there is much cause for anxiety on the macroeconomic front. The share markets may not generally behave in a rational manner, but some of the basic causes of anxiety on the macro-economic front are playing a role in depressing share prices as well. The deceleration in the growth of industrial output, large stock-piling of finished products, reduced investment as a result of usurious real rates of interest and unappetising corporate results partly reflecting heavy interest costs are all serving to depress the share market. There is also the destabilising influence on the stock markets of the overall economic and financial policies of the government. In the first place, as already mentioned, the presence of the FIIs with their fast moving funds has been a major source of volatility. Secondly, the monetary and institutional measures, which promote the free flow of funds between the money market and the capital market, contribute to speculation and instability in share prices. These two factors are responsible for generating exaggerated expectations among investors of windfall gains from investment in the capital market. It is in the larger interest of share market stability and enduring investor interest that such expectations are not further stimulated. Finally, the government's present monetary policy in general and interest rate policy in particular cannot but curb corporate investment and pull down companies' financial performance and thus tend to dampen share prices. From the point of view or better corporate governance of manufacturing firms and more disciplined use of investible resources, it is essential that in the financing of the corporate sector the emphasis remains firmly on a system of provision of investible resources by commercial banks and termfinancing institutions rather than on share market-based provision of equity and even debt funds.

#### PHARMACEUTICAL INDUSTRY

### **Playing with Lives**

THE series of events following upon the discovery that a brand of antibiotic tablets (Comsat Forte) manufactured by Boehringer Mannheim India, the multinational pharmaceutical company, were contaminated and reportedly caused the death of at least two people and seriously affected several others has exposed not only the degree of negligence in the manufacturing norms of pharmaceutical companies, but also the pathetic lack of control of the FDA over the drug companies.

The tablets, an extensively used widespectrum antibiotic combination of sulfamethaxozole and trimethoprim, had been distributed to patients who had undergone cataract surgery at an eye-camp at Ahmednagar on August 16. Following complaints of adverse drug reaction more than 62 people had to be hospitalised three days after. The FDA, which seized the remainder of the drugs, took almost 15 days to analyse the material. It found that the tablets had been contaminated with an antidiabetic drug, glibenclamide, which drastically reduces blood sugar levels and is administered to diabetics. Only then did it issue a notification to Boehringer Mannheim India to recall the drug within 72 hours. According to the FDA commissioner, to the extent that glibenclamide can cause hypoglycemia and is potentially lifethreatening, it was poisonous. There were at that time over four lakh tablets of Comsat Forte in the market in India. Given the fact that it was a widely used drug and that in India adverse drug reaction machinery does not exist, an immediate alert should have been sent out with notices in the media warning people about the drug. Nothing of that sort was done; instead the company (and it would appear the FDA) did its best to keep the issue under wraps.

Although the company agreed to withdraw the drug, it did nothing about letting the public know the facts. It contended instead that its own tests of control samples did not reveal anything incriminating. The company also requested the FDA to extend the timelimit by when the drug had to be withdrawn from the market. The FDA does not appear to have had any qualms about agreeing to extension of the deadline, to September 5, for a potentially life-threatening drug to be withdrawn from the market. This is surely an action that needs serious investigation, but even by September 5 the recall process had not been completed and some 20 per cent of the tablets were reportedly still in circulation.

Meanwhile, in Kolar at yet another surgical camp for cataract treatment, two persons died and 11 others became seriously ill after consuming these tablets. There is no explanation to date of how these tablets, which must have been purchased/procured in bulk, came to be distributed at the camp despite the reported recall notice sent out by the company. It took another nine days for the FDA to issue a show cause notice to the company seeking an explanation about the contaminated tablets. Two days later, on September 21, the company halted production of its entire Thane unit near Mumbai, one of the plants manufacturing Comsat Forte.

This is the first part of the story which raises several issues: Why did the FDA not

insist on the company issuing a notification about the product immediately in the media? Surely, protecting consumers of Comsat Forte from taking a product suspected of being contaminated should have been the first and foremost task of the FDA? Second, it is obvious that the company did not act in the interest of the consumers of its products. Even if the tests that it had conducted contradicted the FDA's findings, as a measure of safety it should have, if public safety was a concern, made the facts widely known at whatever cost. Would the company have been allowed to get away so lightly in its home country where both public reaction and the state machinery would have ensured otherwise? Third, had the FDA and its inspectors been doing their job, would such a situation have arisen at all? And was Boehringer Mannheim following the good manufacturing practices which the drug controller, the industry and especially the OPPI and the MNCs have been so vociferously advocating? This last is significant, especially in the context of the recent demand by MNCs, supposedly in the interest of public safety, for protection against the "reckless pirating of their products" by small Indian companies. The MNCs' old argument has been that no Indian company, certainly not the small ones, can match their quality control. Not surprisingly, the OPPI has not issued a single statement about the Bochringer incident.

The second part of this story has to do with the actions and the inactions of the FDA and the company. The workers of the Thane unit, now shut down, have alleged that the company is resorting to this measure as a first step in closing down the plant. They point out that such moves have been in the air. In any case, why should only one unit be closed when the drug was being manufactured in other units as well? There is some validity in their argument that the quality assurance manager and the procurement personnel should have been apprehended and investigated immediately. The manager of the unit had contended that the company was waiting for an investigating team to come from Germany. The FDA is yet to lodge criminal complaints against either the MD or other heads of division, nor has it as yet cancelled the production licences of the company for the drug.

Undoubtedly, there is an ongoing process of 'rationalisation' in the MNC drug sector following the liberalisation of the industry. And drug companies would not be averse to using any opportunity to close down low-profit lines and units. On the other hand, by and large, pharmaceutical workers have kept away from the drug consumer movement and have chosen not to involve themselves in

issues of public safety vis-a-vis drugs. Even in this particular case, it is curious that the union appears to be largely silent on the issue of poor quality control norms which allow such contamination to occur or on the company's negligence in not withdrawing the drug immediately after the first incidents occurred. In such circumstances, the workers may find it difficult to get support from those sections which have a stake in ensuring that MNC's do not resort to winding up production of low profit but essential drugs, replacing them with higher priced newer drugs, as is likely to be the trend in the context of the new patents regime. In fact, even if the FDA cancels the production licence for Comsat Forte, there should be adequate safeguards to ensure that the company does not replace it with newer high priced similar compounds. But that is unlikely to happen.

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#### **POLITICS**

### **Murky Goings-On**

WHILE prime minister Deve Gowda may have his own personal problems that prompt him every now and then to snuggle up to his predecessor Narasimha Rao, he stretches it too far when he interferes with the legal process to protect Rao from prosecution.

Recent developments pose serious questions about the way the prime minister is operating in the several cases relating to Rao's alleged crimes To start with, there was this mysterious meeting between Deve Gowda and the Supreme Court chief justice A M Ahmadi, in the midst of speculations about Rao's possible arrest on September 30 in the Lakhubhai Patel cheating case, Soon after the meeting, the Delhi police made an appeal to the Supreme Court to shift the venue of Rao's trial from the Tis Hazari courts (where the hearings were being held) to some other place so that better security could be provided to Rao if he was to personally appear before the special judge who was trying him. The Supreme Court promptly passed an order relieving Rao from the requirement of personal appearance before the judge.

Not totally satisfied with this assurance from the apex court, the union law minister Ramakant Khalap (under Deve Gowda's direction) asked the CBI director Joginder Singh not to oppose the bail plea, if Rao's counsel chose to make it, before the special judge. When this was conveyed to senior counsel Gopal Subramaniam, who was representing the CBI against Rao, he resigned in protest.

The Supreme Court's decision to relieve Rao from personal appearance, coming as it did soon after the Deve Gowda-Ahmadi

meeting, has quite understandably cast doubts on the independence of the judiciary and the reputation for 'judicial activism' recently acquired by the judiciary is likely to be tarnished. It is not surprising therefore that the agitated members of the Supreme Court Bar Association have come out with a resolution stating that "in all fairness, the chief justice of India should have avoided the meeting keeping in view the highest tradition of the august institution". Referring to the meeting - "particularly when so many sensational matters" involving "high functionaries" were pending before the Supreme Court - it said that it had put "a question mark on the independence of judiciary". Meanwhile, the Delhi High Court Bar Association has, in a resolution adopted unanimously, condemned the law minister for issuing the directive to the CBI not to oppose Rao's bail plea.

The prime minister is fond of repeating the cliche "the law should be allowed to take its own course". Now that the law, in taking its own course, is closing in upon Rao, why is Deve Gowda panicking? He is bending over backwards to protect Rao and prevent any harm that may happen to him through the legal process. Is it the fear that the Congress might pull the carpet of support from under his chair if Rao is prosecuted? But such fear, in spite of the bragging of Sitaram Kesri, the new Congress president, is unfounded, since the Congress is today a divided and sinking ship. No Congress MP is willing to bring down this government and face another election immediately for the sake of defending Rao.

Besides, even if his government falls because of Congress withdrawal of support due to the prosecution of Rao, it might improve Deve Gowda's image — which is fast declining due to his political indiscretions (such as meeting Bal Thackeray, travelling in an aircraft owned by Reliance and in the company of liquor baron Vijay Mallya, giving the status of a cabinet minister to Narasimha Rao, etc). He can project himself as a victim, who lost his prime ministership for allowing the courts to punish a corrupt politician, instead of sticking to power by protecting the latter.

### **AFGHANISTAN**

### **Invitation for Interference**

THREE months ago, when Gulbuddin Hekmatyar, leader of the Hizb-e-Islami which had been ranged against the Burhannudin Rabbani government, decided to throw in his lot with the latter, commentators were inclined to believe that there was some chance of stability in Afghanistan, even if it was for

only a short time. But in retrospect that probably was the point when Rabbani's efforts at keeping the fundamentalist forces at bay had reached their nadir. Rabbani's attempt to neutralise the other fundamentalist groups by inducting Hekmatyar into the government and, equally important, by encouraging some degree of Islamisation did not, it is now clear, succeed.

The manner in which the Taliban forces have overrun large parts of the country and captured Kabul indicates that not only are the forces well-equipped, but that there was a degree of support from among those in government. That they were well-equipped and possibly trained by Pakistan's ISI has been widely reported. Pakistan itself has made no bones about extending immediate recognition to the Taliban government, which again is not surprising given that the Rabbani government had not been wholly inclined towards Pakistan and had instead sought to establish friendly contacts with India and Iran as well. What is also not surprising is that the US which less than a year ago had sought to support Rabbani in his efforts to quell the Taliban forces should have immediately recognised the Taliban government. And it is this reestablishment of a Pakistan-Afghanistan-US axis that has put the Indian government in a quandary.

So much so that the government has not even reacted to the brutal manner in which the Taliban government has dealt with Najibullah. Apart from this the dilemma is real enough. That dissemination of arms has taken place from across the border via Afghanistan has been well-documented even

by the Sipri. Now with Pakistan's close links with the regime in Kabul, it will be even more difficult to monitor the arms inflow. Pakistan has taken it upon itself to smoothen things for the new government. It has sent a special envoy to Tajikistan, Uzbekistan and Turkmenistan to discuss developments in Afghanistan, even while reiterating that it has not been "behind the Taliban or assisted the Taliban". Russia has been equally disturbed by the developments, and has called a special meeting of the Commonwealth of Independent States in Kazakhastan, specifically with the objective of preventing any spill-over of Islamic radicalism. Significantly, Turkmenistan, where American-aided projects are under way to supply natural gas to Pakistan, did not attend the meeting. The Russian prime minister has categorically stated that his government would not extend recognition to the Taliban regime in Afghanistan. The Kazakhastan meeting has warned the Taliban that the CIS would not hesitate to use force if the Taliban crossed into the former Soviet territories and has said that in that event the CIS would provide support to Taliban's main opponents. Meanwhile the Taliban militia has dismissed the Russian warning and has continued to push further north.

It is unlikely of course that the Falikan forces will venture beyond Afghanistan, unless there is adequate support either from neighbouring states or from powerful external forces. Nevertheless, the Indian government's fear that the new developments might see a revival of external interference in the region may not be quite fanciful.

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### CURRENT STATISTICS

#### **EPW** Research Foundation

The government's monetised deficit in particular its recourse to ad hous has shown a dramatic fall but it has been replaced by investment in government paper by commercial banks. Banks are flush with deposits but their advances continue to show in absolute fall. Share price indices have declined by about 12 per cent over the past one year inflecting the persistence of depressed conditions in the capital market. The growth of industrial production during April June has slowed down to 8.5 per cent from 14.6 per cent in the comparable period of 1995. The deceleration has been particularly sharp in the infrastructure industries. I aport import growth has come down likewise, generally reflecting sluggish economic activity.

### **Macroeconomic Indicators**

| Primary Articles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 10.8 70<br>11.5 30<br>4.4 5.4<br>24.9 1.4<br>13.1 6.0<br>9.9 7.9<br>12.3 6.8<br>7.0 5.8                                                                |
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| Month   Fatest Previous   1996 97   1995 96                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 10.8                                                                                                                                                   |
| Primary Articles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 115 30<br>44 54<br>249 14<br>131 60<br>99 79<br>123 68<br>70 58<br>83 101<br>                                                                          |
| Tool Articles   17 4   373 9   0 9   9 8   8 5   8 5   8 5   9 7   11 9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 4 4 5 4 24 9 1 4 13 1 6 0 9 9 7 9 12 3 6 8 7 0 5 8 8 3 10 1                                                                                            |
| Non Food Articles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 24 9                                                                                                                                                   |
| Fuel Power Light and Lubricants   10.7   330.0   1.8   16.1   1.6   11.8   0.1   0.1   2.4   Manufactured Products   57.0   306.5   1.1   4.0   16.2   3.7   4.7   5.4   10.7   Food Products   10.1   305.3   2.5   7.3   3.9   12.5   4.4   0.3   8.1   Food Index (computed)   27.5   348.7   1.4   9.0   6.9   9.8   7.1   6.6   10.6   All Commodities (Average Basis) (April 6 September 21   1996)   100.0   308.7   5.7   9.3   5.3   9.2   7.8   10.9    Cost of Living Indices   Month   Over   Over 12 Months   Fiscal Year So Far   1995. 96   1994. 95   1993   In Justical Workers (1982   100)   339.0   1.8   8.3   11.4   6.3   6.8   8.9   9.7   In Justical Workers (1982   100)   339.0   1.8   8.3   11.4   6.3   6.8   8.9   9.7   In Justical Workers (1982   100)   263.0   0.8   9.6   10.1   7.8   8.1   9.9   Agri Lib (1986 87   100)   6   552.0   2.)   7.2   14.1   6.3   6.3   7.2   11.1   In Justical Workers (1982   100)   552.0   2.0   7.2   14.1   6.3   6.3   7.2   11.1   Workers (1986 87   100)   6   552.0   2.0   7.2   14.1   6.3   6.3   7.2   11.1   In Justical Workers (1986 87   100)   8   1995. 96   1995. 96    Moncy and Banking (Rs. 101c)   1996   Over Month   1996. 97   1995. 96   1995. 96   1994. 95    Monc Supply (M.)   634.395   408.3 (0.6)   32559   5.1   1346.4 (2.5)   70.110   (13.2)   79.741   (17.5)   Deposits with Bulks   50.5023   39.27 (0.8)   24688 (5.1)   3475 (0.8)   52973 (12.4)   59685 (16.2)   Not Bunk Credit to Commi Sector   33.11   250.5 (0.8)   3661 (1.1)   5596 (1.9)   48179 (16.5)   48059 (19.6)   Not Height to Commi Sector   33.11   250.5 (0.8)   3661 (1.1)   5596 (1.9)   48179 (16.5)   48059 (19.6)   Not Height to Commi Sector   33.31   250.5 (0.8)   3661 (1.1)   5596 (1.9)   48179 (16.5)   48059 (19.6)   Not Height to Commi Sector   33.31   250.5 (0.8)   3661 (1.1)   5596 (1.9)   48179 (16.5)   48059 (19.6)   Not Height to Commi Sector   33.31   250.5 (0.8)   3661 (1.1)   5596 (1.9)   48179 (16.5)   48059 (19.6)   Not Height to Commi Sector   33.31   250.5 (0.8)   3661 (1.1)   5596 (1.9 | 131 60<br>99 79<br>123 68<br>70 58<br>83 101<br>394 1992 93<br>49 61<br>83 68<br>81 2 06<br><br>1993 94<br>73307 (193)<br>14170 (209)<br>57925 (187)   |
| Manufactured Products   57   306 5   1   4   0   16   2   3   7   4   7   5   4   10   7                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 9 9 7 9<br>12 3 68<br>7 0 5 8<br>8 3 10 1<br>3 94 1992 93<br>9 9 6 1<br>8 3 6 6<br>11 2 0 6<br>1993 94<br>73307 (19 3)<br>14170 (20 9)<br>57925 (18 7) |
| Food Products   10   305 3   25   73   39   12 5   44   03   81                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 12 3 6 8 7 0 5 8 8 3 10 1                                                                                                                              |
| Tood Index (computed)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 70 58<br>83 101<br>394 1992 93<br>99 61<br>83 68<br>112 06<br><br>1993 94<br>73307 (193)<br>14170 (209)<br>57925 (187)                                 |
| All Commodities (Average Basis) (April 6 September 21 1996)  100 0 308 7 5 7 9 3 5 3 9 2 7 8 10 9    Litest   Variation (Per Cent)   Point to Point                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 83 101<br>394 1992 93<br>99 61<br>83 68<br>11 2 06<br><br>1993 94<br>73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                      |
| Cost of Living Indices   Month   Over   Over 12 Months   Fiscal Year 50 Far   1995 96   1994 95   1995                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 99 61<br>83 68<br>12 06<br>                                                                                                                            |
| Month   Over   Month   Over   Over   12   Months   Fiscal Year So Far   1995   96   1994   95   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   1995   19   | 99 61<br>83 65<br>112 06<br><br>1993 94<br>73307 (193)<br>14170 (209)<br>57925 (187)                                                                   |
| Month   Latest Previous   1996 97   1995 96                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 99 61<br>83 65<br>112 06<br><br>1993 94<br>73307 (193)<br>14170 (209)<br>57925 (187)                                                                   |
| Critian Non Main tamp (1981 85 100) #   263 0  0 8   9 6   10 1   7 8   8 1   9 9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 83 68<br>112 06<br>                                                                                                                                    |
| Agrif to (1986 87 100) @ 252 0 2 ) 7 2 14 1 6 3 6 3 7 2 11 1   (*B) cd on linking factor of 5 89 between old find new series (1986 87 100) *For 1995 96                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 11 2 0 6<br><br>1993 94<br>73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                |
| Agrif to (1986 87 100) @ 252 0 2 ) 7 2 14 1 6 3 6 3 7 2 11 1   (*B) cd on linking factor of 5 89 between old find new series (1986 87 100) *For 1995 96                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 1993 94<br>73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                                |
| None y and Banking (Rs. 101c)*   1906   Over Month   1996 97   1995 96   1995 96   1994 95                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                                           |
| Sept 13                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                                           |
| Money and Banking (Rs   101c)*   1936   Over Month   1996 97   1995 96   1995 96   1994 95                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                                           |
| Mone y and Banking (Rs. rore)*         1996 Over Month         1996 97         1995 96         1995 96         1994 95           Mone Supply (M.)         634395         4083 (0.6)         32559 (5.1)         13464 (2.5)         70410 (13.2)         79741 (17.5)           Currency with Public         1.3237         639 (0.5)         5076 (4.3)         7096 (7.0)         17480 (17.4)         18698 (22.8)           Deposits with B talks         505023         3927 (0.8)         24688 (5.1)         3475 (0.8)         52973 (12.4)         59685 (16.2)           Net B talk C redit to Coxet         250012         2292 (0.8)         22602 (8.8)         17816 (8.0)         34991 (15.7)         16328 (7.9)           Net Forciant sechange Assets         83341         910 (1.1)         6184 (8.0)         2275 (3.3)         628 (0.8)         25159 (47.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 73307 (19 3)<br>14170 (20 9)<br>57925 (18 7)                                                                                                           |
| Currency with Public 1 3 3 4 639 (0.5) 5076 (4.3) 7096 (7.0) 17480 (17.4) 18698 (22.8) Deposits with Banks 508023 3927 (0.8) 24688 (5.1) 3475 (0.8) 52973 (12.4) 59685 (16.2) Net Bank Credit to Convil 56001 2292 (0.8) 22602 (8.8) 17816 (8.0) 34991 (15.7) 16328 (7.9) Bank Credit to Commil Sector 33 11 2505 (0.8) 3661 (1.1) 5596 (1.9) 48179 (16.5) 48099 (19.6) Net Feiglier Lechange Assets 83341 910 (1.1) 6184 (8.0) 2575 (3.3) 628 (0.8) 25159 (47.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 14170 (20 9)<br>57925 (18 7)                                                                                                                           |
| Currency with Public 1 3 3 4 639 (0.5) 5076 (4.3) 7096 (7.0) 17480 (17.4) 18698 (22.8) Deposits with Banks 508023 3927 (0.8) 24688 (5.1) 3475 (0.8) 52973 (12.4) 59685 (16.2) Net Bank Credit to Convil 56001 2292 (0.8) 22602 (8.8) 17816 (8.0) 34991 (15.7) 16328 (7.9) Bank Credit to Commil Sector 33 11 2505 (0.8) 3661 (1.1) 5596 (1.9) 48179 (16.5) 48099 (19.6) Net Feiglier Lechange Assets 83341 910 (1.1) 6184 (8.0) 2575 (3.3) 628 (0.8) 25159 (47.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 14170 (20 9)<br>57925 (18 7)                                                                                                                           |
| Deposits with Banks 505023 3927 (0.9) 24688 (5.1) 3475 (0.8) 52973 (12.4) 59695 (16.2) 8 of Bank Credit to Cox 1 280012 2292 (0.8) 22602 (8.8) 17816 (8.0) 34991 (15.7) 16328 (7.9) 8 mk Credit to Comml Sector 33 11 2505 (0.8) 3661 (1.1) 5596 (1.9) 48179 (16.5) 48059 (19.6) 8 of Bank Credit to Comml Sector 33.41 910 (1.1) 6184 (8.0) 2575 (3.3) 628 (0.8) 25159 (47.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 57925 (187)                                                                                                                                            |
| Net Bink Credit to Coxt     28001?     2292 (0.8)     22602 (8.8)     17816 (8.0)     34991 (15.7)     16328 (7.9)       Bink Credit to Comm! Sector     33 11 2505 (0.8)     3661 (1.1)     5596 (1.9)     48179 (16.5)     48059 (19.6)       Net Feigler Lachinge Assets     83341 910 (1.1)     6184 (8.0)     2575 (3.3)     628 (0.8)     25159 (47.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                        |
| B mk Credit to Comm! Sector 33   11   2505 (   0 8)   3661 (   1 1)     5596 (1 9)   48179 (16 5)   48059 (19 6)   Net Feieren Eschinge Assets   83341   910 (1 1)   6184 (8 0)   2575 (   3 3)   628 (0 8)   25159 (47 8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                        |
| Not Foreign Exchange Assets 83341 910 (14) 6184 (80) 2575 (33) 628 (08) 25159 (478)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 17161 (7 5)                                                                                                                                            |
| DOLLAR MAIN 1 100 100 100 100 100 100 100 100 100                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 27674 (1109)                                                                                                                                           |
| Reserve Men y 188196 3740 (19) 6141 (32) 8474 (50) 25054 (148) 30611 (221)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 1789^ (15 t)                                                                                                                                           |
| Net RBI Credit to Centre 125661 1454 (1.1) 9893 (8.3) 13224 (13.4) 19855 (20.1) 2130 (2.2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 260 (0.3)                                                                                                                                              |
| Ad hoc Treasury Bills (Sept 20) 29770 5985 325 6690 5965 1750 Scheduled Commercial Banks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 6300                                                                                                                                                   |
| Deposits 153953 3489 (0.8) 20034 (4.6) 1457 (0.4) 46961 (12.1) 53629 (16.1)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 52144 (18.6)                                                                                                                                           |
| Advances 247276 2165 (-0.9) 6739 (-2.7) 3149 (1.5) 42455 (20.1) 40638 (23.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 11566 (7.3)                                                                                                                                            |
| Non-Food Advances '38481 -628 (-0.3) 5743 (-2.4) 2279 (1.1) 44938 (22.5) 37798 (23.4)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 8875 (5 <b>8</b> )                                                                                                                                     |
| Investments 177480 3269 (19) 12698 (77) 7281 (49) 15529 (104) 14171 (105)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 28641 (26.9)                                                                                                                                           |
| * Based on March 31 figures after closure of government accounts except for 1995/96 (full year) and 1996/97 where the bankit<br>March / 9/1996                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | ng data relate to                                                                                                                                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                        |
| Index Numbers of Industrial Weights   lune   Fiscal Year So I ir   Fiscal Year Averages   Index Numbers of Industrial Weights   lune   Fiscal Year So I ir                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 3 1000 01                                                                                                                                              |
| Production (1980 81 100) 1996 1996 97 1995 96 1995 96 1994 95 1993 94 1992 93 1991 9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 2 1990 91                                                                                                                                              |
| General Index 100 0 282 6(8 5) 260 5(14 6) 284 3(12 1) 253 7(9 4) 231 1(5 6) 214 9(2 3) 213 9(0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 6) 212 6(8.2)                                                                                                                                          |
| Mining ii Quarrying 11.5 247.9 251.7(3.6) 243.0(15.7) 265.9(6.9) 248.8(7.5) 231.2(3.4) 223.7(0.6) 222.5(4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                        |
| Minufacturing 77 1 77 8 278 0(10 4) 251 7(14 9) 278 9(13 6) 245 4(9 8) 227 3(5 5) 210 17 2) 206 2( 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                        |
| Flectricity 114 377 1 344 5(2 2) 337 0(12 5) 340 3(8 2) 313 6(8 5) 290 0(7 4) 269 9(5 0) 257 0(8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                        |
| Oct 4 Month Year 1996 97 So Fur 1995 96 End of Liscal V                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                        |
| Capital Market 1996 Ago Ago Tiough Peak Frough Peak 1995 95 1994 95                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                        |
| BSF Sensitive Index (1978 79-100) 3101( 11 8) 3517 3531( 19 1) 3101 4069 2826 3584 3367(3 3) 3261( 13 7)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 3/79(65.7)                                                                                                                                             |
| National Index (1983 34-100) 1395(116) 1578 1608(22.1) 1395 1843 1304 16 1 1549(3.5) 1606(12.2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1830(79.2)                                                                                                                                             |
| B\$1 200 (1989 90 100) 308( 123) 351 356( 277) 308 413 289 385 345 ( 63) 368( 182)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 450(92-3)                                                                                                                                              |
| NSE (Nov. 5, 1995, 1000) 904 (11.9) 1026 904, 1196                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                        |
| Skindia GDR Index (Apr 15 1994 100) 59(-13.2) 68 81(-28.7) 59 90 61 91 79(1.3) 78                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                        |
| Foreign Trade July Liscal Year So Fai                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                        |
| 1496 1096 97 1995 96 1995 96 1994 95 1993 94 1992 95                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 1991 92                                                                                                                                                |
| Exports Rs crore 92.39 3/860 (22.6) 30874 (29.0) 106465 (28.8) 82674 (18.5) 69751 (29.9) 53658 (21.9)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 44042 (35 3)                                                                                                                                           |
| 119 \$ mp 2598 10838 (10.2) 9832 (28.8) 31831 (20.9) 26331 (18.4) 22738 (40.0) 18537 (3.8)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 17866 ( 15)                                                                                                                                            |
| Imports Rs crore 9694 41641 (15.7) 36000 (39.2) 121647 (33.2) 89971 (23.1) 73101 (15.3) 63375 (32.4)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 47851 (10 k)                                                                                                                                           |
| US \$ mn 2728 11920 (4 0) 11464 (39 0) 36370 (26 9) 28654 (22 9) 23306 (6 5) 21882 (12 7) Non POLUS \$ mn 2015 8910 (4 6) 9344 (43 7) 28822 (26 8) 22727 (29 5) 17557 (11 2) 15782 (12 3)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 19411 ( 194)<br>14047 ( 222)                                                                                                                           |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                        |
| Bilance of Iradi. Rs crore 455 3781 5125 15182 -7297 3350 9686 US \$ mn -130 1083 1632 4539 2324 1068 3345                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 1545                                                                                                                                                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                        |
| Scpt 27 Scpt 29 Mar 31 Variation Over                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 04 1000 00                                                                                                                                             |
| Foreign Exchange Reserves 1996 1995 1996 Month Year Fiscal Year So Far 1995 96 1994 95 1993                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 94 1992 93                                                                                                                                             |
| (excluding gold) Ago Ago 1996 97 1995 96                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                        |
| Rs crore 66104 6(519 58726 1956 5585 7378 5509 7302 18402 274                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 5385                                                                                                                                                   |
| 115 5 mn 18491 19654 17126 505 -1163 1365 1162 3690 5640 87.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 4 731                                                                                                                                                  |

| Money Market Rat                                                                                             |                 |                    |                   |         |                     |                 |                |                 |                   |                | · · · · · · · · · · · · · · · · · · · | per cent pe     | · william)      |
|--------------------------------------------------------------------------------------------------------------|-----------------|--------------------|-------------------|---------|---------------------|-----------------|----------------|-----------------|-------------------|----------------|---------------------------------------|-----------------|-----------------|
| Weekended Friday                                                                                             | 27(RF)          | Septemb<br>20      | er 1996<br>13(RF) | 6       | 30(RF)              | 23              | Augu<br>16(EF) | ıst 1996<br>9   | 2(RF)             | 26             | 19(RF)                                | uly 1996<br>12  | 5(RF)           |
| Instruments                                                                                                  | 2/(101)         | 40                 | 15(141)           | •       | .,0(141 )           | 20              | .0(21)         | •               | 2(111)            | 20             | 15(14.)                               |                 | J(K)            |
|                                                                                                              |                 |                    |                   |         |                     |                 |                | <del></del> -   |                   |                |                                       |                 |                 |
| Call money rate<br>(weckly weighted average: RBI)                                                            | na              | 10.43              | 6.0               | 5.75    | 7.49                | 10.48           | 7.04           | 2.84            | 3.78              | 5.34           | 1.13                                  | 1.57            | 5.80            |
| Call money rate                                                                                              |                 |                    |                   |         |                     |                 |                |                 |                   |                | •                                     |                 |                 |
| (Range:weekly)                                                                                               | 0.25-           | 10.25-             | 0.25-             | 5.50-   | 0.25-               | 9.25-           | 0.10-          | 2.00-           | 0.25-             | 3.00-          | 0.10-                                 | 0.75-           | 0.05-           |
|                                                                                                              | 10.95           | 11.00              | 7.25              | 7.00    | 10.75               | 11.00           | 11.00          | 5.00            | 6.25              | 10.50          | 1.25                                  | 5.00            | 10 85           |
| Treasury Bills                                                                                               | 4 40            | 4.60               | 440               | 4.60    | 4 60                | 4 60            | 4 40           | 4.60            | 4 60              | 4.60           | 4.60                                  | 4.60            | 4.60            |
| 91-Day (On tap or ad hoc)<br>91-Day (RBI Auction):                                                           | 4.60            | 4.60               | 4.60              | 4.60    | 4.60                | 4.60            | 4.60           | 4.60            | 4.60              | 4.60           | 4.60                                  | 4.60            | 4.60            |
| Primary                                                                                                      | 10.17           | 10.13              | 10 00             | 9.96    | 9.96                | 9.96            | 9.46           | 8.46            | 9.04              | 9.46           | 9.21                                  | 9.88            | 11.86           |
| Secondary: DFHI                                                                                              |                 |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| (mid-point of bid and offer                                                                                  | 10.09           | 9.93               | 9.81              | 9.35    | 8.58                | 9.34            | 7.34           | 5.84            | 6.95              | 8.31           | 5.84                                  | 9.96            | 11.62           |
| All SGL trading                                                                                              |                 |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| (Weighted YTM)                                                                                               | 10.22           | 10.09              | 9.50              | 8.19    | 7.74                | 9.73            | 8.45           | 7.96            | 8.22              | 8.01           | 6.64                                  | 7 91            | 7.58            |
| 364-Day (RBI Auction)                                                                                        | 12.61           | •                  | 12.61             |         | 1261                |                 | 12.61          |                 | 12.61             | *              | 12.61                                 |                 | 12.87           |
| Primary Secondary: DFHI (mid-point)                                                                          |                 | 11.50              | 11.45             | 11.40   | 11.48               | 11.46           | 11.26          | 11.16           | 11.20             | 11.14          | 10.90                                 | 11.08           | 11.67           |
| All SGL trading                                                                                              | 11.32           | 110                | 11.43             | 11.40   | 11.40               | 11.40           | 11.20          | 11.10           | 11.20             | 11.17          | 10.70                                 | 11.00           | 11 72           |
| (Weighted YTM)                                                                                               | 12.57           | 12.58              | 12 77             | 12.60   | 12.63               | 12.24           | 12.27          | 11.94           | 10.93             | 10.63          | 10 59                                 | 11.61           | 11 29           |
| State Govt loans (Coupon rates)                                                                              |                 | _                  | -                 | -       | _                   | -               | 13.85          |                 |                   |                | -                                     | -               | -               |
| All SGL trading                                                                                              |                 |                    |                   |         |                     |                 | 10 years       |                 |                   |                |                                       |                 |                 |
| (Weighted YTM)                                                                                               | 13 63           | 13 73              | 13.91             | 13.77   | 13.68               | 13.86           | 13.69          | 13.69           | 13 68             | 13.76          | 14 05                                 | 13.71           | 13 84           |
| GOI Securities:                                                                                              | *               | 13 81              |                   |         | 13.85               |                 |                | *               | 13.62             |                |                                       | 13 72           | *               |
| Primary Auctions                                                                                             |                 | 13 ou<br>(6 years) |                   | · ·     | 1.5.6.3<br>10 years | ٠.              | •              |                 | 13.02<br>2 years) | •              | •                                     | (4 years)       |                 |
| Secondary : All SGL trading                                                                                  |                 | (o years)          |                   | ,       | io year.            | ''              |                | ,               | z years,          |                |                                       | (4 years)       |                 |
| (Weighted YTM)                                                                                               | 13.31           | 13.66              | 13.60             | 13.30   | 13.73               | 12.48           | 12.18          | 12.59           | 13 27             | 12 53          | 12 52                                 | 12,60           | 12.74           |
| PSU Bonds yield:-                                                                                            |                 |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| Tax free: NSE                                                                                                | _               |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| (traded, weighted)                                                                                           | 13.98           | 13.25              | 14 03             | 14.47   | 13.77               | 13 44           | 13.56          | 13.53           | 14.10             | 13 77          | 13.44                                 | 14 01           | 13 98           |
| NSE (Range, weekly)                                                                                          |                 | 12.2-              |                   | 12.87-  |                     | 13.36-          | 13 18          | 12.47-          | 13.21-            | 12 93-         | 12.95                                 | 13 45           | 13.35-          |
| Taxable. NSE (traded,                                                                                        | 14.73           | 13 31              | 14.66             | 14.84   | 14.26               | 13 62           | 13.71          | 13.97           | 14 35             | 14 22          | 13.64                                 | 14.08           | 14.48           |
| weighted)                                                                                                    | 17.51           |                    |                   | 15 84   |                     | 17.08           |                | 17 36           |                   | 17.31          | 17 95                                 | 16.00           | 17 59           |
| NSE (Range: weekl                                                                                            |                 |                    |                   |         |                     | 17.00-          |                | 16.40-          |                   | 17.31          | 16.61-                                | 11.85-          | 16 98-          |
|                                                                                                              | 182             |                    |                   | 18.69   |                     | 17.15           |                | 17.92           |                   |                | 18 33                                 | 18.3            | 18 33           |
| Commerciai Bills                                                                                             |                 |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| DFHI (Rediscount rate)                                                                                       | 12.50-          | 12.50              | 12.50             | 12.50   | 12.50-              | 13.00           | 13 00          | 13.00           | 13.00             | 13.00          | 13 00                                 | 13 (0)-         | 14 00-          |
| CD:Deimon months (00 doss)                                                                                   | 13.50           | 12.00              | 12.00             | 12.00   | 13.00               | 12.00           | 12.00          | 12.00           | 12.00             | 12.00          | 12.00                                 | 14 (8)          |                 |
| CP:Primary market (90 days)                                                                                  | 13.00-<br>15.50 |                    | 13.00-<br>15.50   | 15 50   | 13 00-<br>15.50     | 15.50           | 15.50          | 13.00-<br>15.50 | 15.50             | 12 00<br>13 50 | 13 00<br>15 50                        | 13,50-<br>15,50 | 14.50-<br>15.50 |
| Secondary: DFHI                                                                                              | 15 50           | 1.7.30             | 1.5 .50           | 1.7 .70 | 13.30               | 15              | 1.7.50         | 13.30           | (3)()             | 1.5 50         | 1,70                                  | 1., 7,          | 1 7             |
| (Discount rate)                                                                                              | 14.00-          | 14.00              | 14.00             | 14.00   | 14.00               | 14.00           | 14.00          | 14.00           | 14.00             | 14.00          | 14.00                                 | 14 00-          | 15 00-          |
| · · ·                                                                                                        | 14 50           |                    |                   |         |                     |                 |                |                 |                   |                |                                       | 15 00           | 16 00           |
| Market/NSE                                                                                                   |                 |                    | 14.00             |         |                     |                 |                |                 |                   |                | 13.50                                 |                 |                 |
| CDs: Primary market (one year                                                                                |                 |                    |                   |         | 8.50-               | 8.50-           |                |                 | 10.00-            | 10 00-         | 10 00-                                | 13 00           | 12 50-          |
| Secondary, DFHI (Discount rate                                                                               | 13.00           |                    | 13 00<br>12.50    |         |                     | 11.75<br>13.00  | 13.00<br>13.00 |                 | 13.00<br>13.00    | 13 00<br>13.00 | 13 00<br>13 00                        | 15 00<br>13 00- | 17 00<br>14.00- |
| Secondary, DITH (Discount fait                                                                               | 13.50           |                    | 14.50             | 1210    | 13.00               |                 | 1.1.00         | 13.00           | 13 00             | 15.00          | (3 ()()                               | 14 00           |                 |
| Inter-corporate deposits                                                                                     |                 |                    | 17.00-            | 17 00-  |                     |                 | 17 00          | 17.00-          | 17.00-            | 17.00-         | 16 00-                                | 17 00-          | 17 00-          |
| (30/90/180 days)                                                                                             | 19.00           |                    | 19 00             |         |                     |                 |                |                 |                   | 20.00          | 19.00+                                | 20 00           |                 |
| ·                                                                                                            | (22.00-         | (22.00-            | (22.00-           | (22.00- | (22 00-             | (22.00-         | (22.00-        | (22.00-         | (22.00-           | (22 OC-        | (22.00-                               | (22.00-         | (22.00-         |
|                                                                                                              | 27.00)          | 27 00)             | 27.00)            | 27.00)  | 27.00)              | 27.00)          | 27.00)         | 27.00)          | 27.00)            | 26.00)++       | 26 00)++                              | 26.00)++        | 26.00)++        |
| UTI-1964 Units (Week-end                                                                                     |                 |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| secondary market price in rupees)                                                                            | 13.80           | 13.80              | 13.80             | 13.80   | 13.60               | 12.60           | 12.60          | 12.40           | 13.85             | 13 60          | 13 60                                 | 13.50           | 13 50           |
| Hundi Rate                                                                                                   | 24.00-          |                    |                   |         |                     | 13.60<br>24.00- |                |                 |                   | 24.00-         | 24.00                                 | 24.00-          |                 |
| 1141101 11410                                                                                                | 30 00           |                    |                   |         | 30 00               |                 |                |                 |                   | 30.00          | 30.00                                 | 30.00           |                 |
| Memorandum Items: (i) Forward premia on the US d in the domestic inter-bank in (annualised in per cent per a | narket          |                    |                   |         |                     |                 |                |                 |                   |                |                                       |                 |                 |
| (Weekly average)@                                                                                            |                 | <b></b> -          |                   |         |                     |                 |                |                 |                   |                |                                       | £               |                 |
| Spot/Cash                                                                                                    | 8.64            |                    |                   |         |                     | 13 92           |                |                 | 2.40              | 7.51           | 0.96                                  | 0.97            |                 |
| One-month Three-month                                                                                        | 7.74<br>8.40    |                    |                   |         |                     | 9.69            | 7.25           |                 | 6.44<br>8.60      | 6.74           | 1.93                                  | 2 00            |                 |
| Six-month                                                                                                    | 8.40<br>9.49    |                    |                   |         |                     |                 | 8.80<br>9 99   | 7.32<br>9.16    | 8.60<br>9.83      | 8.51<br>9.63   | 5 73<br>8.46                          | 5.62<br>8.56    |                 |
| (ii) RBI Reference Rate (Rs/US\$                                                                             |                 |                    |                   |         |                     |                 | 35.68          |                 | 35 60             | 35.80          | 35.70                                 | 35.53           |                 |
| (iii) Havala Rate (Rs/US\$) (Duba                                                                            |                 |                    |                   |         |                     |                 |                |                 |                   | 39.00          | 39 00                                 | 38 90           |                 |

YTM = yield to maturity + For the top rated companies .. no trading \* no auction na not available (~) no floatation

<sup>++</sup> Other than top rated companies

RF means Reporting Friday for fortnightly reporting of conditions of banking business and the fortnight serves as the reserve maintenance period for scheduled commercial banks

@ Based on daily quotations supplied by Mecklai Financial and Commercial Services Ltd, Bombay.

TELCO

### **Fruits of Investment**

THE largest manufacturer of commercial vehicles in the country, TELCO, has really bounced back after its dismal performance in 1992-93. While its net sales have more than doubled since then to Rs 6,718 crore, net profit has jumped from around Rs 30 crore in 1992-93 to Rs 506 crore in 1995-96. The company has managed to keep its cost of finance under control during a period when there was a dearth of liquidity and has actually managed to reduce interest charges by 1.2 per cent over the previous year.

Encouraged by its excellent performance, the company issued bonus shares in the ratio of three shares for every five shares held during the year under review. In addition, it has also maintained the dividend at the previous year's level of 60 per cent on the increased equity entailing a dividend outgo of Rs 143 crore (1994-95: Rs 80.7 crore).

The company has not only benefited from the increase in demand for its products but has also earned the rewards of correct policies during the lean years. It had constantly stressed fixed assets formation and doubled its fixed assets base between 1992-93 and 1995-96. Rise in gross fixed assets formation during the year was 35.5 per cent. The 28.7 per cent rise in inventory is more due to a sharp rise in production than due to a lack of demand - inventory accounted for 14.7 per cent of net sales against 16 per cent last year. Sales volumes in the year under review increased by 31 per cent to 1,81,200 vehicles over the previous year while domestic sales of medium/heavy commercial vehicles (M/ HCV) and light commercial vehicles (LCV) increased by 27.7 per cent and 15.1 per cent, respectively. The company increased its market share in the M/HCV segment from 71.8 per cent to 72.7 per cent and in the LCV segment from 58.8 per cent to 62.4 per cent. The Tata Sumo, introduced during the year, has received an overwhelming response and the company diverted the capacities earmarked for the Sierra and Estate models to cater to the increased demand.

The company has invested Rs 220 crore in the equity of group companies. Significant among such investments were Tisco (Rs 121 crore), Tata Sons (Rs 68 crore) and Tata Cummins (Rs 31 crore). Its stake in Mercedes Benz India cost the company another Rs 84 crore.

Though the company continues to remain a net foreign exchange earner and exports have risen by 9.7 per cent during the year, a sharp rise of 82.7 per cent in imports could be a cause for concern. Net forex earnings have fallen and foreign exchange outgo accounted for up to 8.3 per cent of net sales while foreign earnings accounted for 9.4 per cent.

Meanwhile the company's small car project, which is expected to produce the country's first indigenously developed car, has reportedly made substantial progress.

The joint venture with Daimler Benz christened Mercedes Benz India, has received encouraging response. With a sale of 387 cars till March 1996, it has reportedly managed to notch up sales of up to 1,500 cars to date.

TELCO has drawn up ambitious capital expenditure plans over the next five years amounting to Rs 4,000 crore. Aimed at further increasing its capacity from 2,00,000 vehicles per annum to over 4,00,000 vehicles per annum and the creation of production facilities for 1,75,000 small and medium sized cars per annum, the expenditure will be partly financed through the company's recent \$ 200 mn GDR issue. The issue, oversubscribed 1.5 times, was priced at \$ 14.25 per GDR which is equivalent to Rs 508.16 per underlying ordinary share.

Meanwhile, continuing its outstanding performance, the company has achieved a sale of 46,254 vehicles representing sales of Rs 2,091 crore in the first quarter of 1996-97. The company enjoys an excellent rapport with the stock market as can be seen from the high price to carnings multiple of 21.4 (1995-96 earnings per share).

**ASHOK LEYLAND** 

### **Ambitious Plans**

The flagship of the Hinduja group, Ashok Leyland, saw a 34.5 per cent increase in net sales in 1995-96, reflecting the buoyancy in the automobiles industry. The credit squeeze in the economy seems to have had a marginal impact on the commercial vehicle segment of the industry mainly due to the increase in freight rates, making this business more viable. Operating profit increased by 59.5 per cent over the previous year and net profit by 60 per cent in spite of higher interest charges (up 31.8 per cent), depreciation provision (up 39.4 per cent) and a tax provision of Rs 20.5 crore (1994-95 nil). Gross value added was also higher by 28 per cent in 1995-96 and the percentage of operating profit to gross value added rose from 70.6 per cent in the previous year to 87.9 per cent in 1995-96. Return on investment increased from 5.7 per cent to 7.7 per cent during the year and the company continued its policy of ploughing back a major part of its net earnings (up to 58 per cent). However, with the company increasingly resorting to loans (up 50 per cent over the previous year), total debt as a percentage of equity has increased from 48.9 per cent 63.6 per cent. Though inventories have increased by 42.2 per cent over the previous year, they have risen in proportion to net sales.

The Madras-based company has six manufacturing units located in Ennore, Hosur, Uppal (Hyderabad), Madras, Bhandara and Alwar. These units produced a total of 37,901 vehicles and 6,557 engines during the year under review as compared to 30,412 vehicles and 5,275 engines in the previous year, representing an increase of 24.6 per cent and 24.3 per cent, respectively. The company saw a 29 per cent rise in sale volumes at 37,399 vehicles and a 24 per cent increase in sale of OE-auto/industrial and marine engines at 6,537 units over the same period. The new Cargo range of vehicles, models 709 and 909, have reportedly been well received in the market and it even managed to export 553 of the 3,000-odd vehicles of these models manufactured during the year under review. The Leyland range, according to the company, will eventually be replaced with the Cargo range. Total exports of the company, which account for up to 10 per cent of net sales, touched 2,588 vehicles and export earnings increased by 36.4 per cent over the previous year. On the other hand, imports (accounting for 7.7 per cent of net sales) fell by 12.9 per cent over the same period from Rs 161 crore in 1994-95 to Rs 140.2 crore in 1995-96.

Meanwhile the truck major, second only to Telco in market share, has drawn up ambitious plans for the next six years. As per the plan, the company intends to convert its Alwar plant for building buses and talks have already been initiated with its collaborators Iveco for this purpose.

During the current year, 1996-97, the company plans to introduce up to 1,000 14-tonne category vehicles and up to 500 16-tonne category vehicles in the Cargo range. Another 1,500 vehicles will be targeted for exports.

The company has set a target of producing 50,000 vehicles in the current year. It also plans to enhance its Cargo range manufacturing capacity to 10,000 vehicles this year and later to 25,000 vehicles per annum and possibly to 31,000 units by the end 1997-98. The company has a strong presence in Sri Lanka and intends to enter new markets such as South Africa, Egypt and Kenya in the current year.

Meanwhile, the company's stock quoting at Rs 102 on the Bombay Stock Exchange, discounts the 1995-96 earnings per share of Rs 9.5 by 10.7 times.

BSES

### **Exciting Prospects**

The Bombay Suburban Electric Supply Company (BSES), the only distributor of electricity to northern Mumbai, has shown

|      |                                                          |                 | . ~~            |                                         |                |                |                |
|------|----------------------------------------------------------|-----------------|-----------------|-----------------------------------------|----------------|----------------|----------------|
|      | Financial Indicators                                     |                 | LCO             | Ashok I                                 |                | BS             |                |
| ·    | illanciai maicatois                                      | March<br>1996   | March<br>1995   | March<br>1996                           | March<br>1995  | March<br>1996  | March<br>1995  |
|      |                                                          |                 |                 |                                         |                |                |                |
|      | come/appropriations                                      | ****            |                 | 100/01                                  |                |                |                |
|      | Net sales                                                | 681749          | 487256          | 182674                                  | 135842         | 150310         | 116223         |
|      | Value of production                                      | 690948          | 481153<br>17166 | 188763<br>14028                         | 136630         | 150310<br>8320 | 116223<br>5861 |
|      | Other Income  Total income                               | 27321<br>718269 | 498319          | 200789                                  | 7153<br>143783 | 158630         | 121574         |
| 5    |                                                          | /10207          | 470.117         | 200707                                  | 170700         | OCOOCI         | 121374         |
| ,    | spares consumed                                          | 463704          | 314002          | 128522                                  | 93222          | 97399          | 90713          |
| 6    | Other manufacturing expenses                             | 59502           | 47929           | 10939                                   | 8760           | 11396          | 0              |
|      | Remuneration to employees                                | 57483           | 42477           | 15628                                   | 11324          | 3193           | 2419           |
|      | Other expenses                                           | 25570           | 18336           | 17434                                   | 12751          | 15836          | 10367          |
|      | Operating profit                                         | 112010          | 75575           | 28266                                   | 17726          | 30806          | 10075          |
| 10   | Interest                                                 | 17941           | 10166           | 9602                                    | 7284           | 6204           | 1088           |
| 11   | Gross profit                                             | 91038           | 57108           | 18819                                   | 10977          | 24582          | 14992          |
| 12   | Depreciation                                             | 16444           | 11967           | 5481                                    | 3918           | 7234           | 2327           |
|      | Profit before tax                                        | 74557           | 45120           | 13358                                   | 7059           | 17347          | 12664          |
|      | Tax provision                                            | 23975           | 13223           | 2050                                    | 0              | 0              | 0              |
|      | Profit after tax                                         | 50582           | 31895           | 11308                                   | 7059           | 17347          | 12664          |
|      | Dividends                                                | 14300           | 8068            | 4757                                    | 2951           | 3407           | 1619           |
|      | Retained profit                                          | 36282           | 23827           | 6551                                    | 4108           | 13940          | 11045          |
|      | abilities/assets                                         | 24102           | 12404           | 11002                                   | 11003          | 17660          | 10040          |
|      | Paid-up capital                                          | 24182           | 13694           | 11893                                   | 11893          | 17550          | 10840          |
|      | Reserves and surplus                                     | 217400          | 128338          | 92022                                   | 85504          | 129350         | 75098          |
|      | Long-term loans                                          | 58664           | 74274           | 66115                                   | 48579          | 103854         | 89787          |
|      | Short-term loans                                         | 69433           | 41295           | 22542                                   | 10532          | 3421           | 118            |
|      | Of which bank borrowings  Cross fixed assets             | 68314           | 36500           | 17884                                   | 1391           | 3421<br>205021 | 118<br>174952  |
|      | Accumulated depreciation                                 | 294239<br>96980 | 217084<br>81595 | 103044<br>31624                         | 85360<br>28321 | 17292          | 10029          |
|      | Inventories                                              | 100153          | 77828           | 43240                                   | 30419          | 4507           | 4495           |
|      | Total assets/liabilities                                 | 610991          | 426267          | 245459                                  | 194418         | 298561         | 216307         |
|      | iscellaneous items                                       | 010771          | 720207          | 243437                                  | 177710         | 270.301        | 210.507        |
|      | Excise duty                                              | 81897           | 63890           | 21992                                   | 17913          | 0              | 0              |
|      | Gross value added                                        | 158619          | 116675          | 32150                                   | 25100          | 33478          | 16279          |
|      | Total foreign exchange income                            | 64293           | 58298           | 18738                                   | 13941          | 209            | 3              |
|      | Total foreign exchange outgo                             | 56688           | 33530           | 18548                                   | 19846          | 3993           | 66             |
| K    | ey financial and performance rati                        | os              |                 |                                         |                |                |                |
| 31   | Turnover ratio                                           |                 |                 |                                         |                |                |                |
|      | (sales to total assets) (%)                              | 111 58          | 114.31          | 74.42                                   | 69.87          | 50.34          | 53 73          |
|      | Sales to total net assets (%)                            | 184.42          | 189.15          | 94.86                                   | 86.80          | 59 14          | 66.10          |
| 3.3  | Gross value added to                                     | <b>6</b> 2.01   | £2.7£           | 21.20                                   | 20.10          | 14.33          | 0.20           |
| 2.4  | gross fixed assets (%)                                   | 53.91           | 53.75           | 31 20                                   | 29.40          | 16.33          | 9.30           |
| .54  | Return on investment                                     | 14.00           | 12.40           | 767                                     | 5 4 5          | บาว            | 6.03           |
| 25   | (gross profit to total assets) (%) Gross profit to sales | 14 90           | 13.40           | 7.67                                    | 5 65           | 8 23           | 6.93           |
| ,,_, | (gross margin) (%)                                       | 13.35           | 11 72           | 10.30                                   | 8.08           | 16 35          | 12.90          |
| 36   | Operating profit to sales (%)                            | 16.43           | 15.51           | 15.57                                   | 13 05          | 20.49          | 15.55          |
|      | Profit before tax to sales (%)                           | 10.94           | 9 26            | 7.31                                    | 5.20           | 11.54          | 10.90          |
|      | Tax provision to                                         | •••             |                 | • • • • • • • • • • • • • • • • • • • • |                |                |                |
|      | profit before tax (%)                                    | 32.16           | 29 31           | 15 35                                   | 0.00           | 0.00           | 0.00           |
| 39   | Profit after tax to net worth                            |                 |                 |                                         |                |                |                |
|      | (return on equity) (%)                                   | 20 94           | 22 46           | 10.88                                   | 7.25           | 11.81          | 14.74          |
| 40   | Dividend (%)                                             | 60.00           | 60.00           | 40 00                                   | 35.00          | 28.00          | 26.00          |
|      | Earning per share (Rs)                                   | 20.92           | 23.29           | 9.51                                    | 5.94           | 12 54          | 11.68          |
|      | Book value per share (Rs)                                | 99 90           | 103.72          | 84.73                                   | 79 20          | 104.76         | 79.28          |
| 43   | P/E ratio (based on latest and                           |                 |                 |                                         |                |                |                |
|      | corresponding last year's price)                         | 21.42           | 27.26           | 10.73                                   | 24.26          | 13.08          | 12.84          |
| 44   | Debt-equity ratio                                        | 24.30           | 50.00           |                                         | c c .          | <b>30.30</b>   | 101.10         |
| 4.5  | (adjusted for revaluation) (%)                           | 24.28           | 52.29           | 65.61                                   | 51.58          | 70 70          | 104.48         |
| 43   | Short-term bank borrowings                               | 40.71           | 44.00           | 41.26                                   | 4.57           | 75 00          | 262            |
| 16   | to inventories (%)  Sundry creditors to                  | 68.21           | 46.90           | 41.36                                   | 4.57           | 75.90          | 2.63           |
| 71   | sundry debtors (%)                                       | 64.59           | 66.17           | 48.13                                   | 53.14          | 58.03          | 103.99         |
| 47   | Total remuneration to employees                          | UT.,17          | UU. I /         | 70.13                                   | .73.14         | CV.OI.         | 103.77         |
| 7,   | to gross value added (%)                                 | 36.24           | 36.41           | 48.61                                   | 45.12          | 9.54           | 14.86          |
| 48   | Total remuneration to employees                          |                 |                 | .0.01                                   | .52            |                | . 4.00         |
|      | to value of production (%)                               | 8.32            | 8.83            | 8.37                                    | 8.29           | 2.12           | 2.08           |
| 49   | Gross fixed assets                                       |                 |                 |                                         |                | <b>-</b>       |                |
|      | formation (%)                                            | 35.54           | 22 08           | 21 70                                   | 18.47          | 17.19          | 41.53          |
| 50   | Growth in inventories (%)                                | 28.69           | 5.29            | 42.15                                   | 19.71          | 0.27           | 78.37          |
| -    | <del></del>                                              |                 | ******          |                                         |                |                |                |

encouraging performance for 1995-96. While sales revenue went up by 29.3 per cent over the previous year, operating profit increased by 70.4 per cent. With raw material costs as a percentage to sales falling from 78 per cent to 64.8 per cent, the operating margin has received a boost from 15.6 per cent last year to 20.5 per cent in the year under review. Net profit too increased by 37 per cent over the previous year. The lower increase in the bottomline was due to the huge increase in interest charges (up 470.2 per cent) and depreciation provision (up 210.9 per cent). Following the commissioning of the company's new units at Dahanu, these expenses could no longer be capitalised and had to be charged to the revenue account.

Sales of electricity to its licensed area increased by 11.8 per cent, crossing the four-billion unit mark while distribution losses were cut down significantly from 13.9 per cent last year to 12.5 per cent. Though the two new 250 MW units at Dahanu managed to contribute up to one-billion units to total electricity generation, only about 50 per cent of this could be transmitted to Mumbai due to the lack of receiving facilities in the city. Thus up to 50 per cent of electricity generated at Dahanu had to be supplied to the Western Regional Grid (WRG) which meant lower realisations.

To cater to the growing demand for electricity within the country, BSES plans to set up more units in different parts of the country. To this end it plans to set up two fast-track projects of 40 MW each near Trivandrum and Cochin and has submitted bids foraward of other medium-sized projects in Andhra Pradesh. It was also selected (on a competitive basis) to manage the distribution of electricity to a zone comprising Bhubaneshwar, Cuttack and Dhenkanal in Orissa.

During the year under review, the company's \$ 125 mn GDR issue (including a \$ 25 mn green-shoe option), received excellent response with the company garnering up to \$800 million in applications. The company plans to utilise the funds from the issue for strengthening its distribution system and for financing the Dahanu projects and corporate restructuring.

With the setting up of two state-of-theart 220 KV receiving stations at Ghodbunder and Versova, the new units will now be able to supply 100 per cent of their output to the company's licensed area. Also, a third receiving station is fast nearing completion.

The outlook for the company is promising with a huge demand-supply gap in the power sector. Reflecting the long-term prospects of the company, its share currently quotes at Rs 164 - 13 times its 1995-96 earnings per share.

### Finance Commission in a Federal Set-Up

Vinod Vyasulu

The current balance of political forces, with a coalition of 13 parties forming the union government, affords an opportunity to correct the imbalance in union-state relations and address the question of the devolution of power downwards by the states.

IN the last few years, India has become a highly centralised economy. Although the country is a union of states, with clearly defined roles for each constituent unit of the union, in effect, the governmental system has taken on the characteristics of a unitary nation. This is a result of the political events that have shaped the nation and the way in which political parties have reacted to them. It has also set in motion opposing forces.

Consider the use of Article 356 of the Constitution. Under this article, the president on the advice of the union government, may dismiss state governments. This provision has been frequently abused. The Supreme Court has found that this article has been misused: the most famous case relates to the dismissal of the Bommai government in Karnataka. The present union government, in which Bommai is the minister for human resource development, has promised to change this situation, with a constitutional amendment if need be. It needs to be debated whether it is an amendment, or political restraint that is needed in these cases.

Apart from this, there has been the routine supersession of local bodies like panchayats and municipalities. The failure to hold elections to co-operatives that have been taken over has resulted in the federal nature of the polity being seriously compromised. The powers of the registrar of co-operatives, given to that office in colonial days, have been used to create this unhealthy situation well after independence. This is in the states which too have tended to centralise powers in their own ways. In fact, it is a travesty of the co-operative spirit that a department of co-operation and thus a minister of co-operation even exist. The infusion of government funds has made the situation worse.

The complex procedures that have been set up for the sanctioning of various development projects have resulted in decisions being referred routinely to Delhi in all kinds of things. Over more than 10 years there have been discussions about the need to reform union-state relations. The Justice Sarkaria Commission made many considered recommendations after careful study. These recommendations, which were very conservative in nature, have remained all these years as just recommendations.

This has resulted in union-state tensions increasing, and pressures of different kinds

building up. The point has also been made that devolution of powers in this context often refers only from the union government to the states. But it is essential that the states in turn devolve power downwards too. This has not been often done. Parliament has taken up this issue by amending the Constitution (73rd and 74th amendments) so that local bodies - panchayats in the rural areas and nagarpalikas in the urban ones - get their constitutional place under the sun. But this in itself is not enough, as the convoluted experience of panchayatı raj in Karnataka in the last decade clearly shows In this context, however, some of the parties now wielding power in Delhi have a, if not positive, then at least a non-negative, record. An opportunity to build on this base now exists.

In the current context, with a coalition of 13 parties forming the union government, an opportunity has arisen to correct this imbalance in union-state relations. These parties have so many contradictions among themselves that the only way forward is for them to agree on general principles on the basis of which decisions can be taken. A start has been made with the formulation – yes, hurriedly; yes, after the elections; but yes – of a common minimum programme on the basis of which the United Front government will rule the country

The point again is not that the country needs a constitutional amendment, but that the country has to give the Constitution a chance by acting with restraint in the political arena. The current balance of political forces is in favour of such an end result, although that may not be the intention of the actors themselves. For example, it is today next to impossible to amend the Constitution, as the required majority is unlikely to materialise unless a consensus across parties exists.

One opportunity for this is in the sphere of financial relations between the union and the states. At present, these are governed by (1) the awards of the Finance Commissions set up every five years, and (2) by the Plan transfers under the aegis of the Planning Commission. While the system has worked over the years, there have been stresses and strains in the federal system.

The Finance Commissions are governed by Articles 280 and 281 of the Constitution. These read as follows:

280 Finance Commission - (1) The president

shall, within two years of the commencement of this Constitution and thereafter at the expiration of every fifth year or at such earlier time as the president considers necessary, by order constitute a Finance Commission which shall consist of a chairman and four other members to be appointed by the president

(2) Parliament may by law determine the qualifications which shall be requisite for appointment as members of the commission and the manner in which they shall be selected.

(3) It shall be the duty of the commission to make recommendations to the president as to - (a) the distribution between the union and the states of the net proceeds of taxes which are to be, or may be, divided between them under this chapter and the allocation between the states of the respective shares of such proceeds; (b) the principles which should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India; ((bb) the measures needed to augment the consolidated fund of a state. to supplement the resources of the panchayats in the state on the basis of the recommendations made by the Finance Commission of the state; | [(c) the measures needed to augment the consolidated fund of a state to supplement the resources of the municipalities in the state on the basis of the recommendations made by the Finance Commission of the state, [(d) any other matter referred to the commission by the president in the interests of sound finance (4) The commission shall determine their procedure and shall have such powers in the performance of their functions as parliament may by law confer on them.

281 Recommendations of the Finance Commission – The president shall cause every recommendation made by the Finance Commission under the provisions of this Constitution together with an explanatory memorandum as to the action taken thereon to be laid before each house of parliament. Parliament did enact a law in 1951 (Act 33), called the Finance Commission (Miscellaneous) Act, 1951 Clause three of this Act reads as follows

Qualifications for appointment as, and the manner of selection of, members of the commission -The chairman of the commission shall be selected from among persons who have had experience in public affairs, and the four other members shall be selected from among persons who - (a) are, or have been, or are qualified to be appointed as judges of a high court; or (b) have special knowledge of the finances and accounts of the government; or (c) have had wide experience in financial matters and in administration; or (d) have special knowledge of economics.

The Act, while referring to the manner of selection of the members, does not specify any procedure whatsoever by which they may be selected. In fact it is interesting that the clause simply says they "shall be selected from among persons" who have specific types of experience. It does not say any more about

that selection process. It does not elaborate whether some one, or some agency, will 'select' on behalf of the president or whether he will do it by himself, as he deems fit.

Since Article 280 empowers the president to appoint the commission by order, and since the Finance Commission (Misc) Act of 1951, passed by parliament under this article, does not elaborate on the manner of selection of the members of the commission, it would appear that the president has complete discretion in this matter.

'Complete' is an all encompassing word that requires, if not qualification, at least some explanation. The president cannot be seen to act in an arbitrary manner. This is especially so in view of the fact that the Constitution felt the need to empower parliament to pass an act in this matter rather than leave the matter solely in the president's hands. To data parliament has not felt the need to act further in this matter, but that could well change. The new Janata Dal led coalition union government has promised a great deal in its common minimum programme, on decentralisation and the proper definition of the rights of the states. A debate on these issues is therefore essential.

In the constitution of the Finance Commission, it would appear that the president has been acting hitherto on the advice of the union council of ministers headed by the prime minister. Under the amendment to Article 74, he is bound to act by such advice, subject to some limited freedom.

So far, 10 Finance Commissions have been set up. They have done remarkable work and made major contributions to the theory and practice of public finance in this country. This is something we must be proud of and must clearly recognise and acknowledge. In raising some fundamental questions today, the intention is not to denigrate, or to deny these important contributions, but to ask if, in the context of the changing times, the open matter of the procedure for the selection of members of the commission does not ment a second look. This becomes even more important if we recall that there was litigation around the fact that the Tenth Finance Commission did not have a full complement of four members for some time. A member had to be appointed at a late stage so that there would be enough signatures on the report before it was submitted to the president

After all, we are about to complete 50 years of independence, and with the passing of generations, such a re-examination is often necessary of even things that we consider familiar. It is in that spirit that this matter is being raised for debate.

On a matter that affects the states so vitally as the awards of the Finance Commissions, should not the states have a say in the selection of the members of the Finance Commission? There are different ways in which this can be done. Each of these ways will add to the federal nature of our polity in an essential

way. A few 'models' can be suggested. \* The president, in addition to the prime minister and the finance minister, could also consult the governors of the states in this matter. Based on the input received, he could then take an appropriate decision within the ambit of the 1951 Act, and order the constitution of the Finance Commission. \* If an Inter-State Council under Article 263 has been constituted, the president could seek its advice in this matter. Such a council would reflect the needs and requirements of both the union and the states, and it would also reflect the relative balance prevailing at any given time. It would reflect a view on emerging priorities that should be useful. If the council has been fairly constituted, and if it has its own institutional experties, such advice should prove to be valuable to the president in the discharge of his duties.

\* The president may choose to request the concerned professional bodies to present him with a panel of names of people who meet at least the minimum criteria mentioned in the Act (and perhaps more that the president may choose to add) from which he could choose the members. The chief justice of India could suggest a suitable judge, the Indian economic association may suggest a suitable economist. And so on.

There could be other ways of consultation by the president. No fetters need be placed on the discretion of the president in the way he chooses to consult the various parties involved.

The point is that the president need not be bound in this matter by the advice of the union council of ministers, who represent only the union government's point of view. As head of state, the president represents the entire country, not just the union of India. He has to take the concerns of the states into account formally. Article 74 places constraints on him in union matters. Under Article 280, he need not be so trammelled. It can be argued that in this matter, the president must not act under Article 74, but under Article 280. One article is not subordinate to another.

An Inter-State Council was set up by the then president on the advice of the VP Singh government. Instead, it could have been constituted by the president exercising his inherent powers under Article 263, and not under advice from the council of ministers under Article 74. Each article of the Constitution has equal weight. Yes, they must be read as a whole Article 74 only refers to the items under the direct responsibility of the union government under List 1 of the Seventh Schedule. On these matters, the union cabinet has a clear role in advising the president. But the president is head of state. He is the first citizen of India as a union of states, not head of the union government. which is the prime minister. The president is free to consult anyone, including the cabinet, but in exercising these powers, he is a free agent under the Constitution. Forgetting this important point has been one of the unfortunate errors of the past several years. In fact, the amendments to Article 74 in the 42nd Amendment to the Constitution, were not undone by the 44th amendment. There may be political explanations for this. But it does not mean the president is bound by advice on matters outside the ambit of Article 74. That was never the case. By the same token, the prime minister too does not have unlimited jurisdiction. His concern is the union government. This matter needs to be openly, and seriously, debated. Consider Article 53, cited below in part:

Executive Power of the Union – (1) The executive power of the union shall be vested in the president and shall be exercised by him either directly or through officers subordinate to him in accordance with this Constitution.

Article 53 clearly envisages a situation in which the president acts directly. Then he is not bound in all matters by Article 74. Further, let us consider Article 78, reproduced below:

Duties of prime minister as respects the furnishing of information to the president, etc, — it shall be the duty of the prime minister—(a) to communicate to the president all decisions of the council of ministers relating to the administration of the affairs of the union and proposals for legislation; (b) to furnish such information relating to the administration of the affairs of the union and proposals for legislation as the president may call for; and (c) if the president so requires, to submit for the consideration of the council of ministers any matter on which a decision has been taken by a minister but which has not been considered in the council.

Very clearly, this limits the prime minister to the affairs of the union. And the affairs of the union are defined in Article 246, and the lists in the Seventh Schedule. For parliament these are List 1 and List 111, on union and concurrent matters. There are 97 items in List 1, but this does not include the Finance Commission. Of the 47 entries in List 111, item 20 on economic and Social planning may be considered womewhat relevant to the question of Finance Commission. This would then require consultation with the states.

It can be argued that a matter not specifically mentioned comes under the union. That is true. But the Finance Commission is covered by an Article of the Constitution. It can hardly be considered an item not mentioned. Thus, the case for a procedure of setting up the commission involving consultation with the states would appear to be, at least, desirable, if not necessary.

Is this really very radical?

Parliament recently passed the 73rd and 74th Amendments which require that the states also appoint Finance Commissions to deal with the question of devolution of finances to local governments. Such an issue cannot be left solely in the hands of a state government, There is no reason to believe that the state governments will on their own

willingly devolve finances and powers to lower tiers of local government. This is because the state government is an interested party. Under Article 243-I, the governor of each state has to constitute State Finance Commissions. This, together with Article 243-Y, deals with these matters at the local government level. How has this been practised in the various states? Do the arguments above apply in principle also to

the states? If yes, how should zilla panchayats and nagarpalikas be consulted? Should interdistrict councils be set up? Each state will have to ponder on such issues at its own level and come up with institutional innovations. There may be many ways of dealing with these questions. We cannot expect unique answers. These constitutional amendments have forced such rethinking upon us. The challenge is tremendous.

### Childhood in Rajgarh

### Too Young for Wedlock, Too Old for the Cradle

Rajeshwari Chandrasekar

Till recently child marriages flourished in the backward district of Rajgarh in western Madhya Pradesh. But a concerted campaign against child marriages by the district administration for past three years has resulted in averting 90 per cent of engagements from culminating into child marriages.

RAJGARH district in western Madhya Pradesh is a typically backward district with poor resources and people. The district comprises of six blocks with a total population of 9,92,764 as in 1991. The district is situated just 150 kms from Bhopal, the capital of MP and 250 kms from Indore, the district with the highest human development index (HDI) in MP. It lies on the Bombay-Agra national highway and is well connected to the main islands of development. In spite of having locational advantages, Rajgarh is on the hinterland of development. Much remains to be done in terms of its human development. According to the MP human development report 1995, the district ranks 43rd among 45 in the state. Even among the seven districts of the Bhopal division, Ragarh ranks last. This is an obvious inference to its relatively poor levels of human development.

Rajgarh is commonly known for its 3 N's, ie, 'naru', 'nukta' and 'natra'. While the first is a typically health problem, the latter two are entirely social issues. Naru is guineaworm in the local parlance; the district used to be endemic to guineaworm incidence. Today, due to efforts of the district administration, the problem has been eradicated completely. However, the other two problems continue and are deeply embedded in the society.

Among many other reasons for Rajgarh's low human investment is its caste-ridden society with distinct vertical and horizontal hierarchies. These boundaries affect the entire social fabric of the district. One of the busic tenets of this casteism is the system of early marriages. For times immemorial, young children were bonded to each other's families in marriage alliances. Another disquicting feature is the practice of the sale of the women to other men in return for a handsome price. The natra, as it is locally called, is closely linked to the child marriage issue.

For unless a boy is committed to early marriage, he cannot indulge in natra. Thus, child marriages is a passport to natra. Natra is a status symbol; a macho symbol.

Nukta is connected with rituals after the death of a person while natra is the ritual done to a woman during her lifetime itself! Women are accorded secondary status in society; there is nothing peculiar to Rajgarh alone. But what makes the difference is the ritual of selling the woman many times over to the highest bidder in order to prove machismo. The largest beneficiary is the father of the girl who uses her to gain a neat sum. Men are prepared to pawn their goats, cows and buffaloes and in well-to-do households, even gold and silver to get a woman. In all these transactions the woman

TABLE 1. INCIDENCE OF ENGAGEMENTS BY MAJOR CASTES

|        | C                               | astes '                                                                                                                                                           |                                                                 |
|--------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Chamar | Dangı                           | Sondh-<br>wadı                                                                                                                                                    | Dhakkad                                                         |
| 35     | 80                              | 43                                                                                                                                                                | 5                                                               |
| 68     | 3                               | 17                                                                                                                                                                | 73                                                              |
| 24     | 29                              | 69                                                                                                                                                                | 11                                                              |
| 1      | 3                               | 5                                                                                                                                                                 |                                                                 |
| 10     | 13                              | 13                                                                                                                                                                | -                                                               |
| 45     | 25                              | 5                                                                                                                                                                 | 39                                                              |
|        |                                 |                                                                                                                                                                   |                                                                 |
| 183    | 153                             | 152                                                                                                                                                               | 128                                                             |
|        | 35<br>68<br>24<br>1<br>10<br>45 | Chamar         Dangt           35         80           68         3           24         29           1         3           10         13           45         25 | 35 80 43<br>68 3 17<br>24 29 69<br>1 3 5<br>10 13 13<br>45 25 5 |

is never in the picture - she accepts the deal as part of her womanhood!

Closely connected to the issue of sale and resale of women is the century-old custom of child marriage. Rajgarh occupies a unique position in the map of MP because of its proximity to the bordering state of Rajasthan. In fact all the three N's mentioned above are not originated in Rajgarh itself. The influence of the bordering state is conspicuously visible for there is a constant migration of population from and to Rajgarh from across the border. Indeed the habits and (mis)deeds of the border state have a telling effect on the district. Child marriage is no exception.

The custom of early marriages is deeply entrenched in the society. It is an age old custom which has been carried forward to generations from times immemorial. These marriages are not round the year. There is an auspicious time in the almanac when it is considered good to perform the marriages. This date is locally known as 'akshaya tritiya'. Ironically it coincides with the agricultural season of harvesting when the major crop is cut on its maturity. The children too are considered mature enough to enter wedlock on this holy day! According to the local custom, every moment in the day is considered auspicious enough to get married.

#### POSITIVI INTERVENTIONS

The last three years have witnessed an annual campaign by the district administration around the time of the akshaya tritiya. The last year's campaign was with a difference. Caste based sammelans were organised along with the women's groups who had recently been freed from the bondage of illiteracy. These samaj sammelans and the mahila sammelans added a lot of difference to the routine campaign. Their appeal made better impact on the masses in terms of delaying the marriages.

How old are the children? Are they from all castes and classes? Are they everywhere in the district and in the panchayats? What has been the impact of the campaign against child marriage? These were the questions that come to everybody's mind. An evaluation of the campaign of such a sensitive issue is indeed difficult. Nobody likes to hear advice on stopping or delaying marriages. More so when it comes to actual collection of data. But it was becoming increasingly imperative to assess the progress and the qualitative impact on the families, it any.

TABLE 2: GENDER GAP IN ENGAGEMENT

| Mean Age of          | Mean Age at Engagement (Girls)* |         |        |          |            |       |  |  |
|----------------------|---------------------------------|---------|--------|----------|------------|-------|--|--|
| Engagement (Boys)    | Khilchipur                      | Rajgarh | Biaora | Jeerapur | Narsingpur | Total |  |  |
| Less than five years | 1.27                            | 2 26    | 4.44   | 1.27     | 2.14       | 20    |  |  |
| 5.01-10.00           | 5.94                            | 5.84    | 7.00   | 4.84     | 5 89       | 5 90  |  |  |
| 10.01-15.00          | 10 13                           | 9.98    | 9.32   | 9.64     | 10 08      | 9.83  |  |  |
| 15+                  | 14.37                           | 13.77   | 13 04  | 13 67    | 13 40      | 13.65 |  |  |

<sup>\*</sup> Data for Sarangpur not available.

It was therefore decided to develop a data base on the child marriage scenario in a time frame and social background. A set of questionnaires was printed and information sought from all the households in all villages of the district on the age and sex distribution of children to enter to wedlock. This data base sets the benchmark for all future comparisons and analysis. (It must be remembered that since this was the first time that a format was prepared, there were certain limitations on the data. These will be taken into account in the next year's survey.)

The average age of engagement of girls in the district is seven years and for boys nine years. Between the blocks, Khilchipur and Jeerapur record the lowest average for boys (8.1) and girls (6.4) years respectively. Narsingpur with an average of 10 and 8 years for boys and girls respectively is the maximum age limit for engagement.

While the age of engagement is low, what makes it worse is that they were conducted two-three years ago. It is surprising that even toddlers (of one-two years) have tied the marital knot. These children remain in the parental home till they come of age and then join the marital home.

Are these marriages predominant in all castes? Is it an annual practice? No. For data reveals that there are certain castes in the districts where majority of child marriages take place. These are chamar, dangi, sondhwadi, dhakkad and loda. An analysis of last year's child marriage/engagements shows that chamar topped the list (183) with dangi (150). Among the four major castes where these occurrences take place, this pattern was visible in all blocks. In Sarangpur, mali castes ranked first with 93 engagements while Biora and Khilchipur were ranked first for dangri samaj. The chamars in Narsingpur and the sondhwadis in Jeerapur and Rajgarh blocks were the foremost in the list.

The child marriages are an annual feature – however, there has been a sharp decline in the last year in terms of number of castes involved in child engagements and its quantum In Narsingpur, most of the castes (98.5 per cent) who had been in practice since long continued it in 1995. It was only in Khilchipur that the incidence was lowest (22.2 per cent) as compared to last five years. This in itself is an improvement as it indicates a movement towards iesser number of castes and lower incidence thereby.

One would naturally expect that with this number of child engagements, marriages would also be conducted in equal numbers. In Rajgarh, thanks to the mounting of the literacy campaign with anti-child marriage, engagements were not fructified into marriages. Less than 10 per cent of panchayats witnessed child marriages. In 90 per cent of them, child marriages were averted because of social pressures. However, in Sarangpur block, the proportion of marriages averted is comparatively lower than in the rest of the district.

A trend analysis over five years indicate that while the peak was attained in 1990s and a plateau had been maintained till 1994, there has been a sudden decline in 1995 indicating the impact of the campaign. To elaborate, in Dangi caste, while 297 engagements were held five years ago, the number steadily declined to 168 in 1992 and finally dropped to 80 in 1995. This was true in all blocks of the district.

In about 15 per cent of castes, the average age of engagement of girls is within six years of age. The proportion more than doubles (44.2 per cent) for the next age group, i e, six-nine years. About 60 per cent of girls are engaged by age of nine years. No girl remains to be engaged after 15 years of age.

The picture is dramatically reversed in the case of boys. Less than 30 per cent of boys below nine years are engaged while their proportion is more (63 per cent) among those aged 9-15 years. Thus, early engagement syndrome affects a girl more than a boy. The matrix for boys' versus girls' age at engagement shows that there is not much gender gap (Table 2).

However, if the present age of boys and girls is compared with their mean age at engagement, it is found while 48 per cent of girls under 10 were already engaged, the proportion is lower (43 per cent) in case of boys for the same age group. Similarly, while over 41 per cent of girls above 11 years are engaged, nearly 58 per cent of boys are in this age group. Thus, childgrooms do exist but they are relatively older. The brides are numerically stronger in the younger age groups.

The above analysis shows the condition of the children in Rajgarh district. These children, especially the girls, are robbed of their childhood at an early age. The humdrum of preparing for their new life takes over and they fall into the same trap as did their forefathers. The boys play around and joke about their fiance while the girls hold their husbands in awe - for very soon their routine will begin of a new home, albeit temporarily and new relationships. Every akshaya tritiya will go down in the annals of history of Rajgarh as a day for the children to remember and rejoice. But at what cost this rejoicing?

**KARNATAKA** 

## Tribals on Warpath: Confronting Eco-Terrorism

Muzaffar Assadi

Tribals in the Nagarhole and H D Kote regions of Karnataka have been protesting against the eco-development programmes sponsored by the World Bank. These programmes will result in the large-scale displacement of tribal population and a complete destruction of their way of life.

WHEN the 'son of the soil' Deve Gowda, the prime minister was addressing the nation from the rampart of Red Fort, the "real sons of the soil" (tribals) in his home state had very little time to celebrate his success and listen to his speech. They had other immediate issues to attend to. On the day of national celebration they were demanding, in the Nagarhole National Park Area in Coorg district their 'freedom' and 'liberty' freedom from exploitation, freedom from evictions, freedom from rehabilitation, freedom from eco-tourism perpetrated by the Indian state and western capitalism/World Bank. This was particularly aimed at retaining their cultural identity and communitarian life on the one hand and confronting ecoterrorism on the other. However, the state did not treat the slogan shouting tribals in Nagarhole as anti-nationals, neither did the state arrest them for taking out a procession denouncing the celebration of 50th year of independence. The reasons are obvious: the Indian state has become weak in the context of post-liberalisation phase and arresting the tribals would legitimise their claims.

The tribals particularly Jenu Kurubas, Betta Kurubas, Soligas, Yeravas in the Nagarhole region of Coorg and H D Kote (in Mysore) in recent days have become the victims of eco-development programme sponsored by the World Bank. This has externalised the contradiction and that the contradiction has taken a class form. The tribals are becoming a 'displaced' category both from their land and from their culture. In addition they are now getting linked to western capitalism although their interaction with the larger market system is still minimal. They are not bound to anybody except in some coffee estates where they still work as bonded labourers. However, their struggle and the position is distinctively different from other exploited categories like dalits. The latter are the victims of caste oppression, mainly in the context of post-colonial present they have become the primary contradictions of the dominant castes. This has become a

possibility because of migration of upper castes from the rural areas to urban areas and the subsequent elimination of absentee landlord class belonging to the same upper caste has left the dalits under the hegemonic control of dominant castes. Finally the presence of dalits in every village as agricultural labourers also has sharpened caste conflicts in the rural areas.

On the other hand adivasis or tribal population in Karnataka is very small 4.5 percent to the total population (1991). Nearly 12 per cent of population is located in Nagarhole area which is constituted of four ranges in Coorg and three ranges in Mysore district (in the latter district it is called Kakanakote). Since the tribals are located in these areas the nature of exploitation and subsequently the contradiction that they face is different. Historically their immediate contradiction has been the state - colonial, princely state and the post-colonial Indian state (through the forest officials). In recent days the entry of World Bank under the garb of eco-development project has added one more dimension to the contradiction. This has come at a time when Indian state was giving up the model of 'common economy' succumbing to western capitalism. It is in this context that the adivasis of Karnataka in particular, India in general are faced with the task of confronting two/dual contradictions simultaneously. Here the problem that the tribals are confronting is that of according primacy to contradictions - either the Indian state or the western capitalism/World Bank. Since the Indian state has succumbed to western capitalism via the World Bank and that since there are no differences in the approaches of both the Indian state and western capitalism vis-a-vis the tribals, both constitute primary contradictions. Therefore the ongoing struggles of tribals has become a part of the larger struggle both against the Indian state and western capitalism.

Tribals in the Nagarhole areas have been the victims of appropriation all these years. During the colonial period the princely State of Mysore and the colonial powers exploited the forest for the purpose of constructing/ building ships and laving railway tracks. They were exploited for forest knowledge, forest products and flora and fauna. This tendency continued even during the postcolonial period except that after the enactment of Wild Life Protection Act of 1972 the tendency of treating tribals changed, which however, had larger consequences on tribals. After 1972 the forest was exploited for the purpose of distant markets and for the urban oriented consumers, mainly supporting the cause of paper and pulp industries. Even forest area was systematically destroyed to make way for dams, which also had the consequences of displacing the tribals without providing any alternatives to them. For example, when a dam across Kabini river was constructed not only did 17 tribal

'hadies' (villages) submerged in it but also till date, they have not been properly rehabilitated. All these years nearly 200 tribal families have been forcibly driven out of forest. As an alternative for leaving their houses the hadies tribals are given either the barren or unfertile land. This kind of lands have no meanings for the tribals. Even the forest officials, representing the Indian state, would not allow the tribals to grow any crops. Most of the time their lands were forcibly converted into monoculture farms - basically teak wood farms. To force the tribals to leave the forests, forest officials would resort to different kinds of tactics: they would let loose elephants for destroying the property of the tribals, digging huge trenches on the roads thereby preventing movement of tribals; levelling false charges of killing animals (like deers, peacocks, etc); abusing sexually the tribal women; denying permission to repair their dwellings, obstructing the implementation of government sponsored programmes, charging the tribals whenever they were found collecting firewood, honey, grass, bamboos for their domestic needs.

All these years tribals adopted different forms of protest against appropriation and exploitation: dharnas, protest marches, defying the law, submitting memoranda and sometimes face to face confrontation (except for Dhoondiya Wagh's revolt of 1857 Karnataka does not have a history of tribal revolts). Their struggle now has shaped into a movement. Even NGOs are extending their support to their cause except that when they descended down to Mysore on August 23, 1996 to 'speak to urbanites' there was hardly any response from the urbanites. Meanwhile tribals have formed many organisations: Rajya Moolanivasi Budakattu Janara Vedike in Hunsur, Girijanara Jilla Samiti in H D Kote, Nagarhole Budakattu Janara Hakku Sthapana Samiti in Coorg, Budakkattu Krashikara Sangha in Nagarhole, and Karnataka Rajya Moolanivasi Budakattu Janara Vedike.

Nevertheless the tribal protest in Nagarhole region is not that unusual. Tribals protested when the forest officials blamed them for the death of a radio-collored cheetah ('kallala') and also when their standing crops were destroyed (in Nanachi). Tribals also opposed digging the trenches thereby preventing them from entering their paddy fields and hadies (in Shrenihadlu, Karekundi, Madenoor, etc). They also opposed "when an ill motivated ranger put unfounded blames on tribal people, beat them, lodged complaints on them for thieving of sandalwood trees in the forest by outsiders" (in Thithimathi) and also opposed their harassment when they go into the forest for collecting firewood and other minor forest produce (in Madenoor). In some places tribals opposed the molestation of their women folk (in Chikkareshme, Antharasanthe) and protested "when forest department staff started to clear-cut wood and make charcoais (Chottepare). Two important struggles in recent days have received attention. The first instance related to the "enter the forest" struggle in 1995 during which tribals not only entered the forest but also established their 'rule'. In the second instance, in June 1996, tribals opposed the destruction of standing ragi and cotton crops in 11 acres in Dadadhalli in HD Kote. Earlier Dadadhalli made news for the starvation death of 10 tribal children.

The most important issue which tribals of Nagarhole area are concerned about is the conversion of Nagarhole forest area into National Park and the subsequent World Bank plan. The logic behind introducing eco-development in this particular forest is quite perplexing:

India's bio-diversity is rich, often unique and increasingly endangered. India is of the 12 megadiversity countries in the world, that collectively account for 60-70 per cent of world's biodiversity. Its ten biogeographic zones represent a broad range of ecosystem. India's biological resources are economically. important both globally and nationally. Many species of crop plants found worldwide and their wild relatives originate on the subcontinent ... The biodiversity in India's forests, grasslands, wetland and marine ecosystems faces many pressures. These include grazing cattle, cutting of trees for fuel, timber, and non-timber forest products, hunting, uncontrolled fires and conversion spillover from agricultural, infrastructure, industrial and commercial development. India's high levels of human population density and growth, high incidence of poverty and large numbers of livestock speed the degradation. Local people, when traditional rights and access are limited by the establishment of Protected Areas, often have little incentive to use natural resources in a sustainable way. (India, Eco-development Project: Project Information Document, March 22, 1996, pp 1-2.)

This is a 70 million dollar project covering seven protected areas (PA), in seven states of India - Bihar, Gujarat, Karnataka, Madhya Pradesh, Rajasthan and West Bengal - and covers five tiger reserves (Buxa Tiger Reserve in West Bengal, Palamau Tiger Reserve in Bihar, Pench Tiger Reserve in Madhya Pradesh, Periyar Tiger Reserve in Kerala, Ranthambore Tiger Reserve in Rajasthan), one Asiatic lion reserve (Gir National Park in Gujarat) and one elephant reserve (Nagarhole National Park in Karnataka). In total the project would cover 6.714 sq km of protected areas with a tribal population of 48,800. Interestingly the World Bank report has not shown any tribal population living in the core areas of Nagarhole National Park. This naturally raises the guestion as to why the World Bank report is insisting on the rehabilitation of tribals from the 'core areas'. This is one of the paradoxes of the project.

The Eco-Development Project has been designed to target the "tribal people, and

torest tringe vittagers belong to the poorest sections of society". In this particular project, "the tribal development concerns are addressed in an integral fashion under the rubric of social impact participation and equity, rather than as a subsidiary tribal development plan or component". Project also "incorporates specific measures to safeguard the interests of the landless and women, through participation in village committees, employment preference and ongoing social assessment review and other monitoring". Nevertheless it has identified five core areas as its main objectives: to improve the capacity of PA management to conserve biodiversity and to increase opportunities for local participation in PA management activities and decisions; reduce negative impact of PAs on local people and increase collaboration of local people in conservation efforts; more effective and extensive support for PA eco-development to ensure effective management and finally prepare biodiversity to ensure effective management and finally prepare biodiversity project. However, the dangerous aspect in the eco-development project is the 'pragmatic approach', which ultimately seeks to develop "voluntary reallocation opportunities for people" especially on the basis of "wishes of local people". Since the concept 'local people' is used ambiguously anybody can misappropriate it and make the life of tribals a miserable one. Although it is said in the réport that "reallocation would be to lands on the periphery of PAs, rather than distant, non-forest lands", there is no guarantee that this particular aspect would be followed or observed. Even displacement will have multiple consequences: creates conditions for cultural crises, cultural oppression, and crisis of autonomy.

The second important danger is that the project can be located in the reciprocal commitment. This involves, "mutual guid pro quo of investments that foster alternative livelihoods and resource uses and specific measurable actions by local people to improve conservation." In the former case it has identified biomass substitution", biomass generation and forestry, ecotourism, agriculture including watershed management, small irrigation and livestock, agro-processing and artisanry. There is danger that investment on biomass generation might imbalance the ecology of forest especially when new varieties of plants/trees are planted in the place of traditional one. This is the one way to bring back 'social forestry' to the centre stage, which has earlier caused irreparable damages to the rural economy of Karnataka. Nagarhole region is also becoming a prey to 'social forestry'. These days teak plantations are coming up in the midst of National Park area, which, however, have no meanings for tribals except that they link the forest with the larger market.

Nevertheless the stress on "managing enterprise and visitor enclaves" has opened tourism' in the forest area. This has provided scope for the big industrialists to operate their star hotels in the midst of forests thereby causing much damages to tribal culture and society. In fact, when the government leased out the Moorkal Jungle Resort located inside the National Park in Nagarhole to Taj group for Rs 1.25 lakh per annum recently, the tribals resisted. (Presently they are adopting new method of planting traditional saplings and writing graffiti on the walls). This will ultimately converge into eco-terrorism as its consequences are multiple: increases the alienation between tribals and the forest, superimposing non-tribal culture on tribals, linking tribal society with consumerist western society, destruction of the ecology of forest, unemployment increase and finally this will provide spaces for western capitalism/capitalist to appropriate our forests both for genetic resources and for entertainment.

Finally the project paper says that the project (See, The World Bank in Nagarhole: A Story of Human Rights Violation Lies and Deceit) would be "owned by Indians". However, question can be raised as to who would "really own" it - the government, the tribals or the masses? Since the World Bank report has overlooked the existence of tribals in the core area, one can rule out the possibility of project being handed over to tribals. This is the reason why the World Bank and the government of India have neither invited nor involved the tribals of Nagarhole during the negotiations of the project. Every deal is being kept under cover. Nor have the texts been translated into local languages.

The tribals are also demanding the implementation of Bhuria Committee report. which would consequently help them retain and reclaim their communitarian life and autonomy. Other demands include uniform law for the protection of forest areas, declaring natural resources the common property of tribals, providing facilities like walkie talkies, telephones, transport, changing the nomenclature of forest department, bringing to a halt the construction of dams and roads inside the forest areas, total rights over forest produce, providing basic facilities like hospitals, dispensary, water and schools.

The task that the Bhuria Committee confronted was reconciling the traditional social structures with that of the modern political institutions like panchayati raj. And thereby avoiding any conflict between 'tradition' and 'modernity'. This is because of the fact to at for tribals community is the basic unit and life is an organic whole and that, superimposing any new institutions would become detrimental to their existence. To retain the autonomy and the identity of the tribals on the one hand, and to draw the tribals to the different institutions of democracy the Bhuria Committee made series of suggestions.

up a new enterprise system called "Beo." The Bhuria Committee; which submitted its report on January 17, 1995 recommended a four-tier system, although there are spaces for the three-tier system to operate. At the grass root level committee accepted "community rather than the administrative unit like village as the basic unit of the selfgovernance in tribal area". The community here is identified with body of all those who are on the voters list. This obviously raises the doubts about its application to the core area. However, grass-root body is designated as gram sabha, whose task will be managing the affairs in accordance with well established customs and traditions. Nonetheless the committee has recognised 29 functions which include safeguarding and managing the rights of tribals. These are suggested keeping in mind the tribals who are living in the periphery or outskirts of forests rather than the core area. Next in line are gram panchavats constituted by many hamlets or villages. Since it is based on an elective system, it reflects the modern panchayats both in terms of power and responsibilities. However, what distinguishes its powers from other ordinary panchayats is the power to rehabilitate the displaced and preparing a development plan for five years. In fact we have a huge backlog of 1,15,00,000 persons (in 1989) who are vet to be rehabilitated.

The third tier in the tribal area is the intermediate panchayats, variously called panchayati sabha, janapadha sabha, tajuk panchayats, and its functions/duties are coterminous with development block. However, the last and the final tier, district council will not be suitable to Nagarhole in particular, Karnataka in general as there is no such scheduled areas in Karnataka, Unless scheduled areas are declared and brought under fifth schedule the district council that the committee has recommended will have marginal meanings. In addition there is a practical problem. Carving out a district exclusively for the tribals might invite troubles from other corners, especially it will clash with the demand for a separate statehood made by the organisation called Liberation Warriors of Koorg (LIWAKS) in Coorg. The latter's demand emanated from the fact that Coorg is one of the richest districts (mainly coffee growing district) in terms of its contribution to GDP of the state on the one hand, and the least developed districts on the other (there are least number of schools/colleges, hospitals, industrial units and roads). In addition the intrusion of Malayalees, as enterpreneurial class has not only deprived the local population of their employment but also their hold over economy. This has given place for the rightist elements to grow in this district which sometimes translated into communal conflict also. Therefore the task of implementing the Bhuria Committee report in Nagarhole region will face rough weather. Will the Indian state allow the tribals to retain their identity? Will the 'real son(s) of the soil' stand up?

### Land Reforms to Fight Hunger

### **Bharat Dogra**

Although there is increasing evidence that a more equitable distribution of farmland actually leads to better productivity, third world countries, including India, have been reluctant to implement rigorous land reforms.

IT is widely agreed that increasing land availability to the poorest peasants and reducing inequalities in the distribution of agricultural land are highly desirable for reducing hunger and malnutrition in the world. Despite this, inequalities in the distribution of agricultural land remain at high levels in many countries probably reaching the peak in some Latin American countries.

Inequality is often expressed by a statistical measure called the gini coefficient, which varies from zero (equal assets for everybody) to one (one person owns everything). In most Latin American countries, the gini coefficient for land distribution is around 0.8, in Panama it is 0.84, in Brazil 0.86 and in Paraguay 0.94. The inequalities in the distribution of agricultural land may be most acute in Latin America, but it also exists to a significant extent in many other countries of the world. In Egypt the richest 20 per cent of landowners control 70 per cent of the agricultural land. In Bangladesh farmers owning less then 2.5 acres constitute 70 per cent of all farmers of this country, but they together have only 20 per cent of the land area.

The situation is somewhat similar in India. The Seventh Plan document (1985) of India says, "Small and marginal farmers with holdings of land up to two hectares represent about 73 per cent of the land holdings but are cultivating only about 23 per cent of the cropped area". The land ownership scene in various parts of the world has been summarised by the FAO in its widely quoted publication titled Agriculture toward 2000.

The proportion of landless in the agricultural working population is highest, and increasing, in Latin America and Asia. Latin America exhibits the greatest inequality in land distribution, whereas in the Far East and the Near East this inequality is somewhat less marked, although still substantial. In most parts of Africa, where customary tenure is still predominant, arable or pasture lands belong to the community, while the crops or livestock reared on them are privately owned. However, where the current trend is toward more land coming under private ownership or control, inequality and landlessness are generally increasing.

FAO has also stressed that more equal land distribution is likely to increase productivity of land.

It is important to stress here that yields per hectare are as high on small as on large farms or, under traditional agriculture, even higher. With a few notable exceptions, total output per hectare is higher on small farms, chiefly because their intensity of land use is higher. A more equal distribution of production inputs, including services, can only help to strengthen the role of the small farm in expanding production. The fact that some attempts at radical redistribution of land have led initially to lower production does not invalidate the conclusion that after some years a more even distribution of farming resources and inputs should help rather than hinder growth of output.

This view of FAO is supported by a sixcountry study by the International Labour Organisation (ILO) which estimated that

If land were equally distributed among all agricultural families (including the landless), and the new equal holdings achieved yields equal to present holdings of the same size and used a similal level of inputs, food output could potentially rise by anything from 10 per cent (Pakistan) and 28 per cent (Colombo and a rice-growing Malaysian region) to 80 per cent in northeastern Brazil. Such a radical redistribution is, of course, rarely attempted – but the figures indicate the theoretical potential.

While calculating this potential of increasing productivity FAO notes that the meaning of small and large land holdings is quite different in different parts of the world.

In Latin America, a "small holding" is taken to be less than 10 hectares, in the Near East less than five hectares and in Africa and the Far East, no more than two hectares. Similarly, the indicative ceilings beyond which a farm may be considered to be a "large holding" vary from 100 hectares in Latin America through 20 hectares in the Near East to 10 hectares in Africa and the Far East

The potential of land redistribution in each region is shown by the FAO in Table. Summarising this table, FAO says,

According to the information [in the table], and assuming that the indicative ceilings as defined above were enforced, redistributing

the area potentially available, even in the densely populated Far East, could improve the lot of small holders and landless very significantly. In the majority of countries, at least 10 per cent of farm area would be redistributed (in some countries the share would be significantly larger) and the benefits of doing so as a primary approach to improved distribution in agriculture would be considerable. However, since national situations vary considerably, land redistribution cannot be taken as a panacea applicable everywhere. Redistribution of only 5 per cent of farmland in India, coupled with improved access to water, could reduce rural poverty levels by 30 per cent under what they would otherwise he, so that in Indian conditions land and water reform would be a key approach. The impact of land redistribution would, on the other hand, be limited in overcrowded areas such as Bangladesh, because the area of land available for redistribution is very small and population growth high.

The view of the FAO that greater equality in farmland distribution will increase productivity is also supported by a World Bank publication The Assault on World Poverty - Problems of Rural Development, Education and Health. This study notes that:

- In Thailand plots of two to four acres produce almost 60 per cent more rice per acre than farms of 140 acres or more.
- An analysis of the differences in the value of output on large and small farms in Argentina, Brazil, Chile, Colombia, Ecuador and Guatemala revealed that small farms were three to 14 times more productive per acre than the large farms.

Frances Lappe and Joseph Collins examined the data of net income per acre by farm size in the US from 1960 to 1973. In 12 out of 14 years the net income per acre was greater on the (smaller) tamily farms. Therefore the evidence in favour of small farms and for having a more equal distribution of agricultural land is quite strong. It is another matter that as vested interests opposing redistribution are quite strong, the land reform effort can face several obstacles due to which there can be temporary setbacks. But if a broad support base for land redistribution is used carefully and with a lot of planning and foresight, it should be possible to overcome these obstacles and carry out by and large peaceful programmes of redistribution of agricultural land which increase the productivity significantly while also improving the livelihood of the poorest

Table: Potential Area of Farmland Redistribution (Around 1970)

|                                                                                                                 | Latın<br>America | Africa | Near<br>East | Far<br>East |
|-----------------------------------------------------------------------------------------------------------------|------------------|--------|--------------|-------------|
| Percentage of area currently farmed by small holders<br>Excess area of large holdings above indicative ceilings | 3.7              | 22.4   | 11.2         | 21.7        |
| as percentage of total area                                                                                     | 65               | 22     | 34           | 12          |

Source: FAO, 1981.

## From New to Human Order in Indonesia?

Olle Tornquist

The significance of the July 27 events is not that they mark the beginning of the end of Suharto's New Order, but that they signal the devastating ways in which political transition in the country may come about.

ON June 20 a government-sponsored faction of the officially recognised Indonesian Democratic Party (PDI) met in Medan, North Sumatra, to do away with its legally elected leader Megawati Sukarnoputri. Around the country, however, Megawati and her increasingly many supporters refused to give up. In Jakarta they held on to the party headquarters on Jalan Diponogoro. The situation became increasingly tense. At about 6 o'clock in the morning on July 27, policemen and soldiers stood by in the streets nearby the PDI office as several yellow painted army-like troop transport trucks drew up in front of the building and unloaded hordes of young, muscular men with shortcropped hair wearing caps and red T-shirts saying they were supporters of the government-sponsored faction. The redshirts attacked with rocks, tear gas, and acid. There was panic inside the house and some tried to get out but many stood up and responded by throwing rocks. The police did nothing to put an end to the attack but instead harshly prevented upset people who gathered in the streets from doing so. Negotiations followed but broke down as the police finally even helped the thugs to advance. Hence the red-shirts could charge the office and chase the PDI members inside, after which the police entered and took away the Megawati supporters, including many seriously injured and several possibly dead. However, more and more concerned people came to the area. Megawati's representatives tried new negotiations. These failed and the police violently attacked the masses, arresting and injuring bystanders as well. People had to flee in various directions, primarily towards Jl Matraman and Salemba Raya, where devastating riots followed. New demonstrations on Sunday were confronted with brutal police and military force.

Only on Monday was there some (distorted) news in the papers. Thereafter, however, the military stated they would shoot troublemakers 'on the spot'. And Suharto, soon accompanied by his loyalists, invented a scapegoat to prevent the pro-democracy forces from uniting and capitalising on the crackdown. All the trouble, it was stated, had been instigated by the young prodemocracy activists of the new small Peoples Democratic Party (PRD) who were labelled

communists. And what was more, these 'subversive elements' in turn had been 'masterminded' by all the other prodemocrats. Thus, the witch-hunt was on, no matter if even the US government, for the first time that I am aware of, expressed serious concern over the treatment of so-called communists.

And the hunt goes on. If somebody manages to hide, the authorities pick at the parents or wife/husband and even children instead. Hundreds are arrested, including independent trade union leader Muchtar Pakpahan. Many more are intimidated. For instance, even the official human rights commission has been told to keep 'national interests' in mind when reporting on its findings; independent human rights monitors, like Bambang Widjajanto, head of the Legal Aid Institute, have been summoned for questioning by the police; and as I am writing this on September I, an incoming e-mail says that the authorities have also summoned Gunawan Mohamad. editor of Tempo (the country's most reputed liberal weekly that was closed down in 1994) and currently chairman of the independent clectoral monitoring committee (KIPP).

To my understanding the significance of the July 27 affair is not that it does mark the beginning of the end of Suharto's New Order, but that it signals the devastating ways in which succession may come about.

Before leaving for Indonesia in early July, I had concluded a tentative version of a long essay on problems of democratisation in the country, primarily based on interviews in late 1994. By now, however, I realise that while my conclusions on the outright prodemocracy movement fared well, the more basic ones on what kind of transition is plausible were too optimistic.

My valid argument was that while the pro-democracy movement is potentially significant, the character and dynamics of the different groups point in the direction of divisive politicisation — which in itself does not generate an opening, in spite of devoted work and good intentions. Hence, I predicted, it is more likely that 'external' rallying points will give rise to a more general movement for transition from authoritarian rule. And within this broader movement many of the outright democrats will relate

to legally accepted populist democrats while others hold on to fragmented activism and development work, or insist on rather isolated top-down party building. Once the government tried to get rid of Megawati this, thus, proved true (aside from the fact that PRD actually acted in a less sectarian way than expected and also threw its lot behind Megawati). More and more people came out in support of Megawati, including the many workers who went on strike for better conditions. Even well placed government loyalists complained about their wives supporting the courageous woman who stood up against the old ruler. And taxi drivers taking me via Jl Diponogoro carefully slowed down outside the peaceful free speech forum at the PDI office compound offering themselves to carry along posters or flyers.

My second argument, however, must be revised. It is still true that a growing inability to regulate conflicts both within the elite and in its relation to new social forces (primarily the middle and working classes) makes transition from the old authoritarian rule inevitable - and that much of the additional factors which elsewhere nourished democratisation (including in the Philippines) are missing. But it is no longer possible to argue that the most likely scenario is orderly transition to a slightly more open and well regulated society through horse-trading among post-Suharto elites - an orderly transition which the outright democrats could take for granted and try to improve upon.

Actually this perspective began to fade away already as the government decided to block the attempts by the pro-Megawati people to mobilise people in the context of the 1997 elections, set up an electoral watch movement, and thus find a way of promoting democratisation by relating to the existing political system. It is true that the renewed populist blend of Sukarnoism and Muslim pluralism still calls for negotiated pacts with disenchanted factions among those in power. But those proved wrong who said that the government and the army were divided enough not only to allow Megawati to become leader of the PDI but also to tolerate that most outright pro-democrats would come along. It is also true that less pluralistic but reformist Muslims have realised that the clientelist government Golkar Party is a shell that is likely to vanish with its super patron Suharto and, therefore, still try to turn instead the pro-government Association of Muslim Intellectuals (ICMI) into a more genuine forum to modernise clintelism into Malyasian-like state-corporatism. But at no point from mid-June till July 27 am I aware of any sign that enlightened reformists, or slightly dissident officers, seriously tried and could have been able to accommodate the pro-democrats and to 'handle' them within a more open political framework. By now a leading ICMI reformist says instead that "this is a terrible setback for us as well ... there are dynamics within the army which we cannot do much about...[and] the old man doesn't listen and is getting paranoid". And when I ask how ICMI — which is not in favour of a transition based on multi-party negotiations and elections — shall accommodate other views and forces, such as those who rally behind Megawati and Gus Dur, Muslim pluralist Abdurrahman Wahid who is the leader of the world's largest Muslim organisation Nahdlatul Ulama, there is no other answer but "well, that's a good question".

So what happened on July 27 was 'only' that the regime displayed its total incapacity to reform itself, having instead to crack down on demonstrators and the prodemocracy movement in general with brutal force.

It is true that increasingly many reformists as well as business men now realise that this cannot go on, that clashes cost too much, that there must be more openness, a better regulated economy, and new institutions and organisations that allow for efficient and reliable negotiations among the elite as well as with the people at large. (It is better. for instance, to have a moderate union to deal with than to have 10,000 angry workers in the street who constantly have to be repressed by the army.) But what is the use of those insights if the reformists cannot start building the institutions and allowing the organisations until Suharto is gone? What can ICMI do, if its chairman technology minister Habibie always has to be on speaking terms with Suharto? Or what can enlightened military officers do, if the only way to sustain their positions is to be loyal to Suharto? Mean while the fundamental social and economic conflicts are getting worse

Some might add that sensible compromises and gradual democratisation are anyway inevitable because capitalism is flourishing and some kind of civil society has emerged. But a few individual liberties are not enough. It is fine if people like to have democracy. do not trust what is in the papers, and criticise the government in coffee-shop discussions. But to make a difference they must also be able to organise on the basis of common ideas and interests. And this they cannot. Indonesia today is way behind the Philippines 10 years ago, not to talk of South Africa five years ago. There is no mass organisation from below. The only option is incorporation of people into politics based on populism and what remains of the old pillars - Sukarnoism and Islam. And now July 27 displayed the risks in terms of poorly organised and angry masses that run wild and invite more repression. Moreover, the regime is rather successful in dividing the Muslims. Independent and pluralist Gus Dur is probably next on the list, if necessary.

However, July 27 also testifies to the fact that even the more genuine pro-democracy movements that aim at integrating rather than incorporating people into politics cannot make much difference. Their honest attempt to relate to the recognised political system by mobilising as many as possible in the context of the 1997 elections behind Megawati failed primarily because of the lack of space for more openness and gradual change. And then one must add that the basic weakness of the pro-democracy movement itself also proved to be a serious drawback - its fundamental separation between topdown activists who tend to run offside and grass roots activists who have not yet been able to generate interest-based mass organisations from below.

Hence I am afraid that the July 27 affair points in the direction of more unrest, more failures, and more crackdowns. Only when Suharto falls or steps down will the many actors who have remained loyal in order to survive try to handle transition. By then, therefore, the army remains the only solid organisation. But the generals can no longer run the country on their own. They must

look for support among businessmen and politicians – who are likely to compete with each other in offering different generals finance and mass support. And since most of the competing actors have not been able to prepare an institutional framework for a negotiated transition, they may not be able to settle their disputes in a smooth way either.

What can be done to alter this scenario? If the main points in this analysis are accepted, the only clear-cut path, even for businessmen with a strategic perspective, is the narrow one - that is to strengthen the position of the pro-democracy forces that do not depend on remaining loyal to the regime till the bitter end. And the only way of improving the independent position of these pro-democracy forces is to promote their attempts at bridging the gap between topdown activists and those working at the grass roots level. If various governments, agencies, and NGOs, especially those in the third world, develop at least a similarly enlightened understanding of these problems as have sections of the US administration, it should be possible to develop an urgent international movement in support of basic democratisation in Indonesia.

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### This IMF Business

### Who Is Really Responsible?

S Akbar Zaidi

Reluctance to take unpleasant measures like strict tax collection, cut in defence expenditure, propels Pakistan to rush to the IMF to seek financial assistance.

THERE seems to be a great deal of euphoria across the country, and especially so amongst official and governmental circles, that the IMF has once again agreed to extend another standby loan worth US \$ 600 million to Pakistan. This latest agreement between the government of Pakistan and the IMF comes about after the cessation of the 1993-96 Extended Structural Adjustment Facility (ESAF) worth in excess of \$ 1 billion, halted around the time of the last budget in June 1995.

The Moeen Quraishi caretaker government in September 1993 signed a standby agreement with the IMF which became a precursor to the very large agreement signed by the Benazir Bhutto government. Things went rather well for the first two years of the programme where, while targets went unmet, the general direction and pace of the so-called 'reforms' seemed acceptable to the IMF. The tiscal deficit was brought down substantially, as were tariffs, but again, not as much as the IMF had wanted. The deregulation, liberalisation and privatisation agendas set by the IMF were also closely followed, and frequently re-negotiated when any hitch seemd to occur. Pakistan was cited as a good example of a country successfully following the IMF-devised structural adjustment programmes.

When the budget for the current fiscal year 1995-96 was announced in June of last year, it came as quite a pleasant surprise to all. Analysts, economists and business men were equally surprised by the fact that the government had, unexpectedly, offered a mild budget far removed from the strict budget that was widely anticipated. The tariff rate, for example, was cut, but by only 5 per cent, and not 20, as was expected, reducing the maximum tariff rate to 65 per cent. New taxes worth only Rs 16.3 million were announced, and the target for the budget deficit was set at 5 per cent of GDP, and not at 4.5 per cert as the IMF had insisted. All in all, the 1995-96 budget was perceived to be pro-industry and growth enhancing, with the belief that for a change, many of the targets would be met. Most of all, many analysts perceived the budget to represent the interests of Pakistan, rather than the demands set by the IMF.

The IMF was not at all pleased with this attempt by the government to show its independence, and the Fund froze the remaining tranche of the ESAF in its last year of operation. It took less than four months for the government to do U-turn, by imposing more taxes, devaluing the currency and promising the IMF that it would agree to its earlier conditions and begged the Fund to resume the aborted ESAF. Between October and December 1995, top officials of the government of Pakistan made numerous trips to Washington trying to appease the IMF and to convince them of the sincerity of their intentions in carrying out the rest of the programme. IMF officials also made visits to Islamabad and finally, towards the end of the last year, yet another agreement was signed.

The government immediately claimed victory and informed the public that the IMF by agreeing to the new loan, had endorsed the policies of the Benazir Bhutto government and had confirmed that the economy was doing well enough to warrant a loan from the Fund.

Over the last two or so years a great deal of analysis and research has been published in the press which has argued that the

conditionalities imposed on Pakistan by the IMF are harsh, and that implementing the programme will have serious negative consequences. Concern and opinions have been expressed amongst a large cross-section of analysts that by following IMP diktat in the form of the structural adjustment programmes, Pakistan's economy will get worse, not better. There are fears of inflation, caused by the government removing subsidies on a number of inputs and consumer items, and by the increase in administered prices for utilities, which are supposed to be brought in line with world prices. Many writers think that by reducing tariffs an increasing number of firms will be put out of business. The insistence that the fiscal deficit must be cut at all costs, is considered by many to result in lower expenditure on health and education, and more taxes on the already over-taxed urban consumers. While most of these themes have been elaborated upon in the press in this country, an important aspect to the discussion, why Pakistani governments run to the IMF in the first place, has not been adequately expressed or debated.

It is quite unfair to blame the IMF for any of the ills which plague Pakistan's economy. The IMF is justified in imposing any or all conditionalities when making a loan. It must ensure that the money is returned, and for that purpose, it must also ensure that the money that is lent is used for a purpose that the Fund believes will improve the economy so that the country is in a position to return the loans. Hence, to castigate the IMF for imposing 'harsh' conditionalities is futile, for the problem lies elsewhere.

It is our governments - past and present - which are responsible for the state of our economy. It is they who have signed

**APPOINTMENTS** 

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agreements with the IMF accepting the latter's conditionality and promising to take many measures which are not always beneficial or popular. If a government is forced to go to the IMF, the Lender of Last Resorts, it is only because it has not been able, or has been unwilling, to take immediate and important steps itself. The way Pakistani governments have avoided taking such steps serves as a case in point.

Two critical concerns with our economy have centred around the fact that our resource mobilisation has been very low, and our expenditure has been excessively high. It is not the IMF which is responsible for either of these structural issues in our economy, but the inability of various governments to tackle these concerns. The taxation structure is wrought with numerous loopholes, exemptions, and rampant corruption, to ensure that a large part of the taxable income goes untaxed. Various vested interests act to preserve their interests by demanding and usually acquiring - exemptions in taxation. There is as yet no agricultural income tax in this country while 25 per cent of the GDP is contributed by the agricultural sector. Most influentials - agriculturalists and others - do not pay any tax at all. Only 1.5 million individuals out of a population of 130 million pay any income tax. Surely. many more than this 1 per cent of the population earn the minimum taxable Rs 4,000 per month. According to one estimate, more than three-quarters of potential tax payers do not pay taxes in Pakistan. Thus, the inability or unwillingness of the government to ensure an equitable, just, and extensive taxation structure ensures low resource mobilisation resulting in a high fiscal deficit with its numerous repercussions.

Another area where governments have chosen not to express concern is defence expenditure. With close to 6 per cent of our GDP being spent on defence, little remains for development. In fact, Pakistan must be one of the very few countries in the world where defence expenditure exceeds development expenditure each year. The political economy of our state does not permit the government to tackle the issue of military spending, but isn't it time it did?

Just these two examples from the economy highlight the fact that whatever mess Pakistan's economy finds itself in, is due not to the meddling and interference of the IMF—although that does exacerbate the problem—but is largely of our own doing. In order to ensure their extended survival, governments do not touch controversial areas and issues. Agricultural income tax and military spending are two such areas. Hence,

the reason why our governments rush to the IMF for financial assistance is that they continue to delay the day of reckoning. They acquire loans to meet their revenue gap so that they do not have to take unpleasant measures. In all this, if the people of Pakistan have a voice, it must be directed at criticising the wrong doings of our elected representatives, not the officials of an international bureaucracy. By blaming the IMF we are letting our governments off the book

It is our government which is responsible for the state of our economy and to us. It should be accountable to the people of this country. Popular pressure should be directed towards demanding reforms which would improve the structure of the economy so that there is no need to borrow under harsh conditionality. Whether it be agricultural income tax or land reforms, military spending or development expenditure, political parties and groups, intellectuals, NGOs and other pressure groups should force this government to undertake extensive reforms which are long over due. The responsibility about the state of the economy lies with our government, but equally with us, for it is we, the people of this country, who are responsible for our own destiny, and not the



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### **Two-Way Movement of Sex Ratio**

Swapan Seth

The female-male ratio in the total population has long been low in India since the beginning of this century and it is declining steadily. It could suggest, apparently, to hold the idea that the low sex ratio may be prevalent in all the age groups also. But it is revealed that among the marriageable adults sex ratio has been high. A comparison among population data of India, France and Switzerland visualises a demographic paradox.

IN considering the issues of demographic transition of any particular age group or of the whole population of a particular region of a country, we find some complications and inadequacies. International, along with internal, migration makes the demographic scene ambiguous specially in respect of the female-to-male ratio (FMR) or sex ratio. This feature is particularly pertinent when a specific age group (say, the age group 20-24) is taken into consideration, the work-torce being the major constituent in such cases. There is ample scope to examine whether there is any excess female mortality (EFM) in India.

For the population of India, low sex ratio is assumed to be a consequence of EFM. [See, for example, Kynch and Sen 1983; Kumar 1989 and also for comment, Agarwal 1989]. On the issue of the high female-tomale ratio, we have to keep in mind that falling FMR may or may not be a consequence of EFM alone. Any ratio can change due to change in the value of the numerator and/ or in the value of the denominator. It may even not change at all if both of them change at the same rate and in the same direction. A change in the FMR of a particular area can, therefore occur in the same manner. A decrease in the FMR may be a result of greater increase in the number of males when compared to the female population, which may remain unchanged or exhibit a smaller increase. For the case of a growing population, other factors remaining unchanged, the same phenomenon may take place if the net increase of females is less than that of males. Therefore, a decrease in FMR does not always imply a decrease in the female population. And it also is not a fact that the male population has been remaining constant over time in India. Above all, male death rate is neither exogenously given nor fixed over time. whereas, according to common belief in deprivation of women and the like, it is generally taken as unchanging.

If a study relates to a section of a population or an age group, its findings possibly are not to be fully applicable to the whole of the population. Excess male child mortality, owing to the relative biological disadvantages of males as compared to their female counterparts, in the neonatal period favours a high FMR. But simply in view of this fact, it does not seem fully justified or logical to conclude that male mortality for the total population is high in India. The deprivation of the females in India is a well known phenomenon. The low sex ratio has been assumed to be the consequence of an excess female mortality over male mortality. As for evidence, the instance of excess female child mortality is often put forward. The question is: if girls are the victims of neglect in their childhood, then what about the rest of the womenfolk (in the adult ages)?

As regards infant and child mortality, it is often held that death rate for girls has been higher [Miller 1981] in general owing to relative disadvantage in respect of medical care and nutrition; and it is also said that there has been greater female child mortality in north India than in south India. But recent studies, using the data set from the Survey of Infunt and Child Mortality conducted in 1978, have revealed new aspects of sex and regional differences in child mortality in India. Jain (1985) observes that medical factors have a slightly greater impact on infant mortality than non-medical factors. And Beenstock and Sturdy (1990), with the help of the said data set and employing factor scale model, find no bias in favour of male infants at the all-India level. According to them, there is no clear-cut evidence of an independent north-south factor affecting sexdifferential child mortality between the two regions. However, they admit that low adult female literacy, inadequate medical care at birth and poor health may have a north-south dimension. Thereafter, according to the 1981 Census estimates, female child mortality has been lower up to age two, to be almost equal at age three but having a marginally higher value at age five Office of Registrar General, henceforth ORG, 1988]. A comprehensive nutrition survey in ten states of India during 1973-1980 showed that there was no sex bias in the level of malnutrition-led growth retardation among 1-5 year-old pre-school children [Sastri et al 1989]. So, in spite of a decrease in comparative disadvantages of girl children in recent years, and relative and absolute improvement in the life expectancy of females, which has just crossed that of males (see the Appendix), the declining sex ratio calls for further investigation together with an investigation into the sex ratio at birth.

It is a fact that the FMR in Kerala has been high when compared to that in other states of the country throughout this century. This has prompted the opinion that women in Kerala enjoy a better position. In this context, the study by Kumar (1989) regarding the impact of male emigration from Kerala is convincing. He points out that male emigration could not be a factor in pushing the FMR up during the periods when the emigration was not significant. Thus, according to him, the sex-differential child mortality in India and in states other than Kerala is an important factor for the low FMR. Is this actually so for the total population?

#### SEX RATIO AT BIRTH

In India, sex ratio at birth (SRB) has long been strikingly low, (Tables 1 and 2) and, for West Bengal (Table 3). The low sex ratio has generally been interpreted as a result of relative under-registration of female births. In this context, the Registrar General of India holds that a very low SRB "may be due to general preference for and importance attached to male births so that female births are not as much reported and registered as male births" [ORG 1976: 5] If it is so, then how are we to explain the unnaturally high SRB, greater than unity, as observed from 1977 to 1980 (see Table 2, column 6). Is it due to excessive omission of male births at the time of registration? The issue of genderspecific under-registration of child births concerns neighbouring countries also. In Sri Lanka, the SRB has been increasing during the last 100 years. This is explained by ESCAP (1976) as being due to a fuller registration of female births.

For the case of India, on the contrary, the high SRB too is attributed to under-registration of male births. Visaria (1961) infers that the high SRBs in a few regions of India are due, probably, to under-registration of male babies (p 37), though in India as a whole, simultaneously he supposes relatively less completeness of registration of female births (p 28). The high sex ratio

among children in Bangladesh is taken to be the result of under-registration of male infants and children, which might be done deliberately to protect the male children from the evil spirits [Sattar 1981]. Under-registration of male children is suspected in Nepal also [Nepal Bureau 1977]. Thus, the high/low SRB has always been attributed to under-registration of either male or female babies. But the medical registration system (MRS) free from such deficiency, also presents noticeably low SRBs.

In the countries of the Indian subcontinent with similar socio-cultural setting, there is under-registration of births of male and female babies. Under-registration of female births may be explained by the generally lower importance given to females. But the propositions explaining under-registration of male births, it seems, are less convincing.

The SRS and MRS data on SRB are qualitatively better to work with, although both of them show markedly low values. The SRB in Uttar Pradesh, according to the SRS, during 1968-1970 was 0.898 in rural and 0.900 in urban areas. It was strikingly low, which may generate doubts about the quality of the data. Instead, it is claimed in this case that "the births are checked and verified to ward off any kind of systematic bias which would lead to continuous suppression of female births. It is obvious that there is male predominance at birth ... The argument of under-registration of female deaths, as of births, can be voiced, but the data are carefully scrutinised and, in any case, are sufficiently accurate to point out the trend." [Sinha 1973: 81-82].

For the case of the state of West Bengal, the SRB at the Model Health and Ideal Registration Units, where data are collected with special care, in 1962 the value was as low as 0.884 and during the period 1965-1984 fluctuated between 0.899 and 0.972 (Table 3). An extraordinarily low SRB (0.891) has been observed through MRS on a large number (six million) of live births in different hospitals in parts of India for the period 1981-91 [ORG 1992].

Now, if excess female child mortality being an age-old phenomenon is the main factor behind low FMRs in the early age groups, then (with no matching excess male mortality in the subsequent age groups) similar low ratios should be prevalent in all of the subsequent age groups also. A high FMR has been characteristic of the age group 20-24 in India throughout this century.1 It would be interesting to compare these features with the features of similar groups in other countries, say, France and Switzerland. France has been chosen because of the factor of war which had a direct bearing upon the variability of the sex ratio of this country. The other country, Switzerland, kept itself aloof from all conflicts and, consequently,

had the possibility of maintaining natural sex ratio provided there was no unequal international migration with respect to gender.

It would be instructive to compare the contrasting features of the three countries, viz, India, France and Switzerland, as evident from Figure 1. The figure shows that India, among the three countries, has the lowest sex ratio, which falls below unity. As far as the age group of 25-29 years is concerned, France exibits a sex ratio which is either close to unity or significantly lower. The feature, however, changes during the time of war, when the same ratio manifests an upward trend. The sex ratio reached figures as high as 1.260 and 1.616 in 1921 and 1941, respectively, the two years that reflect the devastating and direct influence (casualties) of the two world wars mainly on the male population.3

Switzerland, on the other hand, presents a different picture. If we view the Swiss sex ratio, it appears to be more stable (and near about unity) than that of France. At the same time, for the age group 25-29 years, it shows slight fluctuations. The ratio was at a slightly lower level, at 0.987, in 1910, but it declined to the lowest level of 0.934 in 1970, passing

through some ups and downs but always remaining below unity in the interim periods.

Other than sex-differential mortality, sexbiased international migration can change a country's sex ratio. This may happen relatively more to the population belonging to the young adult age groups because international migration mostly pertains to these age groups. After the world wars, there was large international migration among the European countries and that had a noticeable

TABLE 3' SEX RATIO AT BIRTH (SRB) IN MODEL HEALTH AND IDEAL REGISTRATION UNITS IN WEST BENGAL, 1962-84

| Year | SRB   | Year | SRB   | Year | SRB   |
|------|-------|------|-------|------|-------|
| 1962 | 0.885 | 1971 | 0.936 | 1978 | 0.935 |
| 1965 | 0.930 | 1972 | 0.886 | 1979 | 0.899 |
| 1966 | 0.910 | 1973 | 0 937 | 1980 | 0.937 |
| 1967 | 0.918 | 1974 | 0.934 | 1981 | 0.919 |
| 1968 | 0,969 | 1975 | 0 947 | 1982 | 0.904 |
| 1969 | 0 972 | 1976 | 0.931 | 1983 | 0.905 |
| 1970 | 0 929 | 1977 | 0 968 | 1984 | 0.935 |

Source. 'Report on Model Health and Ideal'
Registration Units 1962 to 1984', WB
State Bureau of Health Intelligence,
Government of West Bengal, Calcutta.
(Title varies; maneographed)

TABLE 1: FEMALE-MALE RATIO AT BIRTH BY PROVINCE, 1891-1936

| Years /          | 1891- | 1901-   | 1911- | 1924-  | 1929-  | 1934*  | 1935* | 1936* |
|------------------|-------|---------|-------|--------|--------|--------|-------|-------|
| Province         | 1901  | 1911    | 1921  | 1928   | 1933   |        |       |       |
| Bengal           | 0.936 | 0 941   | 0 933 | 0 926  | 0 926  | 0 926  | 0.893 | 0.926 |
| Binar and Orissa | 0.942 | 0.955   | 0.950 | 0 960  | () 960 | () 943 | 0.943 | 0 943 |
| Bombay           | 0.926 | 0 926   | 0 925 | 0.926  | 0 926  | 0.926  | 0 926 | 0 943 |
| CP '             | 0 941 | 0 954   | 0.955 | 0.950  | 0.950  | 0 943  | 0.952 | 0.952 |
| Madras           | 0.959 | 0.958   | 0.956 | 0.960  | 0.960  | 0.893  | 0.893 | 0.893 |
| Punjab           | 0.906 | (),9()9 | 0 906 | 0.890  | 0,890  | 0.893  | 0.893 | 0 893 |
| UP               | 0.918 | 0.924   | 0.919 | 0.890  | 0.890  | 0.885  | 0.885 | 0.926 |
| Coorg            | NA    | NA      | NA    | 0.935  | 0.935  | 0 926  | 0 877 | 0.926 |
| Ajmer-Marwar     | NA    | NA      | NA    | 0.862* | 0.862* | 0 840  | 0.870 | 0.885 |
| Delhi            | NA    | NA      | NA    | 0.926* | 0 926* | 0.935  | 0.943 | 0.917 |
| Assum            | NA    | NA      | NA    | 0 943* | 0.943* | 0 935  | 0.943 | 0.935 |

Note NA = Not available.

Sources: Population, National Planning Committee, India, 1947, Vora and Co, Bombay.

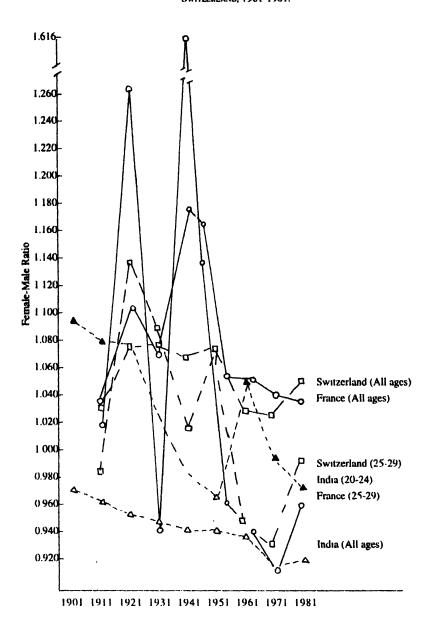
\* National Health, National Planning Committee, India, 1948, Vora and Co. Bombay

Table 2: Sex Ratio at Birth (SRB) in India 1949-1988

|                   | Civ   | il Regist | San   | iple Regis | tration Sy | stem    |       |       |       |
|-------------------|-------|-----------|-------|------------|------------|---------|-------|-------|-------|
| Year              | SRB   | Year      | SRB   | Year       | SRB        | Period* |       | SRB   |       |
|                   | Total |           | Total |            | Total      |         | Total | Rural | Urban |
| (1)               | (2)   | (3)       | (4)   | (5)        | (6)        | (7)     | (8)   | (9)   | (10)  |
| 1949 <sup>b</sup> | 0911  | 1962      | 0.909 | 1971       | 0 904      | 1981-83 | 0918  | 0918  | 0 919 |
| 1950 <sup>h</sup> | 0.908 | 1963      | 0.889 | 1972       | () 9(),3   | 1982-84 | 0.911 | 0.909 | 0917  |
| 1951b             | 0.905 | 1964      | 0.900 | 1973       | 0.931      | 1983-85 | 0.906 | 0.909 | 0.891 |
| 1952h             | 0 907 | 1965      | 0 894 | 1974-75    | 0.922      | 1984-86 | 0.912 | 0.917 | 0.897 |
| 1953-54           | NA    | 1966      | 0.715 | 1976       | 0.896      | 1985-87 | 0.912 | 0914  | 0,902 |
| 1955-58           | 0.892 | 1967      | 0 894 | 1977       | 1.025      | 1986-88 | 0.912 | 0.908 | 0 925 |
| 1959              | 0 909 | 1968      | 0 892 | 1978       | 1 119      |         |       |       |       |
| 1960              | 0.909 | 1969      | 0.901 | 1979       | 1.043      |         |       |       |       |
| 1961              | 0.907 | 1970      | 0.899 | 1980       | 1.175      |         |       |       |       |

Sources: Vital Statistics of India, Office of Registrar General (ORG), Ministry of Home Affairs, New Delhi (different years).

- a Final Population Totals: Brief Analysis of Primary Abstract, Census of India 1991, Series 1, Paper 2, ORG, 1992.
- b Demographic Yearbook, United Nations, (different years).



impact on the sex ratio because this migration in most cases was not gender-neutral

The discussion will be confined to France and Switzerland for reviewing the impact of migration on sex ratio. Limited accessibility to pre-1945 migration data prevents us from commenting on the features of that period. In the post-war period (1946-1957) emigration from Switzerland was on a smaller scale than iminigration to that country. The latter was as large as 5 per cent of the 1946 population [ILO 1959: Chapter X]. And permanent immigrants were predominantly temale workers from Italy. That seems to have pushed up the sex ratio (FMR) from 1.069 in the 1940 Census to 1.076 in the 1950 Census. Excess female immigration, according to ILO (1959: 331), "was distinct at the time of the 1950 Census, and has become even more marked since. However, more recent immigration, with a clear majority in favour of the male sex, has probably corrected it to some extent." And this was reflected in the 1960 Census, when the FMR dropped to 1.033. This phenomenon is very prominent in the work-force belonging to the age group 24-29 years, where the FMR increased from 1.018 in 1940 to 1.069 in 1950 and then declined to 0.952 in 1960. In the case of France also, migration contributed a lot in changing the sex ratio. The ILO (1959) study on the sex-differential migration will eventually be an important source in explaining the fluctuations in the sex ratio during the post-war period. The study states: "In France net immigration was probably less than I per cent of the original population tigure." In continuation, it was also pointed out that "the greater majority of the immigrant workers were men. Immigration in France, therefore, attenuated the effect of war losses on the distribution of the young adult generations. It is true that emigration cancelled out part of this compensating effect."

In the present analysis, some striking contrasts are observed in the demographic transition of India. The total population in India has a low FMR whereas that ratio is high in the young adult ages (20-24 years). On the other hand, in the case of France and Switzerland, the FMR in the total population of all ages is high but a lower value of FMR is prevalent in the age group 25-29 years in the normal periods. However, it increases in the event of female surplus immigration or male surplus emigration. Moreover, the FMR jumped up suddenly in France with the outhreak of war. The two world wars involved large military losses that led the FMR of the young adult ages to go up to an unprecedented level. Accordingly, coexistence of low sex ratio in the total population with its high level in the young adult ages of Indian population makes it interesting. And the coexistence of high FMR in the population of all ages with its low level in the normal periods at the young adult ages, as observed in France and Switzerland, presents a new dimension of a paradox of sex ratio.

#### CONCLUDING REMARKS

The factors leading to a higher FMR in the age group 20-24 years in India have been indicated indirectly through evidence from France and Switzerland. One of the possible factors is excess female immigration. But international migration for India has not been large. The effect of war has also not been devastating in terms of loss of lives. Therefore, the low proportion of males in the age group 20-24 years may be due to excess male mortality induced partly by day-to-day occupation-related risks involved for them.4 We noted earlier the difference in age specific mortality between the two sexes. According to Kumar (1989), excess male mortality in some age groups is in no way a counterbalance to EFM in some other age groups. This could be seen in an indirect way. In India the FMR at live birth<sup>5</sup> (SRB) is approximately 0.910 (Table 2). So the FMR should remain at that level if there is no excess mortality of either sex. And in the long run, the sex ratio should remain below the SRB if there is EFM. But evidently, the sex ratio in the total population has been higher, between 0.930 and 0.970. Keeping in mind the prevalent features - high sex ratio in the adult young age group, viz, 25-29 years, in France and Switzerland during war periods, and in the age group 20-24 years all the time in India - it can justifiably be held that EFM is not a fact. And as a nonexistent factor, EFM can have no influence in determining the low level of the FMR in India over a long period, viz, the current century.

#### APPENDIX

The life expectancy at birth in India has gradually improved during the 111 years between 1881 and 1992 (Table A). The transition has been in three phases. In the first phase (1881-1921) with low life expectancy, females were ahead of males. In the second phase (1922-1980), the situation changed in favour of males. In the third phase beginning from the last decade at a moderate level of life expectancy, females achieved a higher position than that of males

TABLE A: LIFE EXPECTANCY AT BIRTH BY SEX IN INDIA, 1881-1992

(Years)

| Year      | Males | Females |
|-----------|-------|---------|
| 1881      | 23 67 | 25.58   |
| 1891      | 24 59 | 25.54   |
| 1901      | 23.63 | 23.96   |
| 1911      | 22.59 | 23 31   |
| 1921      | 19 42 | 20.91   |
| 1931      | 26.91 | 26 26   |
| 1941      | 32.09 | 31 37   |
| 1951      | 32 45 | 31 66   |
| 1961      | 41,89 | 40.55   |
| 1971      | 46 4  | 44 7    |
| 1980      | 54 1  | 54.7    |
| 1981-85*  | 55.4  | 55 7    |
| 1986-88*  | 57.0  | 57.4    |
| 1991-92** | 57.7  | 58 7    |

Sources: Statistical Abstracts India 1984, Central Statistical Organisation, Government of India, New Delhi.

- Final Population Totals: Brief Analysis of Primary Census Abstract, Census of India 1991, Series 1, Paper 2 of 1992
- \*\* 'Social Indicators of Development for India', EPW Research Foundation, Economic and Political Weekly, May 14, 1994.

#### Notes

- 1 The same feature is perment also to Bangladesh, with similar socio-economic conditions, which experienced 6 to 9 per cent male deficit to females in the marriageable age groups [Seth 1989].
- 2 The decline of sex ratio, according to the ORG (1992), was not to be attributed to under enumeration of females
- 3 Approximate military losses for France during 1914-18 were 13,45,000 lives and during 1939-45 were 6,00,000 lives (Mitchell 1980).
- 4 For this point, the reader is referred to ORG (1972).
- 5 The data on sex ratio at birth (SRB) are available from Civil Registration System (CRS) But the data yielded by the CRS are deficient qualitatively as well as quantitatively (Padmanabha 1982), and so we are ignoring them. The West Bengal State Bureau of Health Intelligence data obtained from five selected

hospitals also reveals low SRBs over many years. "The Office of Registrar General, India has recently collected data on live births that took place in hospitals, health centres and institutions located mostly in urban areas. This was based on six million live births that occurred during 1981-91 in various parts of the country. The sex ratio at birth has been calculated to be 0.891. " [Nanda 1993.11] Prevalence of strikingly low SRB is accepted in the census study for the decade ended in 1981. The Office of Registrar General states, "Generally, the expected level of sex ratio at birth is 0 952 but in India the sex ratio of children ever born in total, rural and urban areas is only 0.894, 0.896 and 0.885, respectively" [ORG, 1988a 7]. And the Sample Registration System (SRS), which too is a reliable source, confirms the low SRB in India at the values of 0.923 and 0.928 in 1968 and 1969, respectively [ORG 1970]. The SRB was 0.922 in rural areas in 1966-67 [ORG

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### **Occupation and Inherited Status**

#### Ramesh Kamble

Dalit Movements and Meanings of Labour in India by Peter Robb (ed); Oxford University Press, New Delhi, 1993; pp 354, Rs 290.

Caste system in India is not merely a division of labour. It is also a division of labourers.

- B R Ambedkar (in Annihilation of Caste)

AN enquiry into the link between occupation and inherited status, reflected in the above quotation, is the focus of this volume comprising I I essays and a long introduction by the editor. The volume seeks to illustrate that despite the experiences of colonialism and capitalism, the meanings of labour in India continue to be influenced by the social and cultural conditions, beliefs and practices. The Indian experience of social and economic status reflects brahminical hierarchies rather than those envisaged in colonialist or capitalist experiences.

The volume addresses three main issues: firstly, evolving and contrasting meanings of labour in India; secondly, how labour conditions and organisation altered in India from 18th century to the present day; and thirdly, how far these changes were contested. The first three essays in this collection seek to understand the evolving and contrasting meanings of labour. Involved here is a critical assessment of concepts such as 'wage labour'. 'class' and 'proleterisation'. The chapters four to eight and nine to eleven deal with two aspects of dalit movement - migrations and protests - respectively. They seek to understand the impact of these movements on meanings of labour and the problem of traditional hierarchies in India. The last essay analyses the conditions of labour in India's steel towns and illustrates the feudal character of these modern industrial organisations.

In his introduction Robb raises the question as to whether specific and cultural features have been merely a diversion from the expected course of development or do they present specifically south Asian forces in the economy, of labour and social status. He points out that in terms of labour recruitment, management, control and surplus appropriation in India we witness continuous relevance of social and cultural conditions. They have been perpetuating the servility of labour in India Robb concludes that the powerful and intrusive force such as colonialism, capitalism, communications or English law influencing the Indian economy and society, have coexisted with the force of specific cultural memory in India.

I am indeed in agreement with Robb's contentions. However, certain positive consequences of the British rai for dalits should not be ignored. The recruitment of dalits in the British army and textile mills, for instance, had important implications for their selfhood and protest. It resulted, apart from economic independence, from enslaving social structure, in creating a sense of self-dignity which they were deprived under enslaving social structure. Secondly, the exposure to European egalitarian ideas through English education also played an important role in creating new awareness about oppressive Indian social structure. Social thinkers and reformers such as Jotiba Phule, M G Ranade, B R Ambedkar were deeply influenced by European egalitarian ideas. Thirdly, educational opportunities and political safeguards received by dalits under the British rule, though characterised as 'divide and rule' policy, generated avenues for qualitative social mobility.

David Washbrook in his article, 'Land and Labour in Late 18th Century South India: the Golden Age of Pariah?', contrasts labour conditions in 18th century to that in the 19th century, and maintains that the labour conditions in 18th century were characterised by diversity of choices (differentiation), subject to exchange relations favouring occupational mobility and, involving a complex system of rights in social product. The merit of Washbrook's contentions should be evaluated in the light of the following questions. Firstly, does the 18th century diversification of labour in case of the landless dalits involve a choice or is dictated by their necessity of bare minimum survival? Secondly, if labour was created by the exchange relations, did the landless dalits have any say in deciding the terms of exchange in the framework of rural economy? And even if they had, was it not due to the availability of employment in textile industry and army rather than in traditional rural structure? Thirdly, should not the 'inam' lands and the 'honours' of temples, courts and clans be viewed as attempts aimed at creating loyalties to maintain the existing hierarchies and hegemonies and offset any dissent against the system? Fourthly, Washbrook's contention that under the 'adimai' system of agrestic servitude adimais were not without personal rights and that they existed in relations of 'mutual obligations' with their masters. The adimais depended on their masters for subsistence and protection while the masters depended on them for regular labour supply. This raises a question: did adimais under the adimai system of servitude have any choice but to remain tied to their masters for subsistence and protection? And did the masters really honour the relationship of mutual obligation? The author himself points out that this relationship could be easily abrogated if obligations on the part of adimais were not met or violated. Whereas, the masters did sometimes violate their obligations towards adimais without any punitary measures. The rights of adimais under this system were therefore more theoretical than real. Hence, the author's contention that there was a scope for selfenhancement of adimais under this system is not convincing.

Moreover, Pariah's occupational mobility - the notion of their 'golden age' - owes to their cultivation of hazardous island, employment in less skilled spinning and weaving and in company's army. This means that Pariahs were forced to cultivate dangerous lands, seek employment in unorganised textile production and in army because they were ousted from village land. But, did the system of sharecropping. entitlement to 'inam' lands and 'honours', and the golden age of Pariah radically alter the hierarchical and hegemonic social structure? The everyday experience shows that despite their relative occupational mobility and consequent economic 'success', the Pariahs even today are segregated in every walk of life.

In the next chapter, 'Work Constructed: Ideological Origins of Labour Law in British India to 1918', Anderson has critically examined the genesis and nature of colonial labour law. He points out that though the viability of British raj depended on successful harnessing of indigenous labour, the organisation of work and policy on labour were not subjects of explicit formulation till the early 19th century. The Industrial Commission, appointed in 1906, was the first step towards a systematic policy on labour, and the establishment of ILO in 1919 provided inspiration for legislation on labour. This legislative intervention, however, was limited to certain areas of economy and most of the actual organisation of work was carried out through local mechanisms as it helped the colonialist's goal of capital accumulation. Further, according to the author, the official recognition of labour and the legislative in which colonialist's interests were at stake. Thus, Anderson maintains that the British legal formulation on labour was haphazard and ad hoc in nature.

In chapter four, 'Oustating Singbonga: The Struggle for India's Jharkhand', Corbridge describes how the processes of Hinduisation and modernisation oustated tribal communities from their natural economy, and subsequent resistance to these attempts of reshaping their environment and identities. Corbridge points out that forests were not merely sources of subsistence for tribal communities but also central to their identities and solidarities. Under various rajahs and British state's forest policy tribals were deprived of their private collective land rights. Furthermore, the postpolicy independent India's developmentalism and tribal's integration into the mainstream has been viewed by tribals as intruding on their natural economy and identity.

An interesting account of continuity between the origin of work in Santhal's mythology and their experiences of labour in traditional and modern conditions is offered by Marine Carrin-Bowez in 'Forest to Factories: Santhal's Conception of Work'. The author points out that notions of work and death are missing in the initial phase of Santhal mythology, and are introduced by outside forces, i.e. through their experiences with Hindu rajahs and the colonial state. Thus, the depiction of labour camp corresponds to their estrangement, oppression and exploitation resulting from imposed system of work: Hindu rajahs as tax-inspectors; and the captain saheb subjecting them to hard labour. Hence, in their mythology the notions of work for others and the conception of work devoid of social obligations (wage-labour) are located in the realm of death—outside society.

Chapter six, 'Tribal and Indentured Migrants', focuses on migration and incorporation of Indian labour in plantation and industrial production. Thus, as against the divergent and stereotypical analysis of indentured and tribal migration, evident in 'voluntarist' (considering migration as creating employment opportunities for the marginalised) or the 'objectionist' (considering migration as fundamentally coercive) orientations, the author argues for the need for multi-layered approach because the realities of tribal and indentured migration exhibit a complex arena of choices and coercion. Further, experiences of migration show that they are caused by both social and economic factors.

Arjan de Haan in 'Migrant Labour in Calcutta Jute Mills' concentrates on instability of labour force and it's implications for proletarisation of working

THE HIM IN INDUNI VIRGINISALIVIIS. 11143, 43 opposed to the earlier understandings of instability of labour as mainly caused by the links between agricultural hinterland, the author maintains that the instability of labour in Calcutta Jute Mills was caused by the possibilities of alternative urban employment in informal sector. Thus, the unskilled migratory labour from Bihar, Orissa and United Provinces had diverse labour choices such as earth-work on railways, field labour, digging and clearing of tanks, repairing roads and factory employment. The skilled labour, mainly Muslim weavers from the United Provinces, enjoyed mobility between and within various departments of mills. Further, as far as the labour recruitment and control is concerned, it continued to rest, till 1980, in the hands of Sardars. For, apart from being recruitors, they were also organisers and breakers of strikes, and induced workers to change mills. Hence, Haan's contention implies that Marxist categorisation of Indian proletariat created and subordinated to capital is one dimensional and devoid of actual realities pervading the realm of labour. Further, Haan argues for the need of analysis which can explain how alternative and informal employment was interlinked with capitalist production and the adequate explanation of social psychological implications of spread of capitalism.

The next three essays deal with the dalit protest and its impact on formation of identities and meanings of labour in India. Thus, in 'Intimations of Equality' Dilip Menon deals with formation and reconstruction of identities and notions of community in the specific social context of religious festivals. The author points out that these religious festivals involved social relations of caste hierarchies and enacting of corresponding behaviour and designated functions. However, they also exhibited assertions and transformations of identities by the lower castes. Thus, in the background of formation of iniquitous community around the religious festivals of shrines managed by the dominant Nayar 'tharavadus' (households), the author describes 'Tiyyas' (toddy-tappers) attempts of creating parallel shrines and temple establishments and thereby projecting the idea of community of equals. However, this attempt by Tiyyas was a limited one as the Nayars did not worship importantly, Tiyyas prevented other lower castes (untouchable Cherumas and Pulayas) from worshipping at these temples.

Nandini Gooptu's essay, 'Caste and Labour', deals with the social and labour experience of dalits in major towns of Uttar Pradesh and their reconstruction of selfidentity and history in this urban social context. Thus, the late 19th and early 20th centuries migration of dalits to towns marked a change from exploitative social relations of work in the rural set-up. Instead of servile labourers of the higher castes, they became employees of municipalities and in other services. However, despite this wage employment, caste segregations in employment and settlement did not cease to exist. For, even in urban centres they continued to be engaged in 'impure' and menial services and settled in secluded pockets of urban outskirts often devoid of any civic amenities. Amidst this background of contrary experiences of relative freedom and caste segregation, the author locates the genesis of 'bhakti' resurgence and the adi-Hindu movement. It should be noted here that both these attempts of radical reformation of self-identity were rooted in the traditional cultural setting, whereas Ambedkar's attempt of reconstructing identity for dalits, though drawn from the past, involved critical reinterpretation of that past. Thus, Rodrigues' essay, 'Making a Tradition Critical', focuses on Ambedkar's attempts of reconstructing Buddhism as a global ideology for future. This reconstruction, the author points out, is influenced by Ambedkar's quest for emancipatory ideology for untouchables, and also for reshaping the face of Indian society. Rodrigues reviews Ambedkar's writings on Buddhism especially Buddha and His Dhamma, and shows that Ambedkar conceived Buddhism as appealing to critical reason and experience, and as involving a social message: justice, love, liberty, equality and fraternity, which was ignored in earlier writings on Buddhism.

This volume addresses many vital facets of dalit labour and their implications for evolving meanings of labour, and the question of social status in India. The essays exhibit a painstaking historical research and multi-dimensional nature of analysis of the subject matter.

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## Che at 23: Making of the Revolution's Poster-Boy

Vijay Prashad

The Motorcycle Diaries: A Journey around South America by Ernesto Che Guevara, Fourth Estate, London, 1996, pp 155, £5 99

ALMOST 30 years after his untimely death, Ernesto Che Guevara's diaries from a motorcycle trip made in 1951-52 were published in Havana, Cuba In 1995 Ann Wright's fine translation appeared in England under the imprint of Verso who produced T shirts and calendars of the revolutionary eating an ice cream to announce the book and introduce a new generation to the phenomenon of Che. The book was reviewed by the conservative Time's (Easy Rider meets Das Kapital), by the liberal Guardian (It's true Marxists just wanna have fun') and by the trade journal Bike New ( Politically correct revolutionary hero? Perhaps a few years later, but in this account Che Guevara comes over as one of the lads. ) The consensus was that this was a 'lusty travelogue which was 'free of pomp and full of life" (as the publicists of Fourth Estate put it for their 1996 paperback release) What the publication hoopla missed was the agonised and tortured 23 year old from a bourgeois family who tried to square his faith in the ideologies of liberalism with the realities of capitalism, the journey, like the 1959 trek through the Sierra Nevada in Cuba, was the chrysalis which produced the Socialist Man' who went amongst the peoples of Bolivia in 1966 to create the proletarian revolution in the continental manner of the carlier bourgeois revolutionary Simon Bolivai

In 1951-52 Che (which means friend in the pators of Argentina) left his native country in the company of a friend with whom he shared La Ponderosa (the Powerful One) a 500cc Norton motorcycle. They planned to ride from Argentina up the west coast of South America through Chile Peru Colombia and finally Venezuela. The two friends with their basic medical training complete left to discover their continent and to explore lives fair removed from their own bourgeois families. Many of their encounters reaffirmed, the worst elements of their socialisation, while others tugged at the contradictions which lurk in the minds of us moderns.

The man who emerges in the diaries is by no means the perfect hum in being who congeals within himself the noblest hopes and aspirations of our collective civilisation. Here is a young min who chears for wine who deceives for a ride on a truck who makes strong prejudicial remarks about the

Amerindians and who offers himself up as a sexist pig. Che, brashly, recounts a village dance at which he dances with a young woman who at first appears to want to go outside the hall with Che, but then changes her mind I was in no state to listen to reason.' Che wrote 'and we had a bit of a barney in the middle of the dance floor, resulting in me pulling her towards one of the doors with everybody watching' (43) Fortunately for the young woman, a strong kick at Cheresulted in some confusion which brought the other villagers to her assistance The incident occurs shortly after Che leaves his france behind in a gust of sentimental poetry of undying love Both visions of women confirms once again the common denial of full moral equality to women the Cuban campaigns forced the revolutionaries to reconsider their ideas regarding women, for many of their comfades on the front were women Communism as political practice, does not automatically eliminate all that is socially undesirable rather to paraphrase Lenin it insists upon making the various struggles clearer broader more open and sharper( A Caricature of Marxism' October 1916) The struggle for women's equality is a fight for the recognition of the moral equivalence of women and men as well as the attendant fight for economic justice. Che would only confront these lessons in Cuba amongst a politically active group of women whose materialist feminism was nuitured by their sacrifices in the struggle. Most reviews of Che's drary avoid the complexities of his development and use such sexist remarks to dismiss entire traditions of political thought and practice. Marxisin must continuously acknowledge and relentlessly criticise all forms of sexist ideology and practice. The publication of these dianes offers us an avenue to confront the issue head-on

The trip proved to be decisive in Che's life for it was during this journey that he came into contact with the fundamental oppression of the Americans who claim European ancestry. In Chile amongst the Ayamara, Che felt he could catch an occasional glimpse of what life must have been like prior to the Spanish Conquest. But the people, he reflected, "are not the same proud face that time after time rose up against linearule and forced them to maintain a permanent army on their borders, these

people who watch us walk through the town streets are a defeated race They look at us meekly, almost fearfully, completely indifferent to the outside world. Some give the impression that they go on living simply because it's a habit they can't give up" (77) Che came to understand the depth of the exploitation of the Amerindians in the various mines along the western mountain ranges of Chile and Peru For the Euro-American masters, the Amerindians were no better than beasts of burden At one point, Che intervened to relieve the burden of an Amerindian "there was no sign on his enigmatic face to show whether he appreciated our gesture or not" (108) During these travels. Che was confronted by the labyiinth of capitalism's exploitation he had not yet come to appreciate the depth of popular unrest and the means for that unrest to lead to social revolution. In a letter to his family from Columbia, he complained of the semi fascist conditions and exclaimed. 'If the Columbians want to put up with it good luck to them, but we re getting out of here as soon as we can' (144) Not a decade later Che and his Cuban triends would ofter the opposite assessment it is time to buckle down for a tight

In the aftermath of the Cuban revolution (1959). Che wrote an account of guernila warfare which was published as Episodes of the Revolutionary War (New York International Publishers 1968) After an early debacle the Granma revolutionaries headed for the Sierra where they lived amidst the peasantry 'Guerrillas and peasants began to merge into a solid mass. No one can say exactly when in this long process the ideas became reality and we became a part of the peasantry. As far as I am concerned the contact with my patients in the Sierra turned a spontaneous and somewhat lyrical decision into a more serene force one of an entirely different alue Those poor suffering, loyal inhabitants of the Sierra cannot even imagine what a great contribution they made to the forging of our revolutionary ideology (Episodes, 57) If the Sierra made the union between theory and practice more than 'mere theory, the 1951-52 journey played an initial role in the creation of a revolutionary. At the close of his diary, Che wrote of the emergence of self-consciousness amongst the oppressed and that he would take his humble place amongst the people. As if to fortell his murder in Bolivia on October 8, 1967, Che wrote the following prosaic lines " I, the eclectic dissector of doctrines and psychoanalyst of dogmas, howling like a man possessed, will assail the barricades and trenches, will stain my weapon with blood and consumed with rage, will slaughter any enemy I lay hands on And then, as if an immense weariness were consuming my recent exhibitation, I see myself being acrificed to the authentic revolution, the reat leveller of individual will, pronouncing he exemplary mea culpa. I feel my nostrils lilate, savouring the acrid smell of unpowder and blood, of the enemy's death;

brace my body, ready for combat, and repare myself to be a sacred precinct within which the bestial howl of the victorious proletariat can resound with new vigour and new hope" (152).

For the man born on the anniversary of he Bastille (the inauguration of the French evolution), this journey was essential for it woke him to the realities of our world and it drove him towards a reassessment of his future as a bourgeois Argentinian doctor. The belief in the power of human struggle and in the impossibility of capitalism to solve its crises, pushed Che towards the ragged band of Cubans who waited in Mexico under the able command of the basketball champion Fidel Castro. With such gems as the motorcycle diaries hidden in the archives of Havana, one can only hope that we will soon be offered the diaries of Castro: with bated breath

### **International Law and Human Rights**

A G Noorani

The Human Rights Committee: Its Role in the Development of the International Covenant on Civil and Political Rights by Dominic McGoldrick; Oxford University Press, £ 19.95.

NDIA ratified, on March 27, 1979, the nternational Covenant on Civil and Political Rights as also the one on Economic, Social and Cultural Rights. Article 40 of the Covenant on Civil and Political Rights bands he state parties "to submit reports on the neasures they have adopted which give effect to the rights recognised herein and on the progress made in the enjoyment of hese rights". These reports are examined by a Human Rights Committee set up by Article 28. It comprises 18 experts elected by the states parties to the Convention.

India submitted its first Report on July 4, 1983, which the committee examined on March 28 and 30, 1984. It sent its second Report, after seven reminders, on July 12, 1989. The committee examined it on March 26 and 27, 1991. The third Report, due on July 9, 1990, was submitted in late 1995 or early 1996. In the two proceedings before he Human Rights Committee, India's attorney general was grilled by the members and the inadequacies in the Reports were exposed. There was little press comment on these proceedings in India.

It would seem that the government's indifference to the HRC is matched by that of the media and, sadly, also human rights activists. This is in glaring contrast to the interest shown in the HRC's work by lawyers and human rights activists in Sri Lanka, to go no farther.

This book is a definitive study of the committee. It is, in a sense, a study of the case law built up by the HRC over the years. This is done within the general context of the development of international law on human rights since 1945. It contains a mine of information. The articlewise commentary on the Covenant makes it an indidpensable

source of reference. Of the nearly 100 states which have ratified the Covenant, nearly half of them have ratified also the Optional Protocol which empowers the HRC to receive complaints from individuals. India is not one of them, however. The book provides a model form of such a complaint besides throwing light on the procedure.

The work traces the history of the Covenant, describes the working of the committee and its legal status and the system of periodic reporting by the states parties.

Since the Articles of the Covenant are akin to the fundamental rights in Part III of the Indian Constitution, this book can provide considerable help to courts and jurists in the interpretation of the rights. That includes, for instance, the rights of prisoners, of persons accused of crime and, of course, the precious civil rights of citizens. Article 19 embodies the right to free speech (hence, the name which the London-based organisation has adopted — 'Article 19').

Likewise Article 9 of the Covenant guarantees protection against arbitrary arrest and detention. India's instrument of ratification contains certain reservations; one of them relates to preventive detention.

While dealing with individual cases, the HRC also provides 'General Comment'. Indeed, Article 40(4) of the Covenant requires it to do so. Let us consider how the HRC applied Article 19. Based on its proceedings, the author records: "Members of the HRC have attached great significance to how legal restrictions and limitations operate in practice. How and by whom were they interpreted and enforced? How was their discriminatory application avoided? State representatives are often requested to provide statistical information on the availability and circu-

lation of books, newspapers, magazines, and other publications. Other information commonly sought concerns the operation of licensing regimes, direct or indirect support or control or authorisation of the press, the languages of publications, the variety of cultural performances, the possibility of subscribing to foreign newspapers and periodicals, restrictions on the activities of foreign correspondents or dispatches from foreign press agencies. During consideration of the report of Guyana, Professor Tomuschat raised the question of indirect practical limitations on freedom of expression as a result of difficulties in obtaining newsprint. Such information provides invaluable indications of the practical state of freedom of expression in a given country.'

On both occasions when India's Report was considered, HRC's members politely but firmly told its attorney general that it was no use citing texts of laws. They wanted to know how the laws were enforced – e g, on dowry deaths.

The author is by no means uncritical. He points out sharply the flaws in the HRC's approach to a good few thorny issues. This is due largely to differences among members of the HRC.

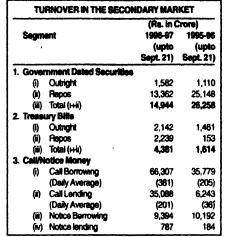
The author is particularly critical of the HRC's rather unsatisfactory practice on Article 19: "In anumber of respects, however, the HRC's practice concerning Article 19 is perhaps the most disappointing of the articles examined in this work. The right to hold opinions has been little dealt with. The considerations of the HRC and the General Comment on Article 19, apart from the brief reference to the development of modern mass media, have been confined to rather narrow aspects of the right to freedom of expression. Very little attention has focused on its more positive and progressive aspects although one of the newer HRC members, Mr Mommersteeg, appears to take a particular interest in this area. The freedom to seek. receive and impart information and ideas of all kinds is open to a much more dynamic approach in terms of the openness of local and national government, and accessibility of the various forms of media to political, ideological and social groups, access to official records and other public documents, developments concerning vital commercial information, the increasing use of computers and the consequent demand for personal data protection."

In India debate on issues like personal data protection and the content of the freedom of cyberspace have yet to begin. These affect the well-to-do. The application of various rights in the context of grinding poverty in the rural areas deserves closer study than it has received. Public interest litigation is just one weapon. Many more need to be devised.



## SECURITIES TRADING Regd. Office

has been significantly higher than that in the corresponding period of the last year as would be observed from the following table:



The Company, it will be observed from the above figures, has also been able to secure a significant foothold in the call money market during the current financial year. However, the Company's turnover in repos declined considerably during the current financial year so far as compared with that in the last year. This is mainly on account of low level of market interest in repo transactions in view of the easy conditions in the call money market.

The Company has been regularly participating in the primary auctions of both the Government dated securities and Treasury Bills. As a Primary Dealer, the Company has already fulfilled its annual bidding commitments for 1996-97 in respect of both the Government dated securities and Treasury Bills. The Company expects to significantly exceed its bidding commitments for the current year its success ratios at auctions during the current financial year so far (upto Saptember 21, 1996) has been 72 per cent in the case of Government dated securities and 41 per cent in the case of Treasury Bills as against the specified minimums of 33.33 per cent and 40 per cent respectively.

#### **Recent Market Trends**

In keeping with the easy conditions in the call money market since April 1996, demand for Treasury Bills of both 91-day and 364-day maturities in the primary market has picked up Consequently, the cut-off yields at the auctions of Treasury Bills have been successively showing downward trends. The cut-off yields at the auctions of 91-days Treasury Bills have registered a steep fall from 13 per cent in April 1996 to as low as 8.50 per cent in August 1996. However, in some very recent auctions the trend seems to be reversing. In respect of 364-day Treasury Bills, the fall in yields has been less steep than that for the 91-day Treasury Bills (from 13.16 per cent in April 1996 to 12.65 per cent in September 1996). The Reserve Bank has also signalled a softening of interest rates on Government dated securities through issue of 10-year Government Stock on June 24, 1996 on a fixed coupon of 13.85 per cent as against 14 per cent last year. However, softening of yields was not reflected in the auctions ol Government dated securities held for shorter maturities. For instance, at the auctions of 3-year and 2-year Government Stocks held in June/July 1996 the cut-off yields were higher at 13 70 per cent and 13.62 per cent respectively, as compared with the cut-off yields of 13.65 per cent and 13.50 per cent which emerged at the last year's auctions for similar maturities. This indicates that the market still expects the interest rates on Government Stocks to remain high. With the coupon rate on 10-year Government stock pegged at 13.85 per cent and the coupon rates emerging from the auctions in the range of 13.62 - 13.75 per cent for 2-year to 5-year Government stocks, the yield curve has flattened and in such a situation Government does not seem to have much manoeuvrability in accessing the market with stocks of maturities of 5-years and above.

During the current financ secondary market for Gothanks to the easy condition the April - June 1996 quar transactions in Governmen Public Debt Office of the R s. 2,632 crore and Rs. 6, Between Rs. 1,378 crore an improvement over the mon in the range of Rs. 754 crore in respect of Treast September 1994 - March I

### Primary Dealers Four new Primary Dealer

became operational in the of authorised PDs to six, in Bank has recently announ strengthening the institu operations One of the ma been in the matter of sourcir may recall that I had referre last Annual General Meet has been having on-goinç broaden access to cost-eff PDs cannot expand their welcome the recent quide India enabling PDs to acces Although cost of borrowing to the average yield on ass lower than the cost of borr raising resources by issi depending on the liquidity ii to have the option of tappir The matter regarding allow Deposits (ICD) markets is Bank's active consideratio also thankful to the Reser banks to grant appropriate in plea that such lines of crec PDs at a negotiated rate w Lending Rate has not been simple reality that funding banks at or over Prime Lei regard to the nature of their of borrowing from banks wt and not partly by way of de A significant major step re-India to strengthen the inst commission at specified rat (including devolvement) of and auctioned Treasury ( assisting the PDs in their e PD, your Company would consideration shown by the currently a debate on certa particularly on the yield cun arisen partly because of th in sharing commission with such sharing. I believe that and can be resolved by a m that appropriate accounts without interfering with the suggestion has been made should be rationalised by a the view that the commission transparent formula such as adopting a complex, multiit may be recalled that at Company, I had urged the widening the rapo market bo



Statement of Shri D. Basu, Chairman of the Board of Directors of Securities Trading Corporation of India Limited at the Second Annual General Meeting held at Mumbai on September 27, 1996.

I have great pleasure in welcoming you to the Second Annual General Meeting of your Company

#### Performance of the Company

The report of the Directors and the audited accounts of the Company for the year ended March 31, 1996 which was the first full year of the Company's operations, have already been circulated 1, therefore, propose to touch only briefly upon some of the main features of the Company's business operations during the year under review as also in the current year so far.

The turnover of the Company in the secondary market, both in Government dated securities and Treasury Bills, was higher during the year at Rs. 170,282 crore and Rs. 2,674 crore as compared with Rs. 39,631 crore and Rs. 310 crore respectively, in the preceding year. The daily average borrowing and lending in the call money market during the financial year 1995-96 was Rs. 237 crore and Rs. 112 crore respectively, as compared with the daily averages of Rs. 61 crore and Rs. 26 crore respectively, in 1994-95.

The Company's profit before depreciation and taxation during 1995-96 was higher at Rs. 67 75 crore as against Rs. 7 94 crore during the proceding year (ten months working). After providing for depreciation and taxation, the net profit in 1995-96 amounted to Rs. 36 42 crore as against Rs. 4 15 crore in 1994-95.

Your Directors have recommended a maiden dividend of 5 per cent (subject to tax) for the year ended March 31, 1996 which, if approved, will absorb Rs. 25 crore

During the current financial year 1996-97 (upto September 21, 1996) the Company's tumover in the secondary market on outright basis, both in Government dated securities and Treasury Bills.

Economic and Po

Government dated securit

Reserve Bank is now offeri

### CORPORATION OF INDIA LIMITED

nar Building, Sir P.M. Road, Mumbai-400 001.

so far, the activities in the it securities have picked up a call money market. During nonthly turnover o outright acurities (as reported by the moar) has ranged between e and that for Treasury Bills 194 crore. This was a marked over of outright transactions; 3,785 crore in the case of Rs. 221 crore to Rs. 2,032 reported during the penod

received authorisation and ear bringing the total number our Company The Reserve mber of measures aimed at PDs and facilitating their idments faced by PDs has lective funding and members problem in my speech at the e Company. Your Company ie with the Reserve Bank to urces of funds without which ns I, therefore, particularly ued by the Reserve Bank of mmercial Paper (CP) market narket is still high compared by PDs, it would today still be om banks Also the cost of could go down in future rket and it is, therefore useful arket whenever appropriate to access the Inter-corporate erstand, under the Reserve as a Primary Dealer, we are 's for exhorting commercial edit to PDs, our long standing lanks should be available to ild be even below the Prime ed The plea is based on the es of gilts by borrowing from ite is uneconomical. Having 5. PDs also need the flexibility vay of cash credit or overdraft ans, as now laid down

ken by the Reserve Rank of IPDs is their decision to pay is on their primary purchases ment of India dated securities sarty, this move is aimed at jes of development and as a icknowledge, thankfully, the al bank There is, of course, as of commissions payment, vernment securities. This has In methods adopted by PDs iers and also by the extent of aberrations are transitional hul dialogue amongst PDs so other norms could emerge tilive nature of the market A basis of paying commission ) certain new criteria. I am of d be paid under a simple and sent one and we should avoid tructure

ual Geheral Meeting of the Serve Bank might consider ms of participants and eligible must acknowledge that the enew issues of Government

dated securities as eligiable for repos. However, the range of participants in the market is still rather restricted. I would again urger that broadening of the repo market by inclusion of additional participants needs urgent consideration. An active repo market, apart from providing assured liquidity to holders of gilts, could also provide access to funding to PDs at relatively low interest rates. It is worth noting that in most of the active markets in Government securities in other countries, the funding source most extensively utilised by primary and other dealers in Government securities is the repo market. An active and systematised repo market has the potential of attracting high voloume of short-term corporate and institutional liquidity and that too on a fully secured basis as far as the lenders are concerned. This is the reason why repo market in Government securities has been so widely used in other countries. While recognising the background to the current restrictions imposed on the repo market and the apprehension that the regulatory authorities have in this regard, I would like to urge that efforts should now begin towards broadening the repo market. With the introduction of the DVP system, the risks are now much better controlled. If for permitting newer participants in the repo market, some further system development in the financial market need to be taken in hand that task may be addressed on a priority basis. In this connection, a view has also been expressed in recent times that repo transactions may not be conducive to the development of an outright market in India, for the availability of the repo route might discourage investors from opting for outnight transactions However, I believe that an active repo market can only induce investors to invest in gifts which they may not otherwise be willing to do because of liquidity and price risks. This also is the general experience in most markets not only with gifts but also with many other financial securities. To fear that the availability of repoloption might discourage holders from opting for outright transactions is like fearing that a child may not want to walk or run if it is first allowed to crawl

The Institutions of PDs is a new one in India. Given the early stages of their evolution and the current state of the Government securities market, PDs operate under rather difficult conditions. Dealing in Government dated securities can be quite risky in view of significant interest rate risks that PDs have to boar. Absence of hedging instruments in the Indian market makes the situation more complex. It is, threfore, only fair that PDs engaged in the pioneering task of establishing an active secondary market in gifts be given appropriate tax relief on their profits at least for the first five years of their operation as has been given to several institutions in the past and to a few institutions in this year's budget. This would enable PDs to concentrate on developing an efficient market and build up reserves without having to worry too much about return on their capital.

Widening of Investor Base in Government Securities While much has been done in the recent years to develop an active secondary market for Government securities which is now showing some evidence of increased activity, the real challenge in creating an active and vibrant Government securities market lies in widening the investor base by attracting retail, institutional and corporate investors who would be willing to invest in gifts by choice and not by statutory compulsion. However, interest from such investors is yet to emerge. The reasons are not far to seek One of the major impediments in bringing the retail investors into the fold of Government securities market is the wide differentials in yields or Government securities and on bonds issued by top rated issuers, including State owned institutions and entities Retail and even institutional investors perceive little difference in the risks of investing in such higher yielding bonds and in Government securities. In fact, the new generation of younger investors hardly ever consider investing in Government securities and this also because of lack of familianty with this kistrument There is, therefore, an urgent need to promote and publicise Government securities as an attractive investment option - as the only investment totally free from default risk because of the taxing powers of the Government. PDs, I am sure, will be happy to participate actively in such promotion efforts under the leadership of the Government and the Reserve Bank

There are also procedural difficulties that investors in Government securities have to contend with - both in subscribing to these securities and receiving satisfactory service as an investor. There is a need to offer retail and other non-SGL account holding investors efficient, book entry based custodial services. The banking system and the other financial services institutions will need to address this requirement. In my address to the shareholders last year, I had suggested that the Mutual Fund industry might consider setting up separate mutual funds dedicated to gilt as was the trend in many developed countries The Reserve Bank has also since agreed to provide liquidity support to mutual funds dedicated to gifts to extent of 20 per cent of their holding of gifts and also to make available to them current account and SGL facilities. I would, therefore, retterate my earlier suggestion to Mutual Fund Industry, for some of the difficulties such as those relating to procedures and liquidity could be taken care of by such Funds which could be efficient vehicles. for attracting investors into the gilts market. Regulatory authorities may also like to examine what other facilitating measures might be necessary to encourage Mutual Funds to set up dedicated

Finally, I would like to bring up the issue of treatment of interest income on Government securities for tax purposes. Not only is there no specific exemption from tax on such interest as there is in respect of income from Mutual Funds, companies investing infrastructure funds, etc., there is also deduction of tax from income at source on such securities. The tax rebate under section 88 of the Income-tax Act, 1961, available to many other investments does not extend to investment in Government securities. Given the relative unattractiveness of yields on Government securities as currently perceived by investors and the rather favourable tax treatment offered to many other investments, the ground is really titled against. Government securities. The Government needs to consider granting appropriate tax incentives to the investors in gills, which, after all, are their own bonds, and in units of Mutual Funds dedicated to gilts, in the same way have done for investors in other selected securities. Exempting interest on Government securities received by retail investors from tax deduction at source would also go a long way to help I sincerely hope that the Government will consider these aspects urgently and favourable as otherwise it would be difficult to create a real investor base in Government

### **Future Prospects**

During the current financial year so far, your Company has done reasonably well in terms of turnover and profits. The profit before depreciation and tax during the first six months of the current financial year is well ahead of that in the corresponding period of last year. Judging by the performance of the Company so far, it is fair to estimate that the Company's turnover on outright basis and profit would significantly surpass the levels achieved last year However, I must add that the business of dealing in Government dated fixed income securities is somewhat risky as even a slight upward movement in yield curve could result in significant depreciation in the value of the portfolio. Similarly, a rise in call rates could significantly raise the funding costs. You Directors are fully conscious of these risks and the need to review the various risks management processes from time to time. Your Company would continue to work on commercial principles to generate satisfactory return on shareholders investment. At the same time, it would, in its role as a leading Primary Dealer, strive in every possible way to fulfil the objective of developing an active secondary market for Government securities

#### Acknowledgement

I take this opportunity to thank the Government of India, Government of Maharastra, the Reserve Bank of India, Commercial Banks and Co-operative Banks and All-India Financial Institutions for their co-operation and support. I would also like to place on record my appreciation of the sincere and dedicated efforts put in by the Company's team of officers and teatiff working as they often do in difficult conditions, for the encouraging performance of the Company during 1995-96 as well as during the current financial year so far

## **Indian Planning and Liberalisation**

### Kamai Nayan Kabra

The Eighth Plan marks a change, rather a far-going transformation, of the policy regime which formalises, carries forward and openly puts the seal of approval on a number of halting, unannounced series of policy changes spread over a long period. These changes go towards a redefining of the policy outcomes and thus constitute a serious rewriting of the content of India's development strategy.

IT has been maintained that India is witnessing a transition "from the gradual structural changes in the post-war period" to "structural adjustment" as a guiding principle of economic policy in the postcold war period" [Rao 1995:12]. The Eighth Five-Year Plan initiated during the period of structural adjustment policies (SAP) has been claimed to be a different kind of a plan by its authors. This exercise intends to examine this claim and, generally, to analyse the relationship between Indian planning and liberalisation. In the introductory section a parallel is drawn with an earlier Plan's similar experience and the planner's recent claim about the changed character of the planning process is contextualised and elaborated.

Then, we go on to examine how, why and to what extent and in what form the liberalisation drive impacts the system of development planning. This section attempts to bring out the nature of the consequent change in development planning, both in its content and methodology. In this process we also touch upon the question of the likely effects of these changes (liberalisation a la structural adjustment) on the hitherto nonetoo-high effectiveness of India's development planning, resulting basically from the fact that since "Planning is not used to shape institutional structure of the economy" that structure has "come to shape the process of planning and economic policies in general " [Kurien 1987:28]. As we see below similar processes seem to be operation during the Eighth Plan period as well.

Something like what happened in late 1960s to Indian planning seems to have repeated itself in the early 1990s. During the earlier period what took place, in the words of an expert closely associated with national planning, was "an unvarnished plan holiday, surrender of planning and policy initiatives to current economic, industrial, and financial management, deferment of vital longer term investment in power and transport and new industry... some loss of perspective in relation to the growth of economy and transformation of its social and institutional structure, including unhappily, a further weakening of the sense of concern over the problems of

unemployment and underemployment" [Singh 1979:9-10]. Thus, to continue the quotation, "except at some significant points, the Fourth Plan for the years 1969-74 turned out to be a plan for a period of transition, influenced excessively by anticipations of the impact of new technologies on the prospects of agriculture growth. Basic issues affecting employment, small and uneconomic holdings, landless labour, the state of the household and unorganised economic activities, failures in social development, and the growing social and economic imbalances being generated within the economy were being swept away too soon under carpet, perhaps unwittingly, through the very process of planning which, it had been earlier thought, would become the principal means for removing the fundamental constraints and impediments standing in the way of growth and development and solving the problem of poverty"... (Idem)

It seems, there is an uncanny repeat show of nearly a similar situation with respect to the Eighth Plan. After two years of Annual Planning, which meant a second round of formal plan holiday, like the First Plan holiday of 1967-69, the Eighth Plan for the period 1992-97 was approved by the National Development Council. Like the surrender of the medium run plans and its substantive content to the exigencies of short-run economic management in areas of trade, industry, balance of payments and fiscal policies in 1969, the Eighth Plan approved in 1992 has also decided to focus on "clear prioritisation of sectors, projects, for investment in order to facilitate operationalisation and implementation of the policy initiatives taken in the areas of fiscal, trade and industrial sectors and human development" (Eightin Five-Year Plan; Vol 1:9) This means prior acceptance of the fiscal stabilisation and the structural adjustment programme (FISSAP), which is styled after the 'Washington Consensus' [Williamson 1993], and is basically a response to the external forces and the needs of the creditor ('donor') nations [Bienefeld 1993; Streeten 1993]. Instead of responding to the longer term issues, constraints and impediments which got dramatically manifested in the crises of 1991, the Eighth Plan has taken the "operationalisation and implementation" of the FISSAP as the first point of its "fourfold focus' and the priorities of investment sectors and project have to be designed in manner which facilitate this 'focus'. This is like the Fourth Plan's acceptance of the imperative to adopt the new technological approach to agricultural growth (or, agricultural sector liberalisation involving greater commoditisation, marketisation and industrialisation of agriculture) after discarding reliance on agrarian restructuring and facilitating the transition to this newly adopted growth path.

Like all historical analogies, this one too ends before long and acquires its inevitable historical specificity. The riveting of the Plan to the new techno-economic, 'betting on the strong' strategy of agricultural growth was aimed, inter alia, at ending the dependence on direct food imports and the ship-to-mouth existence. It was, after all, the adoption of a path and approach which brought the institutional content of the agricultural strategy on par with that which was adopted in effect for the industrial sector, notwithstanding the rhetoric of the Industrial Policy Resolution of 1956, or of the 'socialistic pattern of society'. The change in the late 1960s concerned the content and a component of the strategy of development planning. No claims were advanced concerning a change in the methodology and the role of planning and the interface between planning on the one hand, and the economy, state and markets, on the other. It is true that the role of the market forces in agriculture was enhanced but it left virtually unchanged the methodology of state intervention in agriculture through the plans.

But the change in early 1990s has been claimed to be a change in both the content of development strategy and the methodology of planning under the impact, inter alia, of global trends. This may imply that the change experienced in the early 1990s is not just a sectoral one like that in the late 1960s but economywide, nay, covering the entire political economy of India and her interrelationship with the global

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processes and is therefore, basic. Hence the claim that it has informed both the development strategy and the role and methodology of planning. As for the former it is a major shift from a statist perspective which gave a relatively greater weightage to the endogenous factors (and were to an extent irksome to the external forces) to an open and outright corporatist perspective with pronounced prominence of the exogenous factors. This became possible on the basis of an understandable broad measure of support from the indigenous major corporate players, who acclaim these changes as a paradigm shift from dirigisme to market friendly neo liberalism. As a result, the role and methodology of planning, it is stried have also to undergo a major transformation The redefinition of the development strategy regime has been described as liberalisation new economic policy economic reforms structural adjustment etc. The planning system under the market friendly globalised privatisation and deregulated policy regime with greater fiscal discipline has been des cribed as indicative flexible, integrative frame work planning etc (Lighth Plan Vol I force word Preface and Chapter I 111 to 116)

Thus the Fighth Plan puts forward the claim that it is an explicit change over to indicative planning. It is not clear what it is intended to mean. Is it a plan in which the targets for the private sector are not compulsory and binding but are systematic and consistent macro and sectoral forecasts to the realisation of which public policies and plans are likely to contribute or are to be made to contribute? Alternatively is indicative planning taken to mean a situation in which no sectoral targets are prescribed particularly for the private sector? In that case the plan would be confined basically to the creation of conditions and incentives and sanctions or disincentives likely to contribute to the realisation of the plantargets, which are basically guestimates. It raises a further question did we ever have firm comprehensive and systematic plaining for the attainment or overall and sectoral targets especially for the private and the informal sectors. It has been maintained that in India 'although economic planning is not very comprehensive and the role of private initiative in generating employment and income is predominant yet the Plans particularly the National Five Year Plans provide direction to and to a rarge extent control the momentum of economic activities" [Ministry of Labour 1991 B 5] Despite such claims it is open to question whether even the public sector targets were supported by firm budget allocations in real terms and with demonstrated physical feasibility and managerial capabilities in a clear time-frame. And what about the availability of foreign exchange earned

borrowed or invested, for meeting the plan tasks and the terms on which the availability is ensured? Were macro-economic short and medium term policies, adequate, consistent and derived from the plan? Let alone the constancy and implementability of our presumed multi-level plans, were even the macro-projections more than mere econometric exercises? Did the plan explore the methods of their realisation particularly in view of the separation of planning and budgeting and with the latter being the dominant operational critity?

With the liberalised policy regime giving freet hand to market forces, both domestic and global, and carrying our extensive deregulation (and not just debuteaucratisation which in fact seems to be faltering) as a datum and preceding and overarching the plan what are the policy instruments still available to the planners? With fuller play being granted to national and international market forces, what are the instruments of intervention available to the planners for realising the plan which replace and/or strengthen the ineffective or counter productive tried so far. In order to be able to make sense of the proposition regarding a switch over to indicative planning one would have to grapple with the questions of the kind raised above

The Lighth Plan recognises at the very outset that it is being launched at a time of momentous changes in the worldeconomy and in India. It avers that All over the world centralised economics of several regions he getting integrated under a common philosophy of growth, guided by the market forces and liberal policies (1 1 6 2) I ven in the ideological sphere it is maintained that several distinguishing philosophies of the 20th century have been swept away and hence in the light of the development experience of our own and others we must make appropriate mid course corrections and adjustments as we cannot remain untouched by these trends (Idem) As is the wont. Indian plans rarely take any categorical stand and always interlace their positions with caveats and qualifications, there are some muted refer ences to 'our basic policies' which have stood us in very good stead but nonetheless "in this turbulent world" our policies must also deal with changing realities" (Fore word) Indicating the direction of this adjustment to changing realities it is stated that. The emphasis is on autonomy and efficiency induced by competition (i.1 6.2)

In a plural electoral democracy like that of India obvious constraints are faced in making drastic departures from policies which enjoyed wide support and respectability and are with our any decisive repudiation at empirical and theoretical levels. It is in this context that references

to the dramatic collapse of the Soviet Union and eastern Europe come handy in advocating a case for a change of the course. This is often buttressed by trumpeting the 'miracles' in east Asia, which is often based on halfbaked analyses, high selectivity of indices and is generally context free and one-sided ( Does Planning Commission have a New Role" Business Line, May 30, 1914) One can easily hear in such positions the cchoes of the triumphalism of the end of history variety, a la fukuyama. One need hardly refer to the premature character of such pronouncements concerning eastern Europe and the Soviet Union as the recent economic crises and political developments there are tending to indicate

On account of the inability of the development strategy to deliver the promised good planning tended to cyoke widespread disenchantment. The failures of the development strategy thus adversely affected the credibility of planning though there is no necessary one-to-one relationship between particular development strategy and the practice of planning. The limitations of the development strategy are due to a large number of factors and forces with the particular form in which planning was done being just one of several factors. The emergence of powerful forces in our midst like the persistent power and influence of India's business and bureaucratic clite the near unrivalled and unchallenged begemonic position acquired by the G-7 countries and the Brettonwoods twins and the MNC lobbies the unbriddled economism of the trade unions the marginalisation of the marginalised informal sector etc. too would not have made a net positive contribution either to the success of the development strategy or to the effectiveness of planning These traits and influences became too strong and arresistable by end 1980s at least by the forces from within

Gradual and steady chipping away of the discipling and regours of planning have been going on at least since the mid-1960s, if not earlier. Thus what has culminated in the 1990s and with the Fighth Plan is neither sudden nor entirely new. It seems to have been building up for quite some time Even then the changes proposed in the Eighth Plan are not without cavcats equivocation, (deliberate?) and confusion which have generally marked out the real policy goals, instruments and processes from the stated ones. Thus one can see references to limitations of the market and consequently a statement that 'It is thus not a choice between the marked mechanism and planning' the challenge is to effectively dovetail the two so that they are complementary to each other (Foreword)

This undoubtedly sensible and perhaps the only realistic, realisable possibility may,

in practice, mean various things, unless the respective spheres of the market and planning are clearly specified and the crucial question of their interaction and relative preponderance are clearly and operationally defined. While a number of statements have been made to spell out the new role of planning, their mutual compatibility and real, effective thrust remain clouded (as we try to bring out) under a good deal of facile verbiage.

For instance, it has been held that, "It is a plan for managing the change, for managing the transition from centrally planned economy to market-led economy without tearing our socio-cultural fabric" (i, Preface). As a part of this exercise, the public sector has to give up "such activities which are not essential to its role" (i). In this process "from, a highly centralised planning system, we are gradually moving towards indicative planning "concentrating on "building a longterm strategic vision of the future", setting forth "the priorities for the nation" The hallmark of the indicative planning is that it "goes into the details, examining the alternatives and identifying the various projects" in the public sector, and "for the rest of the economy it works out sectoral targets and tends to provide promotional stimulus to the economy to grow in the desired direction " (ii, Preface). Since the plan has " to concentrate on anticipating future trends and evolve integrated strategies" (1), its role has to change. "In place of the resource allocation role which very largely characterised the working of the Planning Commission in the past, it will have to concentrate on optimum utilisations of the limited available resources'. But confusion and the desire to appear differently in different contexts make the planners also go on to assert that "In addition to the resource allocation role, the Planning Commission will concern itself with resource mobilisation for development as well as with efficient utilisation of the funds" (ii; Preface).

It is apparent from the foregoing that either there is a crisis of identity facing the Commission, or it is simply confused about its role and methodology. The use of the terms like 'optimum' and 'efficient' further underscores the less than scientific character of the formulations. With a massive private and unorganised sector (subject to tenuous and ex post regulation and licensing of the large private investment proposals but without ex ante attempt to direct and facilitate private investments in desirable channels like in Japan and South Korea with their practice of 'administrative guidance'. 'reciprocal responsiveness' and policy councils) and with the virtual independence and clear organisational separation of budgeting from planning, both at the level of the union and state governments (resulting in large and random divergence between the planned and actual public investment and a randomly obtained pattern of financing) and without any attempt to plan critical variables like relative prices and price level, income and wealth distribution, with critical dependence on external funding which makes us submit our overwhelmingly indigenously financed plans for endorsement to the Aid India Consortium in order to obtain marginal magnitude of external funding, it is facile and naive to claim to have operated a centrally planned economy, from which a transition to indicative planning is being attempted. Oucerly, as we see below, the Eighth Plan itself disclaims that India has ever had a brush with centralised, comprehensive planning. One wonder if even a proper indicative plan, in the sense of a consistent forecasting framework for major investment projects and a plan embodying a shared perspective between the private and public sectors has operated in India at any point of time. After all, planning is quite a different matter from putting together a plan document and giving some peripheral role to the agencies entrusted with planning [Seers 1972]. Thus the changes in the nature, role and methodology of planning which the Eighth Plan is supposed to accomplish is rooted in a confused, imprecise and unsustainable claims about what has been happening in these respects so far.

Even what is indicated in the Eighth Plan regarding micro-level participatory planning is rather pale and jejune attempt at operationalisation of a multilevel planning system, as can be seen from the following statement in the plan itself. "It is proposed to launch the experiment of micro-level participatory planning in 150 blocks during the first year of the Eighth Plan through the creation of a three-tier institutional system... The organisational structure has already been worked out and during the first year of the plan we intend to start pilot projects in 150 blocks. Depending upon the results, the experiment will be extended to 500 blocks during the Eight Plan period" (viii, Preface, emphasis ours). Thus after over four-anda-half decades of development planning, a subcontinental national economy with vast differentiation and diversity is going now to experiment with participatory micro-level planning as a pilot project in 150 of the nearly 5,000 blocks, of which nearly onetenth are to be covered during the plan period if the initial results are encouraging. One can see how micro-level planning is also reduced to a project, when even accepted conventional wisdom too suggests that without integrated multi-level planning, we cannot have effective and meaningful development planning in a country like India.

The above factors and caveats put a serious question mark on the proposition regarding a change, a shift in the plan methodology

from centralised resource allocation planning to indicative, flexible, integrative, framework planning. Then, what does one make of the changed global context, the claim of learning from our own and other's development experience, severe resource crunch, the difficult external payments situation, mounting debt burden, consequent opening up, and the commitment to 'start rolling back the public sector'? It is clear that the Eighth Plan is different from the preceding plans, (though, as seen above, one finds parallels in the Fourth Plan), insofar as the policy regime has been drastically changed under as comprehensive a policy package as the structural adjustment programme, with major changes in the trade, fiscal, industrial, financial policies, with large-scale opening up of the economy. All these are taken as the 'givens' of the situation by the plan formulators. Thus development planning does acquire a changed character. But what kind of character?

It is our contention that this change is basically an openly declared change in the content of development planning. It means recognising that the purposes, priorities, agents, instruments and processes of growth of the economy have been changed in a market-friendly, externally-oriented direction. These things which were not so openly acknowledged earlier and, even in practice, were, to an extent, qualified are now presented as 'reforms'. This is because the new industrial, investment, trade, fiscal and BOP stabilisation policies have substantially reduced the role of the state and planning in setting the pace and determining the direction of growth. A paper by the Perspective Planning Division (PPD) of the Planning Commission has described the shift of development strategy as one to an "open economy industrial development" as "once again neoclassical doctrine (has) regained its theoretical hegemony resulting in exportoriented trade policies" [see Business Line, May 30, 1994]. One wonders if 'hegemony' is treated as the equivalent of either validity or relevance. The Mahalanobis model of industrial growth, investment allocation and the consequential trade policy have been bid goodbye. The PPD paper mentioned above, makes the point clear when it says, "Indian planning and policy started responding to the liberalisation wave from the beginning of the 1980s but it was largely confined to the domestic sector. It was at the beginning of the Eighth Plan that a fuller response to 'economic reforms' was affected".

How does the role of planning change under the dispensation of externally-oriented reforms? The same PPD paper attempts an answer "The Eighth Five-Year Plan stipulated that in view of the need to build massive infrastructure, existence if significant number of poor underprivileged, existence of severe

imbalances in the course of development, government will have to play a role and step in for creation of supply of essential inputs like power and creation of infrastructure where private initiative is not adequate. It will have to continue to run programmes for the future and the weaker section. Programmes for social welfare, population control, environmental protection, health and education, at least at the primary level, will continue to be the responsibility of the government for quite some time to come." Obviously the continued role of the state in various spheres does not by itself change the role, character and methodology planning. as no one-to-one relationship between what and what to plan for, and how to plan per se can be found. The PPD clarifies that the responsibility of the government in implementing programmes and projects for development will have to be qualified in the sense of limiting it to areas of infrastructure and social investment and only in areas where private initiative is still inhibited (see Business Line, May 30, 1994]. One can see how a contingent relationship between the role of the state in the economy and the role of planning has been taken as a necessary, inexorable relationship. Since markets as they exist may not be equal to the new and daunting tasks, the planners also visualise for themselves a role to help the market expand and make it work more freely, competitively, with accessibility to the small, and the regulation of monopolies. In general, the attempt would be to create enabling conditions and a framework of macroeconomic population estimates, in which "analysis of investment behaviour will be at the core of the new modelling effort".

For this kind of planning, one needs a great deal of accurate, up-to-date and actionable business information on the one hand, and sectoral, regional and national aggregate current information and consistent forecasts on the other. While the plans need such data, they are also generators of such estimates so that the private decision-makers and different public agencies prepare harmonious, consistent projects. Hitherto Indian plans have not gone far in these directions, unlike, e.g., the Japanese, where consultative, participative processes are used for preparing a 'vision' to be embodied in the plan [Kabra 1995].

None of these changes in the development and economic policies by themselves alter the methodology and nature of planning. The latter can be changed in many diverse ways, but the prevailing methodology (as distinct from its characterisation as comprehensive, centralised and command planning) is not *ipso facto* incompatible with the changed policy regime. It is arguably consistent with the prevalent planning methodology, which leaves considerable role

for the market processes. This is not to say that there is no need for strengthening and improving it in many diverse ways. It has to devise and improve methods of harmonious working with the market agents in general national interest. The agenda of the plans has been undergoing changes but not the method of going about it in any marked manner [Mozoomdar 1994]. This is mainly because even the former agenda and growth strategy were operated without centralised, comprehensive planning; now with greater role for the market and external forces, and the consequent downgrading of the social content little compulsion to move away directionally, from the trodden path is likely to come into play. One does not have to go far to seek ex cathedra support for this position. Here is what the Eighth Plan has to say in the course of specific discussion of the role of planning, "The centralised planning of the type practised in socialist economies did not exist in India. ever. In practice, the market has determined allocations in a major segment of the economy" (1.5.2:18). The Eighth Plan goes on to say on the same page a little later, "so far, resource allocation has been the predominant role of the Planning Commission" (1.5-4:18). On the most charitable interpretation, it may possibly mean that in the non-major segments where the market does not allocate resources, at least with a free hand, the Planning Commission may well be discharging this responsibility as its major activity. Obviously, for the economy as a whole, the planners' allocative role is limited, even with respect to public outlays as it was divided between the union and the states; the fiscal and monetary policies largely outside the control of the planners too reduce the element of planning, the essential point, however, is that prior to the Eighth Plan, we had no centralised planning and what obtained a best was weak, poorly co-ordinated, uncertain public investment planning with some minor similarity with frenchstyle indicative planning (Commissariat General Du Plan, nd).

However, the practices and methods adopted so far could not become an effective means of ensuring planned behaviour of the public investment component of the economy. An important factor which weakened the planned element vis-a-vis the elemental, spontaneous and random ones was the near divorce of planning from current economic management. As a direct participant and perceptive analyst of Indian planning has pointed out, "The Resolution setting up the Planning Commission had one serious lacuna which was not then realised. There was no reference to the Commission's possible role in relation to the working of the economy. This was due to failure to appreciate adequately the relationship between planning and the operation and management of the economy... later events brought about some measure of co-ordination between planning and current economic policy although the relationship has remained largely undefined as the *Planning Commission has remained essentially on the sidelines of current economic policy*" [Singh 1979:5; emphasis added).

The Commission, concerned with the longterm growth and evolution of the economy. was kept out of the management of the economy in the medium- and short-run. The latter charge was entrusted to the market forces and to agencies like the union finance ministry, the Reserve Bank of India and man other economic ministries of the union and state governments, without the creation of a co-ordinated policy-formulation agency or a mechanism for the purpose. As a result, resources mobilisation moved out of the purview of planning and as corollary even investment planning could not become really effective. This is a factor essentially related to the organisational and operational separation of planning from budgeting, which in actual practice becomes at times acrimonious and adversial, e g, as reflected in the differences between the Planning Commission and the finance ministry over the mid-term appraisal of the Eighth Plan. In any case, the exercise to mobilise additional resources, ffscal, monetary, credit and foreign exchange policies, non-plan transfers to the states, capital market policies and regulation, agricultural, industrial and labour policies, etc, remain out of the purview and control of the planners at an operational level; generally, the planners have to adjust to these changes ex post. What was described as "planning without a policy frame" during the mid-1960s unfortunately remains valid even up to the present [Gadgil 1967]. With a large and growing non-public sphere, the methods of intermeshing plan perspective with that of the private entities do not seem to have received attention in term of policies, regulatory mechanisms and reciprocal responsiveness to schemes of indirect steering. Thus there came about a sharp cleavage between the long-term growth policies and programmes (supposed to be under the charge of the Planning Commission) and the short- and mediumterm economic and social policies (divided among various union ministries and state governments without being brought under a common umbrella.)

This is in addition to the sharp differences between the private corporate sector's priorities and behaviour patterns, and what the plans and public policies wanted to obtain from them by means of a number of regulations, controls and promotional measures, particularly in terms of thrust industries, preferred technologies and locations. How

this lack of harmony and shared perspective made the planners' controls and regulations an anathema to the organised big business and how these discretionary, multi-goal, unco-ordinated, generally ad hoc bureaucratic controls distorted the economy and generated huge rents of authority and a thriving unclean, underground economy are too well known to require any recapitulation [Myrdal 1968; GOI 1985; Kabra 1982].

What seems to follow from the foregoing is that the Eighth Plan marks a change, rather a far-going transformation, of the policy regime, which formalises, carries forward and openly puts the seal of approval on a number of halting, unannounced series of policy changes spread over a long period. These changes would go towards redefining the policy outcomes and hence may be taken to constitute a serious rewriting of the content of India's development strategy. What is to be achieved by India's development planning and, the agencies and instruments pressed in the service of these goals have undergone a dramatic change. This is what we mean when we maintain that the content of India's development strategy has been changed. The public sector has now been given basically an instrumental role and public investment would have to play second fiddle to private. basically corporate and foreign investment. Instead of meaningful and effective planning, "getting the prices right", i.e. following the signals from market prices seems to be the chosen path. Thus the policy-framework and choices would not follow from the plan. On the contrary, the FISSAP has been taken as a given in step with the forces operating globally. Probably this is a recognition of the decisive influence the conditionalities of the World Bank-IMF exercise on India's policy regime.

The Eighth Plan, which in a competitive, plural electoral democracy, has to maintain a certain degree of continuity with at least the hallowed policy postulates of the past has little option but to reiterate a string of objectives the plan is supposed to achieve. But it has also to reckon with the reality of the new policy framework which gives a clear edge to the large organised capital irrespective of its national origins in the functioning of the economy and cornering of its goodies. Hence, for the first time, we find that in the section specifying the plan objectives (9,10), a 'four-fold focus' takes precedence over the usual homilies presented as plan objectives. The very first point of his four-fold focus, as seen earlier, reiterates the essence of the structural adjustment programme. We can thus conclude that the content of development planning, through a series of incremental changes, has crossed, during the Eighth Plan period, the threshold to qualify as a distinct change in the content

of development planning; what the plan sets out to attain and its method of attainment.

But this change and the resulting downsizing of the state's economic role don't signify a change in the methodology of planning, viz, how the plans formulated in its various aspects and during the various phases of the planning process. This is because the prevalent methodology is generally market-oriented in our mixed economy, federal polity and non-plan oriented bureaucracy. It is ready, with some changes to cope with the new development strategy and policy. The plan did not mandatorily cover the entire economy and did not specify mandatory commands in the fashion of centralised, comprehensive national planning at any stage since its inception. With the informal sector as the biggest component of the economy, no such thing can even be visualised. It is not, however, implied that this is necessarily any weakness of Indian planning. It did not happen, despite our centralistic federalism, that the planners took all or the major decision about public investments which were handed down in a top-down style to various executive agencies. However, the public investment decision regarding the programmes and projects, of various ministries, public enterprises and the state governments did come to the Planning Commission for final approval. There is a similarity between the above procedure and the licensing of private projects. The essential point is that planning is greatly different from approval/ disapproval. As a result the estimates and targets set by the planners had a rather large soft content. It would have to be considered a surprise and a coincidence if any of its targets and estimates came out to be realised in toto quantitatively, temporally and in terms of cost. The two plans during the 1980s had, what one may say, the dubious distinction of realising the overall growth target. But how this 'lost decade' queered the pitch can best be gauged by the fact that it left us with an impasse which the successor authorities described as the most serious since independence and became the immediate factor leading to the rewriting of the development strategy, in terms of the acceptance of the SAP fathered by the Brettonwood twins.

It is true that with greater marketisation, opening up and deregulation, the uncertainty causing factors would acquire still greater salience. The economy and the plan would be buffeted by many more factors than perhaps was the case hitherto. But the plan methodology does not change in the sense that what we had (to put it in the simplest terms) was projection of outlays (financial) and targets (physical) bases on possibilities of resource availabilities including additional resource mobilisation and a broad examination of intersectoral consistency of physical programmes and targets. Obviously all this depended on a number of assumptions, data availability and estimates. As we started inheriting a backlog of incomplete projects, with cost and time runs over, the spill-over projects reduced the prospects for fresh projects. This difficulty was further compounded by the growing fiscal crisis of the state, which manifested itself in growing negative balances from current revenue and mounting fiscal deficit. The choice space of the planners was consequently narrowed

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### October 1996 Issue Highlights.

☐ On 33% Reservation for Women
 ☐ Basic Minimum Services:
 World Bank Style Welfarism?

Despite the rhetoric of centralised planning, the unplanned market forces, both domestic and external, continued to do short work of many of the plan projections. An examination of divergence between budget estimates, revised estimates and actual figures [Minhas 1989] clearly shows that the elemental market forces had a clear edge over the teleological, planned, proactive forces. To use the categories popularised by Russel Ackoff in the context of planning, Indian plans contained elements of inactivism, reactivism and preactivism in varying proportions in various sectors and during different plan periods but elements of proactivism and interactivism remain considerable weak. Thus it is clear that the nature of Indian planning was not centralised. comprehensive planning intent on directing and governing the markets and the market operators and forces. It tried to make some intelligent forecasts, adopt some macrosocial objectives and, by and large, operate within the given institutional framework with some not-so-successful attempts at some institutional changes and organisational innovations. The claims of these who are suggesting that a change from 'directive' to 'indicative' planning has come about with the Eighth Plan are not doing proper justice to the planning methods adopted prior to the present plan and one may even say, their characterisation is largely a misrepresentation. Hence the thesis of a changed methodology of planning loses its sheet-

It may well be asked: what are the results one can expect from the marriage of the old, prevalent but now openly acknowledge indicative, non-centralised, weak and nondirective planning, (which essentially makes a none-too-large co-ordinated and effective intervention to overcome known limitations of the market mechanism while it hardly devises any effective response to the contingent and essential limitations and pitfalls of government and bureaucratic interventions with enlarged, opened up and further empowered (unhindered) market mechanism based 'development' and economic management policies? In other words, now that the short- and medium-term economic management under the control of the ministry of finance working in close cooperation with (if not, as is maintaining by some, under the dictates and surveillance of) the World Bank and the IMF have acquired more voice than the long-term development policies worked out by the Planning Commission, what does one expect regarding the emerging model of the functioning of the economy? Would planning be able to maintain its present none-too-strong and viable position? This factor, howsoever important, cannot by itself be decisive in determining the performance of the economy.

Nonetheless, it is likely to reduce the friction at an operational, day-to-day level between several public entities concerned with the economy. The long-term perspective is likely to get comparatively dimmer as the current concern with FISSAP acquires an upper hand. This may get reflected in the finance ministry pressing for carrying our the Fund-Bank agenda, e g, reduction of food and fertiliser subsidies, formal acceptance of exit policies, privatisation of sick PSUs, financial sector 'reforms', etc. (which have the support of organisations like the CII, ASSOCHAM and other business organi-sations and some political parties), while the planners would make some noise about the level, pattern and spread of public investment and strengthening of the social safety net. Since major policies and resource mobili-sation would continue to remain under the control of the finance ministry, the planning would further weaken and, short of formal renunciation (which may not be liked even by the Aid India Consortium since the commitment of resources to be 'transferred' by them requires a mediumterm plan), would simply limp along Since infrastructure sector is also being offered to private investors and the union and state governments are bending over backwards to lure in (with conditions like sovereign guarantees and assured level of returns) foreign investors, even in this area the role of planning may become weaker and

Most significant are likely to be the results of the greater opening up of the Indian economy by a host of policy measures concerning trade, industry, foreign exchange rates, investment, capital market, technology, etc, particularly after joining the WTO. This process of unbridled globalisation is bound to weaken the role of the endogenous factors To this extent, planners may at best remain content with preparing alternative scenarios based on different sets of assumptions regarding the nature of changes in the economics of the OECD (since globalisation is basically concerned with increasing dovetailing of our economy with the OECD economies as the South-South co-operation ranks rather low in the present priorities) and the manner in which these cross-currents would reach the Indian shores. Thus the new dispensation would accentuate our externally-induced vulnerability. The planning process would have to trail behind the market processes and the external forces to a much greater extent than was the case prior to the Eighth Plan. As can be seen, these are the effects flowing basically from the changes in the policy regime, and the content of development planning towards FISSAP. The planning process is basically made to respond passively to these influences. This would render planning even more of an empty box than has been the case so far. Liberalisation may not consciously plan for a changed role, relevance and methodology of planning but it amounts to a change in the strategy of development planning which is by and large in harmony with the prevalent essentials of the planning process as they have evolved incrementally over the years.

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## **Urban Development in a Colonial Situation**

## **Early Nineteenth Century Bombay**

#### Amar Farooqui

Opium provided the Bombay hourgeoisie an important source of accumulation. This accumulation together with the capital which had become available through a strong indigenous presence in the commercial activity of western and central India could be channelised into industrial development at Bombay. This had its impact on urban development. From an urban sociological perspective Bombay is representative not so much of a colonial city with its colonial/indigenous spatial dualism but is an easily recognisable capitalist city with class differentiation determining its spatial pattern.

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OVERWHELMED by the collective nostalgia of a people over whose empire once upon a time the sun never set, some popular works on Bombay revel in selective images of the city, choosing such landmarks and such moments in its history as might conjure pleasant memories for those who look back on the days of the British raj with longing.1 While there might not seem to be much harm in such nostalgic evocations, one has to guard against the distortions that could be, and often are, introduced by allowing a desire for some of the aesthetically more appealing experiences of that era to become a desire for the days of the raj. Further, one must be careful that the ugly is not easily ignored. Howevermuch one might like to suggest that learning to play cricket and thinking "more or less in the European manner", gave to indigenous groups the wherewithal to participate in the economic development of Bombay on more or less equal terms with the British, and that this co-operation was responsible for the success story of Bombay,2 the fact remains that the destiny of Bombay as a great commercial and industrial centre was born of its becoming an accomplice in the drugging of countless Chinese with opium, a venture in which the Indian business class showed great zeal alongside the British. This is the sordid underside of Bombay's colonial past.

Towards the end of the 18th century Bombay, having been drawn into the vortex of capitalist relations, was assigned its role in the world capitalist system. Through colonial manipulation Bombay was made the main spatial regulator, in western and central India, for the transfer of tribute to the metropolis. In the process the hegemony of capitalism was fomented in the city. In the case of an advanced capitalist country like Britain establishing a colonial relationship with regions in which the capitalist mode of production is not sufficiently developed, or not dominant, the problem of transition to capitalism is complicated by the fact that the colonial power seeks to create a mechanism for tribute realisation which as loot/plunder/drugtrafficking may form a part of the prehistory of capitalism. To thus differentiate precisely between that aspect of the development of the colony which is strictly a part of this prehistory and that which constitutes the integration of the colony into the world capitalist system is not very easy.

The point is that colonial powers tried to subvert market relations whenever faced with stiff competition from the nascent bourgeoisie of the colony. It was not by superior business organisation but through extra economic intervention that indigenous competition was overcome. It has at times been suggested that the European East India companies represented a new type of business organisation in Asia. Decisions relating to a wide range of activities were taken centrally by these companies. K N Chaudhuri in his magnum opus, The Trading World of Asia and the East India Company (1978), considers the centralisation of the decision making process an important reason for the success of European companies in Asian

The unique quality of English and Dutch trade with Asia, as conducted through joint stock companies, sprang from the attempt to impose a centralised and bureaucratically directed system of exchange and distribution on markets that were traditionally decentralised, fragmented and oriented towards individual efforts.<sup>3</sup>

As a management strategy centralisation had its uses particularly when markets were widely separated. But it was colonial political intervention that gave an edge to the English, as indeed the Dutch, East India Company.

The rise of capitalism is marked by commodity production and the end of production for mere simple consumption. In the colonial context, the possibilities generated by production for exchange, production for the market, remain unrealised – blocked – in the absence of sufficient regular avenues for normal capitalist development. Intervention by the centre usually forces colonial surpluses out of the colony for appropriation by the centre or into wasteful (in a strictly capitalist sense) expenditure/consumption. Normal

capitalist development in the periphery is neither the intended objective nor the end result of colonial intervention. Hegemony for tribute realisation is the major aim. This hegemony and the plunder that it permits makes it difficult for capitalist development in a colony to be along the same lines as in the metropolis for 'if this were so, then despite the different starting point the end would be the same as at the centre'. \( \)

In the early 19th century Bombay was fast acquiring an easily recognisable capitalistface. The city was well maintained in parts, it was squalid and congested in others. Population was expanding; there was growing functional specialisation and division of labour; relations of the market were penetrating day-to-day life; and class differentiation was cruelly apparent. Right at the outset it is necessary to point out that urban development cannot be understood without reference to a specific social formation. To view the urban development of 19th century Bombay without placing it within the wider framework of the development of capitalism and the intervention of colonialism would be a mistake. It goes without saying that colonial rulers brought to urban development in India certain features which were inherited from the historical evolution of cities in the metropolis.4 At the same time it has to be borne in mind that such features were inescapable insofar as colonial rule drew various urban centres in India into a network of capitalist relations. Indian cities on which the British left their imprint became less or more capitalist cities depending upon the extent to which capitalism was able to develop/not develop in them or in the region/s in which they were located.

In Bombay, just as in Calcutta, Madras, Simla, Ootacamund, etc, a pre-colonial city did not lie heavy on the colonial city. The organisation of space in colonial Bombay was therefore unencumbered by predetermined usage. In Delhi, Lucknow, Ahmedabad, Pune and other cities with a pre-colonial past the pattern of colonial urban development had to take into account space which had already been historically

appropriated.<sup>5</sup> It was often difficult to internally modify the usage of this space to suit colonial requirements: the colonial city had to be located externally. The example of Delhi is instructive. Here colonial rulers created two 'external' cities, at different points of time. One was in the middle of the 19th century, especially after 1857-58, when the area outside Kashmiri Gate was developed as an exclusively British 'civil lines'. Beyond the 'civil lines', troops were quartered near the Ridge. This was the time when a belligerent Delhi was being subdued after the 1857 Revolt. Before 1857 also, however, the British had shown a preference for the area lying north of Lal Qila. The residency, St. James' Church, Ludlow Castle, Metcalfe House, etc, were all located in this direction. There appears to have been no radical departure after 1857-58, except that now the 'civil lines' was situated outside the walled city more completely. During the latter half of the 19th century 'urban Delhi conformed to the classical model of 'native city'. cantonment and "civil station",6 so characteristic of the colonial urban tradition in towns with a pre-colonial history Then, after the decision to transfer the capital of British India from Calcutta to Delhi in 1911, a new external city was built, this time on a grand scale, on the southern outskirts of the old city. Raisina village was to house symbols of occidental despotism and ample space intervened between the new city and the old.7 The one did not easily impinge upon the other and the ivory tower feeling of the viceregal residence was complete.

In those cities which evolved largely as a result of British initiative, colonial urban development did not merely have to be the other of indigenous settlement. As there had been no initial appropriation of space in these cities, it was possible for the colonial rulers to take up the most favourable locations which then became the nucleus and raison d'etre of the city as a whole. Here too it would be inaccurate to talk of a uniform pattern. In the major colonial port cities, Calcutta, Madras and Bombay, where defence against external enemies had mitially been an important consideration," a fortified European settlement became the starting point of development. In these cities, however, a live economic and administrative contact with various indigenous groups was vital for the East India Company. Hence it was not feasible that the non-indigenous part of the city be completely detached and separate, permitting no interaction. Indigenous groups had to be allowed some access to a few prime locations either within or in the vicinity of the fort area. In hillstations where the British did not look forward to any intercourse with the 'natives'. and which had been built at a time when British rule was relatively secure, far greater

freedom in creating a non-indigenous environment was possible.<sup>9</sup>

There is, therefore, no such thing as colonial urban development in the abstract. Various urban centres were products of specific historical conjunctures. The sanatoria apart, for strictly speaking their historical role was very limited, urban centres of colonial India reflected variations in the level of capitalist development in different parts of the country. Spatial organisation therein was indicative of the relative strength or weakness of indigenous groups and their capacity to intervene in the control of urban space. The urban development of Bombay has to be seen in this context.

Here one might draw attention to the distorted nature of urban development which colonial rule set in motion. Urban centres developed or patronised by the metropolis in colonies often failed to generate economic activity concomitant with their expansion, since much of this expansion was often not the result of an organic growth but was related to specific colonial economic/ military/administrative/strategic/political considerations. The hegemony of the colonial power placed it in a position to intervene arbitrarily in according primacy to a particular urban centre in a given region so that frequently artificial, imposed and unintegrated urban development took place.

#### BOMBAY: A BRITISH CREATION

Bombay as an urban centre is a British creation. It does not have much of a precolonial past. The subsequent greatness of the city should not tempt us to think in terms of the inevitability of its rise. True, Bombay possesses from the safety of its port a distinct advantage which was crucial to its emergence as a major commercial centre.10 However. Bombay has not always been very easily accessible from the surrounding parts of western and central India. For one, the Sahyadri mountains act as a barrier between the coast and the Deccan tableland.11 The relative inaccessibility of Bombay from western and central India was reflected in its peripheral position in the context of the commercial network of the area well into the 19th century. In the middle of the 19th century when a railway network for western and central India with Bombay as its focal point was being contemplated, attention was drawn to the fact that the country to be traversed in going from western and central India to Bombay was "intersected by no navigable stream" and did not have "any of the facilities which good roads afford";12 and dwelling on some of the drawbacks of the city's position, the Bombay Times and Journal of Commerce (July 10, 1840) noted in one of its issues that "Bombay unlike Calcutta, is not situated on the estuary of a hundred rivers, and that its less favoured inhabitants have no rich alluvial plains like those watered by the Ganges, nor roads such as they have in Bengal".<sup>43</sup>

While the favourable situation of Bombay along the western coast equipped it for its development as a port, the geographical relationship of Bombay with western (and central) India was not a very close one. Few overland trade routes were directed towards Bombay. In fact down to the 18th century the main overland routes linking northern and central India with the Arabian sea terminated almost 300 km north of Bombay. The Gulf of Cambay was the main catchment area for goods flowing towards the west coast for overseas shipment.14 Cambay, Bharuch, Jambusar, Daman and Diu, and above all Surat, were the destinations of caravans arriving from Agra, Ahmadabad, Burhanpur, Navsari. Sironj, Ujjain, etc 15 A minor route, running south of Surat, stopped short of Bombay at Bassein. 16 On the Konkan coast, Chaul, Dabhol and Venguria supplied. merchandise to Surat but the trade remained essentially coastal.17 the Konkan even today being relatively inaccessible by overland transport. To the east of Bombay, the western ghats prevented the interior of Maharashtra from being easily converted into a hinterland for Bombay. Consequently, Bombay was only a getting-off point for coastal trade and not a destination for overland routes. The insularity of Bombay was completed by (a) the fact that it was an island that was not adequately integrated with the mainland, and (b) possession by the Marathas, till the 1770s, of Bombay's large northern neighbour, Salsette.

Bombay was dependent on sea-borne trade even for its basic necessities. This contributed to enhancing the extrovert character of Bombay's economy from the time of British occupation. When Bombay came into the company's possession only a small portion of the island was in a state of cultivation. In John Burnell, writing during the first decade of the 18th century made the following observation about the supply of food to the island:

Cows are a scarce commodity on the Island, as in truth is every thing else of provision, we being beholden to our neighbours the Portugueze(sic) for almost every thing that we cat; otherwise we might starve, were we only to subsist on the production of the Island.

Though in decline, the Portuguese presence on the west coast was still quite visible in the early 18th century as is indicated by, among other things, 'the role of the Portuguese language as the lingua franca of all commercial intercourse in which Europeans took part'. What is significant is that Bombay's reliance on the residual commerce of the Portuguese for providing

its inhabitants with articles of subsistence underscored the island's coastal and hence extrovert nature.

Moreover, the unassailable position of Surat as a major centre of foreign trade along with western coast of India for most of the 17th and part of the 18th century precluded the possibility of fully utilising the potential of Bombay even though the British were in possession of the island since the middle of the 17th century.21 Yet, the dectine of Surat by the middle of the 18th century did not immediately open up opportunities for Bombay. As a matter of fact the transformation of the city into a major urban centre was slow and arduous. It is necessary to stand back a little and locate the problems of Bombay within the larger picture of western India rather than view them within the limited context of Bombay/Surat alone.

It would not be sufficient to talk in terms of the competition offered by Surat since the decline of Surat did not, and could not, by itself be the starting point of Bombay's rise. The factors leading to the decline of Surat were, after all, not specific to that city alone. They influenced the trade and economy of the north-western coast of India in general. Ashin Das Gupta's masterly study of the circumstances which led to a reversal in the fortunes of Surat has shifted the focus from reasons like the silting of river Tapti (on which Surat is situated), or the sack of the city by Shivaji in 1664 and 1670, often suggested to explain its decline. Das Gupta has argued that the decline of the city was the result of a particular conjuncture: the almost simultaneous waning of three great empires which had contributed to the immense prosperity of Surat in the first place - the Mughal empire in India, the Safavid empire in Persia and the Ottoman empire in the near east.22 The Red Sea and the Persian Gulf had become increasingly important for Surat merchants. The weakening of Safavitland Ottoman authority disrupted Surat's trade with West Asia. More crucial was the decline of the Mughals during the early 18th century.

Das Gupta has drawn attention to the adverse impact of the instability of the opening years of the 18th century on the economic activity of western India, and of Gujarat in particular. Political upheavals of the period brought to an end 'Mughal peace' and led to tremendous insecurity. Long-distance overland trade links which had given Surat access to distant centres like Agra, Lahore, Banaras, etc.<sup>23</sup> were suddenly broken.

The large canvas within which Das Gupta has placed the decline of Surat allows us to see this phenomenon as one that was part of a general crisis in western Indian trade. If Surat, around which the economic life of the north-western coast of India had revolved,

failed to survive, could Bombay, with its peripheral geographical and economic position, be expected to make a sudden impact?<sup>24</sup>

Bombay's coastal trade, which was largely in English hands, was also facing problems arising out of a shift during the first half of the 18th century in the focus of English commercial activities in India from the west to the east; to Madras and thence to Calcutta.25 By the 1740s while there was on the one hand an increase in Bengal's Europe trade, with piece-goods, raw silk and saltpetre as the main commodities, on the other hand there was a downward trend in the Europe trade of Bombay and Surat.26 Decline in the demand for indigo, an item which had hitherto been important in the English East India Company's import list, further contributed to the eclipse of Surat's Europe trade. 27 From the 1740s onwards trade between the west and east coast of India too tended to get neglected.2x Holden Furber linked this decline of east coast - west coast sea-borne trade to a 'commercial revolution' in the mid-18th century 'when the conquests and rivalries of European powers fostered a rapid expansion of trade between India and China'.29

Ultimately it was this very 'commercial revolution' which gave to Bombay its great chance. There is, however, a very crucial question of timing, both of the expansion of Bengal's eastward trade as well as that of the rise of Bombay. P J Marshall in his study of private British trade in Bengal has gone along with Furber in regarding the west coast trade to be in decline by the 1740s 10 a point on which many of the writings of the last few decades on the subject are generally in agreement. 11 However, while Furber had spoken of the almost simultaneous decline of western trade and growth of eastern trade,32 Marshall has suggested that the 'eastward trade was not providing substantial compensations until the 1770s', 33 i.e. that there was a gap of about 'thirty barren years'14 between the two developments.

It might be useful to note this 30-year gap in the context of Bombay's rise. If one understands the inability of Bombay to take advantage of the decline of Surat as being the outcome of (i) a general crisis of the western Indian trade network caused by the decline of the Mughal, Safavid and Ottoman empires; (ii) decline in the Europe trade of India's west coast and (iii) Bengal's shift away from trade with the west coast; or in other words, the result of problems afflicting the foreign trade of western India as a whole, so that it would not be immediately possible for Bombay to race ahead at the cost of Surat, we must then allow some time for a new set of circumstances which could help Bombay to realise its potential to emerge. There was a lag, as Marshall observes, in the case of Bengal, where, by the 18th century, most

of the activities of the English East India Company were already centred. The lag was much more in the case of Bombay, which had to build its trading network and its spatial relationship with a hinterland almost from the scratch, as it were. As late as 1788 Lord Cornwallis found it incomprehensible that a huge establishment should be maintained at Bombay, "to load one ship in the year and to collect a very small revenue". "5 He noted with dismay that the company had "appropriated the whole surplus revenue of Benaras and Bahar (sic) to the support of Bombay", and yet was "obliged to send many lacs thither from Calcutta". "6

#### COTTON AND OPIUM TRADE

That the period after 1784 is critical for Bombay's 'take-off' has been suggested by Pamela Nightingale. 17 In 1784 Bombay's trade received a boost with the rise, she argues, in raw cotton exports to China. These were to pay for the English East India Company's increased purchases of Chinese tea, which in turn grew by leaps and bounds following Pitt's Commutation Act of 1784 which lowered the duty on tea. 4 Although there is no denying the significant role of raw cotton in the Bombay-China trade, a little circumspection is called for in regarding cotton as the commodity responsible for Bombay's breakthrough. 14 Raw cotton exports from India to China increased steadily but the search for the right commodity with which to exchange tea was far from complete. Raw cotton exports were not able to keep pace with import of tea from China.

The solution was eventually provided by opium, particularly in the 1820s when exports of opium from eastern India, which had already been rising constantly since the end of the 18th century, combined with large exports of opium from western India as well. This period saw a quantum leap in the value of opium imports into China (Table 1).

TABLE 1: VALUE OF COTTON AND OPIUM IMPORTED INTO AND TEA EXPORTED FROM CANTON UNDER BRITISH FLAG, 1824-1833

(in Spanish dollars)

|        |            | •          |             |
|--------|------------|------------|-------------|
| Season | Cotton     | Tea        | Opium       |
|        | (Imports)  | (Exports)  | (Imports)   |
| 1824   | 5,220,851  | 8,898,575  | 5,450,000   |
| 1825   | 6,227,740  | 9,087,104  | 9,782,500   |
| 1826   | 7,215,332  | 10,443,775 | 9,269,826   |
| 1827   | 5,787,299  | 9,163,052  | 11,243,496  |
| 1828   | 5,603,953  | 8.540,855  | 10,908,852  |
| 1829   | 5,080,100  | 8,236,568  | 13,450,924  |
| 1830   | 5,628,485  | 8,430,983  | 12,222,525  |
| 1831   | 4,931,243  | 8,520,863  | 11,304,018  |
| 1832   | 5,474,825  | 8,813,171  | 12,185,100  |
| 1833   | 6,726,739  | 8,712,701  | 11,618,716  |
| Total  | 57,896,567 | 88,847,647 | 107,435,957 |
|        |            |            |             |

Compiled from: HB Morse, The Chronicles of the East India Company Trading to China. 1635-1834 (Oxford, 1926), Vols. III and IV.

One would like to suggest that the rise of Bombay coincided with an 'opium miracle'. and consequently that it would be appropriate to move forward the date of Bombay's ascendancy in western India to the second quarter of the 19th century. The question of timing is vital. It determines the nature of colonial hegemony in a given region. This hegemony far from being uniform is determined by the outcome of an actual struggle between, among others, dominant classes of the metropolis and indigenous groups. Even when there is collaboration, the terms of collaboration are decided by the strength/weakness of the one in relation to the other. An ongoing struggle settles the matter of strength/weakness. This is an obvious point, but needs to be particularly emphasised when we note the relatively greater capacity for intervention which indigenous groups at Bombay possessed. This had an important bearing on the configuration of power and hence control of urban space.

Bombay presidency was for long unable to generate sufficient resources to support its civil and military establishments and to finance its Gujarat and Malabar investments. In 1789 the supreme government estimated that Rs 56 lakh would have to be pumped into the presidency, an echo of Cornwallis' lament of 1788 cited above. 40 In the early years of the 19th century, Bombay was still chronically deficient. Fort William was not too pleased to learn from the Bombay government in 1801 that the deficit at that "Presidency for the current year 1801-02 will probably amount to Rupees 90,25,000."41

Lakshmi Subramanian's entire thesis of an 'Anglo-Bania alliance' in western India (Surat primarily) rests on the indispensability of western Indian 'sarrafs' in facilitating the movement of money from Bengal to the west coast of India.42 The liquidity crisis confronting Bombay presidency was surmounted by recourse to local credit. Discounting Bengal bills of exchange had become big business for the sarrafs by mid-18th century. Despite growing colonial penetration of the economy, which unfortunately Subramanian underplays. "implications of local credit intervention became more pronounced and its ramifications more extensive" in the last two decades of the century.41

The issue was not merely one of finding an appropriate mechanism for the transfer of funds to Bombay. Bombay was a liability in a more fundamental sense. Lack of extensive possessions by the British in western India till the second decade of the 19th century prevented Bombay from carrying out the sort of mopping operation which the company had been engaged in within Bengal and Bihar since Plassey (and more so since the grant of 'diwani'), making

it difficult for Bombay to 'internally' finance its purchase of goods for consumption and re-export.

Perhaps the feature of economic activity in western and central India which illustrates, most vividly, the vigour of Indian enterprise in the region during the early 19th century is trade in opium. In the case of Bombay the significance of trade in this commodity derives from the capacity of Indian merchants to thwart attempts of the British Indian government to establish a monopoly of the Bengal type over opium in western and central India. They were encouraged in their truculence by the tacit or active support of numerous other indigenous groups ranging from Indian rulers in the region with their truncated authority to armed bandits. The divergent policies pursued with regard to the opium produce of Bihar, Awadh, etc., on the one hand, and that of Malwa, Rajasthan, etc. (Malwa opium), on the other, must be kept in view in the context of far-reaching implications which a non-monopolistic policy, forced on the British in western India, had on the development of Bombay.

Opium had opened up new possibilities for placing a hinterland at the disposal of Bombay. Various restrictions imposed on the export of Malwa opium from western India, beginning with Bombay Regulation I of 1805,44 however inhibited the employment of Bombay's capital Till almost 1830-31 the non-economic means employed to check Malwa opium trade only delayed Bombay's search for a hinterland by driving this lucrative enterprise away from the port and into independent, indigenously controlled avenues.

Right since the beginning of the 19th century Bombay merchants had large stakes in opium. Opium restrictions had forced them to break out of the confines of Bombay and participate in an active smuggling trade in partnership with Malwa, Gujarat and Rajasthan business groups. 45 Bombay traders could not possibly afford to give up such an important field of investment. They therefore went in for opium smuggling in a big way. The Bombay authorities had often pointed out to the supreme government that the capital at hand in Bombay would not be easily inclined to withdraw "from this profitable trade" though Bombay merchants "would, of course, much prefer buying every chest of opium in a fair and open manner, to the course they were by our measures compelled".46

It was private, particularly indigenous, enterprise which took the lead in making Bombay the centre of the economic activity of western India. For its own survival Bombay's merchant class had to make the opium (and cotton) supplying areas of western and central India into a hinterland for Bombay. Towards the end of the 1820s

the Bombay government too, largely for reasons of revenue initially (though one should not ignore the traditionally strong links between the Bombay merchants and the Bombay government), was prepared to assist in this effort. Calcutta, to which the Bengal monopoly was of paramount concern, actually delayed the emergence of Bombay as the main centre for organising the colonial plunder of western and central India. It is no coincidence then that given this crucial role of Bombay's indigenous enterprise and its success in the fight against opium restrictions, its position could not be easily undermined when Bombay became the premier entrepot for Malwa opium after 1831.

It was almost inevitable that with the removal of restrictions on Malwa opium in 1831 and the concomitant expansion of trade in the commodity, spatially capital should have got concentrated at Bombay while western and central India tast became its hinterland. This spatial concentration was, irresistible given that opium was primarily a commodity of external trade and Bombay with its outward looking aspect and its financial and other institutions was the most convenient location that could be available to indigenous enterprise for conducting the opium trade.

Opium provided to the Bombay bourgeoisie an important source of accumulation. This accumulation, together with the capital which had become available through a strong indigenous presence in the commercial activity of western and central India, could then be channelised into industrial development at Bombay. This would take capitalist development in Bombay to a new level through making it a centre of production.

During the latter half of the 19th century the major contradictions between indigenous enterprise and British interests at Bombay were played out in the arena of industry. The resistance of the early 19th century ensured continued participation of indigenous enterprise at Bombay, symbolised by Indian control over the city's cotton textile industry founded in the 1850s.

The distinctiveness of the western and central Indian colonial situation had its impact on the urban development of Boinbay as a

TABLE-2 PERSONS PER HOUSE IN BOMBAY, 1826

| Area                       | Persons Per House |
|----------------------------|-------------------|
| Fort                       | 11.2              |
| Dongri                     | 8.7               |
| Byculla                    | 7.2               |
| Malabar Hill, etc          | 6.9               |
| Girgaum                    | 5.8               |
| Mazagaon                   | 5.25              |
| Colaba                     | 4.95              |
| Mahim, including Worli, et | c 3.6             |

Source Calculated from Census of Bombay, 1826,

capitalist port city. From an urban sociological perspective Bombay is representative not so much of a colonial city with its colonial/indigenous spatial dualism, but is an easily recognisable capitalist city with class differentiation determining its spatial pattern.

II

The nucleus of early British Bombay was the Fort area, situated along the south-eastern tip of the original island of Bombay and facing the harbour. Commuting to the Fort area of Bombay was to gradually become a significant feature of the city's life as residential areas came up at some distance from it. To start with, the security which the Fort provided, coupled with its location near the harbour and docks made it not only a commercial and administrative centre but a residential area as well. Eventually the Fort became hopelessly overcrowded and as we shall see it required a major fire in 1803 for some planning to be contemplated. The physical geography of the part of Bombay in which the Fort was located permitted expansion only in one direction, that is, towards the north. South of the Fort, the narrow strip of Colaba and Old Woman's Island had very little scope. To the west of the Fort there was some open space, the esplanade, and beyond it Back Bay.

The esplanade was usually left unbuilt in colonial cities as a convention, mainly for military reasons. It was of the nature of a clearing outside the Fort 'intended to prevent any person approaching the town without being seen from the citadel'.<sup>47</sup> The grand public buildings on the eastern edge of Bombay's esplanade were not constructed before the latter half of the 19th century.

With growing congestion in the Fort area, the appropriation of land within it primarily for commercial use, and with relatively greater security. Malabar Hill with its extension Cumballa Hill became the fashionable residential area for the colonial rulers. This was the more so after the governor shifted his residence from Parel to a most enviable site on the edge of Malabar Hill, overlooking the sea. This area was not too far from, yet not too near, the hub of activity in the city.

North of the Fort and separated from it by the esplanade was the main indigenous habitation zone. This zone was, until its subsequent further expansion to the north, almost walking distance from the Fort and the docks where many of the Indians found employment. As business grew and got attracted to the Fort area, it made sense to live in this zone and thereby cut down on commuting time, a crucial consideration in an age when mass rapid public transport was non-existent. As it is, Bombay being an

island, expansion in all directions was out of the question. Moreover, during the 18th century the salt flats in the centre of Bombay island were still in the process of being reclaimed, delaying the dispersal of population over this area. When in the latter half of the 19th century Parel and the area beyond towards the north and upto the waterfront in the east developed as industrial centres, population got concentrated along a diagonal running roughly from Dongri to Worli. This diagonal was more or less equidistant from the factories lying to the north and north-east of it and the commercial centres lying south and south-east of it. All this was of course before Salsette was seriously developed into a suburb of Bombay.

Some figures pertaining to the population of Bombay during the early 19th century are available which, though they may not be entirely accurate, give us a broad idea of the demographic situation in this period. It was estimated in 1814 that the permanent population of the island "may now be taken at 1.80,000 souls".48 The floating population was put at 60,000 making a total 2,40,000.49 This was an appreciable increase over the figure for the last quarter of 18th century. In 1780 the population of Bombay was supposed to have been 47.170.50 Already by the turn of the century there was a marked increase in the population of the city - or, at least, that was the general impression of contemporary observers. Maria Graham noted in 1809, shortly after the influx caused by a famine in the Konkan and Deccan, "I was informed that Bombay contains upwards of two hundred thousand inhabitants".51

#### POPULATION INFLUX

The influx seems to have been of a transitory nature. It certainly did not make Bombay a major centre of either production or consumption. When in 1805 Fort William was considering a plea made by the Bombay government for abolishing town duties, reference was made "to the limited consumption of the Town", owing to which "the amount realised from the Town duties at that Presidency" were "too inconsiderable". There was consequently no reason why the request should not have been acceded to. The supreme government hence recommended that the duties be abolished. "Suppose to the supreme government hence recommended that the duties be abolished."

The movement of population towards the city confirms however that Bombay's coastal/shipping links were stronger than its (overland) links with its interior. This enabled it to avoid serious food shortages. Foodgrains could be imported via the sea. Bengal was a major supplier during the Konkan famine of 1803. Naturally a number of people afflicted by the famine sought succour in privileged Bombay (see Appendix A).

There is a likelihood that early population figures were inflated. This is made apparent by a census of Bombay taken in 1826 which put the total population at only 1,62,570, i e, lower than the estimates for 1814.<sup>54</sup> In 1833 the population had risen to 2.34,032,55 a crude rate of growth of 5.34 per cent per annum. Another census, taken on May 1, 1849, recorded 5,66,119 inhabitants.56 By 1864, 8,16,542 persons resided in the city.<sup>57</sup> In other words the rate of growth of population between 1849 and 1864 had declined to 2.47 per cent per annum. Although as D R Gadgil had pointed out in the context of population statistics for Bombay that earlier counts appear to be over-estimates,58 the general impression one gathers is that the 1830s and 1840s were a period of very rapid increase as compared to the 1850s and 1860s. The overall rate of growth between 1826 and 1849 was 5.57 per cent per annum. This rate of growth was higher than that which occurred from 1849-1864 (2.47 per cent per annum), as well as for the overall period from 1826 to 1864, 4.34 per cent per annum.

By the end of the first quarter of the 19th century the bulk of Bombay's population was to be found in Dongri, Byculla, Mahim, Girgaum and of course the Fort. Dongri and Byculla with 47,359 and 31,083 inhabitants respectively accounted for as much as 48.25 per cent of Bombay's total population in 1826.<sup>59</sup> However, the Fort area was still the most densely populated part of Bombay. It contained 13,611 persons in 1826<sup>60</sup> (as against 10,801 in 1813<sup>61</sup>), who resided in 1,219 houses, that is, about 11.2 persons to each house. Table 2 gives figures for persons per house in various parts of Bombay in 1826.

These figures do not include the military and floating population of Bombay, which was put at 10,000 and 20,000 respectively.<sup>62</sup> It is unlikely that the floating population of

TABLE 3: NEWSPAPERS PUBLISHED FROM BOMBAY, 1851

|            | English | Gujarati | Persian | Marathi  |
|------------|---------|----------|---------|----------|
| Daily      | 3       | 1        | -       | -        |
| Bi-weekly  | 2       | 3        | -       | -        |
| Weekly     | 4       | 2        | 2       | 1        |
| Bi-Monthly | 6       | •        |         | <u>.</u> |
| Monthly    | 3       | 2        | _       | _        |
| Total      | 18      | 8        | 2       | 1        |

Source: BCGD, 1851, p 921.

Hombay would have easily found accommodation in the Fort, Colaba or Malabar Hill. This group would have mainly been dispersed over the indigenous zone thereby pushing up the density of those areas.

W H Sykes observed with reference to the 1849 census of Bombay that the "native town east of Bhendy Bazar contains more than two-fifths of the entire population of the Island". A Sykes further drew attention to the immense excess of males over females in Bombay, there being 3,54,090 males to 2,12,029 females in 1849. One of the reasons for this was that "Bombay comprises a large number of seamen, workmen in dockyards, factories, etc., who come without their wives".

Bombay was eventually placed in an arbitrarily privileged position due to colonial intervention. As such it was able to attract a large population which could not always be efficiently utilised given Bombay's lack of hinterland and its weak links with the interior. Consequently there was bound to be a section of the population which could not be provided steady employment. At peak times, particularly during the sailing season, some of the casual labour was able to find work in dockyards, cotton screws, etc, but this labour would have been redundant for the remaining part of the year when it would be forced to leave the island or possibly look around for means of self-employment. Warden's impression was that one-fourth of the population of the island was 'floating' in 1814. This floating population comprised "Camatees, Ghatees, Carwas, Maharattas, Arabs, Persians and Goa Portuguese, a great part the sea faring men, with many Parsees".66 These temporary residents remained in Bombay a few years, hoarded their earnings. "having saved from two to three hundred rupees, return to their native country, where they obtain as much land as they require".67 Much of this casual labour therefore retained a strong connection with land, something which would have inhibited the process of creating a large wage-earning class. Till such time as colonialism tightened its grip on the western Indian countryside, the possibility of falling back on land would have definitely prevented complete degradation of this floating population of Bombay. This is in sharp contrast to, say, the casual labour of London, which had really no land to return to, and was, therefore, forced to submit to the most inhuman living conditions.68 In England, of course, the supropriation of the countryside was extremely drastic and has never exactly been duplicated elsewhere." In western India too the rural uption was closed for urban dwellers once colonial exploitation led to a deteriorating agrarian situation. The fundamental difference was that in England agriculture had been rationalised; in western India, as in India as a whole, or for that matter in other colonies the situation was the reverse.

In Bombay city itself the strength of indigenous enterprise, the transfer of the opium trade to the city, the vitality of commercial activity and industrial development did help in partially overcoming the problem. In 1826 the floating population of Bombay was, as we have noted, placed at 20,000, a sudden drop as compared to the estimates of 60,000 for 1814. Too much should not be read into the decline of this component of the population within the space of just 12 years. Firstly, total population placed at 2,40,000 in 1814 was 1,62,570 according to the count of 1826, which in turn may be explained to some extent by an overestimation of the earlier figure. Secondly, we are completely in the dark about the precise definition of the category 'floating population' for both years. In the absence of information about what criteria were adopted for classifying someone as belonging to this category, a proper comparison between these two figures cannot be made. Suffice it to say that there was a sufficiently large floating population in the city during the first quarter of the 19th century, which may have been showing a downward trend during the late 1820s as a result of new avenues that became available with increased economic activity in this period.70

With the development of capitalism in Bombay it was necessary to ensure that those who came to the city did some work, even if it was something most dismal requiring much labour and yielding but a pittance. To be absolutely idle and unemployed, to give oneself up to vagabondage could mean taking to a life of petty-thievery. In a city where traditional ties did not exist, very much more so as Bombay had no pre-colonial past, the lack of such ties being underscored by market relations, little support from the community was forthcoming for anyone who had the misfortune of being totally without means of livelihood. Such a person might constitute a threat to property, he might rob, steal, burgle. This, capitalist society with its precise notions of property, does not tolerate. There were stringent provisions, therefore, in Bombay "for sending aliens off the island", particularly those who "live idle without work".71 Such persons could "be committed to iail, be flogged, and, upon a second conviction, upon production of the former record, they may be sent off the island".77

LABOUR, PRODUCTION AND URBAN SPACE

The division of labour and production for exchange which capitalism presupposes and the encapsulation of this division of labour within urban space leads to a major contradiction: while urban space must be appropriated for functions related to the accumulation of capital, this accumulation of capital is a negation of self-sufficiency and requires the apportioning of space for classes which live only by their labour. As economic activity gets concentrated in urban. areas due to the convenience of finding there the necessary labour as well as the infrastructure - finance, banks, credit facilities, transport, expertise, etc, - needed for the accumulation of capital (which in turn reinforces this concentration), the contradiction mounts. There is a tendency to apportion as little space as possible to the poor. This is not merely a matter of land value, which is bound to go up with such concentration and which as adding to the cost of production is somewhat offset by the abundance of labour within the urban area. but is also a matter of not providing adequate amenities for the poor, It is, however, desirable to have a growing population of those who are willing to sell their labour power since this allows a large residual section which can be both casually engaged and recruited if there is any attempt on the part of any group of workers/wage-carners to exert pressure for improving their lot.13

In a colonial situation even greater concentration occurred because an urban centre like Bombay was made the instrument of transferring the surplus of the surrounding hinterland to the metropolis and within this hinterland capitalist/industrial development was not encouraged. The territorial displacement of capitalism in 19th century colonial western India was complete as local urban centres were unable to develop. What we encounter is not a mere rural/urban dichotomy, which, incidentally is not an antagonistic one but an expression of a division of labour in society. We witness the appropriation of the hinterland for the benefit of the metropolis via a favoured urban centre. i e. Bombay. Indigenous enterprise, which too was drawn to the infrastructure offered by the port speeded up this process of concentration by helping in the appropriation of the hinterland. Indigenous intervention even with its own possibilities of capitalist accumulation could not but accelerate the emergence of Bombay as the focal point of the economic activity of western India. Hence, the disproportionate concentration resulting from activities relating to (a) colonial plunder; (b) indigenous enterprise; and (c) lack of adequate urban and economic development of the hinterland areas. Lastly, Bombay, it should not be overlooked, was a major administrative centre.

Generally speaking the appropriation of urban space is not just functional, but determined by class. Specifically in the context of Bombay the contradictions between colonial interests and various

weakness of these groups vis-a-vis colonial rulers as well as the position of these groups vis-a-vis each other determined its spatial pattern. Once again it is necessary to reiterate that Bombay is not strictly representative of a 'colonial city' with the connotation the term has of colonial/indigenous spatial dualism.

It should not surprise us that in view of Bombay's marginality during the 17th and most of the 18th centuries there should not initially have been much pressure on space within the city. As a consequence it took some time before rights to land began to be asserted. One general observation must be made here. The question of space became vital for one area - The Fort - very early on. This was because the Fort provided security; it was the main administrative and commercial centre; it was located adjacent to the harbour; and the seven islands of which Bombay was formed were still in the process of being connected so that it was not feasible for habitation to be widely dispersed.

The year following the transfer of Bombay from the crown to the East India Company, an official proclamation (which remained a dead letter) stated that all acquisition of land by individuals prior to 1661 proceeded from imperfect right.74 A few years later, in 1674, an important step was taken in the direction of the development of land as private property. Recognition was given to all the land then occupied, subject however to one condition. This condition was that occupants of land were liable to military service, the tenure being regarded as feudal.75 Significantly an added provision was that occupants could not be deprived of their holding without compensation.76 These arrangements were apparently applicable essentially to the Fort area, for in some of the other parts of Bombay - Girgaum, Chowpatty, Walkeshwar, Cumballa Hill and Mahim a tax called 'pension' was levied.77 This was of the nature of an agricultural tax on garden or rice land computed "at so much per wheel for irrigation".78 Although, according to Warden it would appear "that a very small part of the Island was in a state of cultivatio" at this date,74 technically these areas were not adequately urbanised.

In 1718 the pre-capitalist form (military service) which rent had taken in the Fort area was converted to a tax expressed in money, referred to as quit-rent. \*\*O This was really a tax for a service rendered by the state, rather than a rent on land. No argument in terms of a superior right to land was put forth. Quit-rent was legally only a reimbursement for expenses incurred in erecting fortifications. \*\*I To put it differently, it was a tax for providing security. Since if was the Fort and the surrounding area which benefited

land in the Fort, Colaba, the 'Black' Town and the New Town. The 'Black' Town and the New Town refers to the indigenous zone lying north and north-west of the Fort. #2

By the 1730s efforts began to be made to assert superior rights of the colonial rulers to land. This was obviously the easiest way to exclude, or at least limit indigenous access to land. Growing pressure must have been a cause for worry. Indians were preempted by a discriminatory taxation policy. A resolution of 1731 drew a distinction "between the English and black inhabitants". This policy did not deter Indians from acquiring landed property on an extensive scale in Bombay, a situation to which the strength of indigenous enterprise contributed in no small measure. In 1803, as we shall see, another attempt was made to undermine indigenous control over land in the Fort. The attempt proved to be futile. By the second decade of the 19th century there seems to have been an all round strengthening of property rights along capitalist lines with reduced colonial arbitrariness. Such colonial arbitrariness acts as a serious limitation to the proper exercise of bourgeois right by discriminating essentially along racial rather than class lines. in 1814 Warden advocated the further strengthening of private property."4 In that year the right of tenants to inherit and alienate land was also accepted."

The Fort area being the focus of Bombay's economic world, the actual outcome of the conflict between colonial rule and indigenous capitalism in Bombay was mirrored in that small strip of land. Just as the British were unable to completely overcome opium smugglers so too they could not prevent Indian merchants from gaining a foothold in the Fort area. Moreover, if Bombay's bourgeoisie was an important participant in the commercial life of the city its desire to be in close proximity to that infrastructure which colonial interests had spatially concentrated in the Fort was but natural. It would not be out of place to state here "that in 1707-8 the greater part of the ... Fort was private property; ...[and] that, for the purchases made from 1707-08 to 1758-59, it became the Company's and was subsequently transferred to individuals". No What this implies is that as by the beginning of the 19th century Indians were substantial owners of property in the Fort they must also have been involved in these large-scale purchases made during the latter half of the 18th century. Investment in real estate increased in this period: "the greatest portion of the property will be found to have been created since the year 1758". \*7

In 1803 a major fire broke out in the Fort. \*\*
DE Wacha recalled in his reminiscences that he had heard from his grandmother 'in the

the time the news of fire, large or small, was one to fill the citizens with extreme consternation, for it meant, in nine cases out of 10, total destruction of life and property". The fire became an occasion for trying to oust Indians from the Fort. This is understandable when we consider that land values in the Fort escalated shortly after the fire. Just before 1803 the price of land had been on average from eight to 12 rupees per square yard. Subsequently to 1803 land in the Fort was selling at prices ranging between Rs 16 and Rs 30 per square yard.

A town committee was appointed following the fire ostensibly "to investigate the nature of tenures" in tracts laid waste by the calamity.41 Under the garb of examining the nature of tenures in the Fort, the committee sought to obstruct reconstruction of indigenously owned buildings. 92 This was met with stiff resistance by Indians. They were not prepared to accept this threat to their right to reside and own property in the Fort. Though the town committee attempted "to carry their plans into effect, as well by threats as by persuation", the "natives ultimately succeeded in their opposition, and in the object of rebuilding on their old foundations". 43 Even the Court of Directors concurred in "permitting a native town within the Fort".44

We find Hormajee Bomanjee constructing his family residence in the Fort during the first decade of 10th century at an estimated expense of one and half lakhs of rupees. "Ardaseer Dady owned four buildings in the area." Mottichund Amichand had his premises in Bazargate Street. Besides, Cursetjee Manockjee, Kesowdass Ransordass, Moosa Mapla and Pestonjee Bomanjee also owned land in the Fort during the first quarter of the 19th century. Coercion having been unsuccessful, Indians were induced in this period to exchange land held in the Fort for large tracts of ground in Salsette, which was still in an undeveloped state.

#### INFORMAL SEGREGATION

Within the Fort itself there was some informal segregation. Indians clustered around the northern part of it whereas "in the southern part ... congregated the official European population". " Little planning had gone into the development of the For: " In the late 1820s it conveyed the impression "of a large irregular village than of a town".101 Writing in 1809, Maria Graham had observed that the Fort was "Dirty, hot, and disagreeable, particularly the quarter near the bazar-gate, owing to the ruins of houses which were burnt down some time ago, and have never been removed; but new buildings are in many places rising on the broken fragments of the old, so that the stricts are become so uneven as to render it disagreeable if not dangerous, for carriages to pass through them". 102

The bazar-gate was located at the northern end of the Fort, in the area where the indigenous inhabitants resided. The houses of Indians within the walls were "closely crowded together, very high, and mostly built of wood".103 The fact that they were made of wood must have added to the risk of fire. If even after the fire of 1803 wood continued to be so much in use as building material, bricks and stone must have been difficult to procure. As it is the expenses of building were great, owing partly to the high cost of labour, and accounted "for the apparently moderate profit enjoyed by the builder". 104 Hence, probably, the extensive use of wood. The wooden houses in the fort "with their wooden verandahs, venetian blinds, and heavy sloping roofs, covered with tiles' had a 'Swiss rather than Oriental appearance". 105 The absence of chimneys in these houses caused 'them to look as if they were so many warehouses'.106

There were certain physical limits beyond which it was not possible to go on adding buildings within the Fort area. By the end of 1820s "substantial buildings [extended] to very nearly three miles from the Fort". 107 Some efforts were made to relieve the congestion in the Fort area, though not always with much success. In the period after the fire, Indians had been persuaded "to limit their houses in respect to height and taking off from each front a portion of ground for widening the streets".108 Then in 1839, legislation pertaining to building construction in Bombay, Act No XXVIII, laid down that no building with a height extending 50 feet could be erected within the walls of the Fort. 109 Yet as late as the 1860s, the authorities noted that, "The Fort has hitherto been strictly limited by its ramparts..., but while its lateral extension has been prevented, there has been no restriction as to the number of storeys that might be added to houses".110

South, north and west of the Fort there was some open space. This could not be used for expansion partly for physical and partly for strategic reasons. Colaba and Old Women's Island were not fully integrated with Bombay till quite late. 111 Colaba was initially a cantonment area, although towards the beginning of the 19th century it was opened up for civilians. 112 The proximity of Colaba to the Fort, its spaciousness and fine view soon made it prime land. In 1805 the East India Company paid Rs 60,000 for purchasing eight houses in Colaba. 113

The large expanse of the esplanade merging with the sea on one side and with the indigenous zone on the other provided, apart from its strategic significance which has already been alluded to, much needed escape from the claustrophobia of the Fort. It was

a place where one could go for a breath of fresh air, for some recreation and for some exchange of gossip. Even in the third quarter of the 19th century the esplanade retained its calm. Despite the railway, textile mills. the cotton boom and rise in population the pace of life was still unhurried along the esplanade. Wacha gives a most vivid description of pleasant evenings spent here during the 1850s: "... squatting groups would be seen merrily playing games of cards... Refreshments were also vended. The only refreshment was the sugar-cane, stripped of its bark and cut into small cylindrical pieces which again would be subdivided into four. A large number of vendors, also Parsis, selling this fruit... moved from group to group..."114 Further.

the grounds on which now stand the Post Office... and the High Court were also utilised for recreation purposes, but evidently it was dedicated to the 'shettia loque' or the wealthier of the Parsi community. Members of this class, too, frequented the maidan and had their little groups – only these were a little more exclusive... These, too indulged in the luxury of 'ganderi' and also of confectionery... 115

It is pertinent that the esplanade was not appropriated exclusively for the use of colonial rulers.

Malabar Hill comes closest to King's concept of 'colonial settlement' in colonial urban centres as an area where the European civilian population resided and from which indigenes were almost entirely excluded. Indians, however, owned a lot of land in this area as well. Framjee Cowasjee "owned a few bungalows there" as did Hormusjee Cursetjee, son of Cursetjee Manockjee one of the prominent owners of land in Bombay whose property in the Fort has already been referred to above. Ith Kemp and Company had their medical dispensary in Malabar Hill in premises rented from Hormusjee Cursetjee's widow, Meheribai. Ith

Owning property in Malabar Hill was one thing but residing there was another. For Indians to stay there was not the done thing. In the 1840s "the healthy eminence of Malabar Hill was quite untenanted by any Parsees". 120 Houses owned by Parsis "were without exception occupied by Europeans", 121 When in 1848 Meheribai decided to shift to Walkeshwar, the step caused an outery which obviously had some sexist overtones as well: "The Parsee Punchayet the body conducting the social governance of the Parsee community, gave it out as their grave opinion, that it was anomalous for a Parsee lady to live in such an out-of-the-way locality". 122 This exclusive quarter extended almost upto Breach Candy at the northern extremity of Cumballa Hill. Breach Candy soon became "the general rendezous of the English community, where they met to settle the politics of the island, and to discuss the affairs of the day..."121

Class differentiation in Bombay was most sharply delineated in moving from the rarefied atmosphere of Malabar Hill. Walkeshwar, Cumballa Hill and Breach Candy to the Native Town north of the Fort. Here too as the demand for housing increased with the rise in population during the early 19th century, the value of land went up. Those who owned land took "all possible advantage of the area in their possession by building to its full depth" and "raised floor upon floor".124 Moreover, "some owners of plots of ground which have a frontage such only as may have been sufficient for a huckster's stall before the street attained to its present importance, have built with this small frontage, but with a greatly disproportioned depth, houses of many floors". 125 Consequently the overcrowding was oppressive. Dwellings were at times constructed by filling a wooden framework with brick and mortar or rubble masonry. In the poorer streets the walls were made entirely of wood. This rendered the structures insecure as was "shown in the many accidents that have resulted from falling houses in the 10 years ending with 1862. Besides many being maimed, there were 69 killed in that time".126

Congestion in the indigenous zone was in direct proportion to the concentration of economic activity in the Fort. In the absence of an even spacing of economic activity it was natural that those who had only their labour power to sell could not be widely dispersed but had to be as close as possible to the area which could provide them work. As Indian enterprise too tended to get concentrated in the Fort, reinforcing the economic significance of the area, the spatial disorientation of Bombay was ensured. We have also noted that Bombay during the first quarter of the 19th century could not efficiently utilise its large population. The fact that the Fort area was not a producing zone, rendered Bombay's labour even more underemployed. This meant that many were forced to be self-employed as pettyshopkeepers, hawkers, vendors, etc. It was possible to sustain oneself to a limited extent on this kind of activity since Bombay's wage-earners had to buy the necessities of daily life. Maria Graham recording her impressions of a visit to a Bombay bazar

Here you see grain of every description heaped in earthen jara; there, sweetmeats of all sorts and shapes, .... Further on, fruits and vegetables are laid out to the best advantage; then you come to the paung, or betel leaf, nut and chunam, ready for chewing, or the separate materials; beyond are shops for perfumes, linens, oils, toys, brass and earthenware...<sup>127</sup>

economic activity related to vending articles of daily necessity become that the Bombay authorities sought to impose a tax on shops and stalls. Act XI of 1845 provided "that it shall be lawful for the collection of Land Revenue of Bombay to make a Quarterly Assessment on each and every shop and stall within the Island of Bombay and Colaba". 128 The types of shops and stalls listed convey some idea about the nature of business in articles of daily necessity: Apothecary (Country), Bakers, Bread Sellers, Beteinut Sellers, Curds and Cream Sellers, Darners, Dinner Leaves Sellers, Onion, Garlic, Ginger, Potatoes and Yam Sellers, Pickle Sellers, Rice Sellers and, Tea and Sugar Sellers. (Bombay Calendar and General Directory, 1849 (BCGD), p 252).

The Native Town must also have had some autonomous economic activity, but this being on too small a scale and at a very low level, ultimately dependence on the Fort was crucial. This desperate dependence on the Fort must have been another factor in the disproportionate concentration in that area.

Such a situation in the main indigenous zone and the Fort led to unhygienic conditions. Until the lower classes could improve their bargaining position, little development of proper civic amenities for the poor took place. A H Leith, as deputy inspector-general of hospitals in Bombay, in a report of 1864 on the sanitary conditions in the city, reported that in a particular street "the houses on each side were of two or three floors, and the various rooms were densely peopled, and the floors of the verandahs were fully occupied, while to eke out the accommodation in some of the verandahs there were charpaees or cots slung up and screened with old matting to form a second tier of sleeping places for labourers that were employed in the day".129

In one of the chawls that Leith visited, he found "... in a narrow unpaved court, which was wet with the waste water of a well round which the people were bathing, there was a cesspit full of filth: in the same enclosures there was a row of necessaries behind which there was an unbuilt trench full of fluid excreta and foul water, the over-flowings of which passed along the base of the wall surrounding the mouth of a well that was but four feet from the privy. This well supplied its owner's household with drinking water. In this Chal there were ten cholera deaths". 130

Elsewhere he was led to latrines where "baskets which cannot retain liquid are used under the privy-seats, and those privies have a flat floor, and... as is often the case, not even a basket is used, and a sweeper never visits the place, but the accumulated soil is left to flow out on the pavement of the gullee..."<sup>[13]</sup>

So very extensive did this variety of conomic activity related to vending articles of daily necessity become that the Bombay atthorities sought to impose a tax on shops and stalls. Act XI of 1845 provided "that shall be lawful for the collection of Land evenue of Bombay to make a Quarterly ssessment on each and every shop and stall

The abysmal sanitary conditions prevailing in the Fort and to a greater extent in the Native Town were bound to result in the contamination of drinking water thus leading to cholera and other contagious and waterborne diseases. The shortage of water supply compounded the problem. Even British inhabitants had at times to procure water from distant sources. An entry of 1825 in Lady West's journal states, "we had 63 bottles filled yesterday at the Caves of Elephanta for drinking". 133 Repeated monsoon failures between 1824 and 1850 led to the drying up of the 136 public wells and tanks on which the inhabitants were completely dependent for their supply of water. By 1854 only eight of these wells and tanks contained good, potable water.134

In the 1850s a major project for the supply of water was under consideration in Bombay. The project was to be financed largely through an increased house tax.<sup>135</sup> Mariam Dossal's detailed study of this project has shed light on an important facet of this issue. The wealthier Indians led by Jamshetji Jejeebhoy, were not favourably inclined towards the project as they would have had to "submit to a heavy tax for such works".<sup>136</sup>

The matter was one of class interests. Privileged indigenous groups were not keen to provide amenities to the deprived sections if there was to be increased taxation. It might seem a contradiction that whereas the affluent sections tried to stall the move, it is the colonial state which was in this case taking the initiative in improving civic amenities. Enzo Mingione in his work on capitalist urban problems has pointed out that, "As the taxation system is based on residents,... any change discourages capital accumulation because it becomes - one way or another a direct taxation of economic activities".137 From the point of view of Bombay's capitalist class the question was whether it would be prepared to bear the high costs of urbanisation. In an overall situation of colonial constraints to accept this responsibility would have further reduced their scope for capital accumulation. One must recall here that indigenous investment in Bombay's housing and real-estate was extensive.

Life in the Native Town and Fort during the early 19th century must have been a miserable one. This was the more so as with the growing stability of British rule, security and overcrowding, the English inhabitants

of Bombay removed to the more familiantification and Malabar Hill, abandoning the Fort to commerce, and middle and upper class Indians. Of course there were still European residents in the southern part of the Fort, but what one is referring to is a tendency. 138

North and central Bombay did not come into their own until the industrial era. Just north of Dongri along the sea was Mazagaon. In 1826 it had a population of 4,696.<sup>139</sup> Maria Graham referred to it at the beginning of the century as "a dirty Portuguese village". <sup>140</sup> Even today there is "a very Portuguese air to Mathapakardy, the small settlement that nestles quietly in the heart of busy Mazagaon". <sup>141</sup> Not being very far from the Native Town or even the Fort, and due to its importance as a ship-building centre, Mazagaon was a settlement of some importance in the early 19th century.

Several portions of north and central Bombay had been reclaimed only during the early 18th century. 142 Having been reclaimed largely at government expense, the land had been let out to individuals, mainly Indians, for improvement. Most of this land was of the nature of salt marshes, and was designated 'foras'.147 Foras (lit. 'out of doors') denoted rent "paid by a cultivator or person permitted to occupy ground for the purpose of improving it". 144 Large tracts of Bycuila, Parel, Worli, Mahim, Dadar and Matunga were foras lands. 145 With the rising value of land in Bombay, the government tried to undermine the rights of holders of foras at the beginning of the century.146 At the same time the company contemplated an increase in rent, "but the holders of these grounds strongly resisted". 147 Eventually "the measure of increasing the rents was suspended, and the matter referred to the Hon'ble Court of Directors in 1815". 148 The matter was settled for the time being with titles of those "persons who were in possession in the year 1744" being recognised in perpetuity.149

The question of rights was reopened in the 1830s. In 1836 the construction of a major thoroughfare in central Bombay, passing through foras lands, was projected. 150 This thoroughfare, Grant Road, now Maulana Shaukat Ali Road, forming a junction with Girgaum Road was to have an east-west alignment. In 1838, work on the road commenced and the foras lands through which it passed were acquired without any compensation being paid. 151 Rapid expansion of the city and the construction of Grant Road must have further increased the value of land in central Bombay. In the 1840s we find leading merchants like Juggonath Sunkersett and Bomanjee Homasjee investing in land in the Tardeo and Grant Road area. 152

Parel, where also several foras holdings were located, had been a favoured resort in

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the 18th century. The governor had his residence here which with preference being increasingly shown for Malabar Hill was abandoned during the course of the 19th century. The threatened northward expansion of the indigenous zone and the overall southward shift of the European residential zone - Colaba and Malabar Hill - completed the eclipse of Parel. Some upper class Indians did continue to have their country residences in Parel during the 19th century, the most well-known being Pestonjee's 'Lal Baug'. The famous Lowjee family, it might be mentioned in passing, had been given 'inam' or cess-free grants in Parel and adjoining Naigaum in 1783.151 In the latter half of the 19th century this area became mainly an industrial zone.

#### MAHIM AND SALSETTE

Mahim had been an important settlement since the Portuguese days and was the most thickly populated area in north Bombay at the beginning of the 19th century. Mahim was estimated to have 13,726 inhabitants in 1760.<sup>154</sup> In 1826 the population of Mahim (including Worli) was 17,713.<sup>155</sup>

During our period Salsette, the large northern neighbour of Bombay, was still a backwater. It is only towards the end of the 19th century, particularly with the improvement of communications, that Bombay began to spill over into Salsette. Salsette was to become an 'umland': the 'umland' of a city being that portion of the surrounding country which is linked with the city as a centre. 15th As Bombay's physical geography permitted only northward expansion, the merger of Salsette with Bombay was inevitable.

Salsette had been one of the earliest additions to the Bombay presidency. It was "at the time of its acquisition much depopulated and scantily cultivated".157 With the growth in demand for food in Bombay, Salsette was sought to be better cultivated. Leases were granted on favourable terms to attract settlers.158 Bishop Heber refers to vegetables grown on Salsette being brought to the Bombay market.159 At the same time Heber noted that the island was "strangely unimproved having no towns except Tannah and Gorabunder (the first of which is indeed a neat and flourishing place, the other not so much better than a poor village)" 160 He went on to say: "This neglected and uncivilised state of Salsette is all the more remarkable,... because the neighbourhood of Bombay, and the excessive price of provisions there, would seem to lead to the cultivation of every inch of ground".161 Finally, Heber remarked that, "The population, however, poor as it is, and chiefly occupied in fishing, amounts to 50,000, a number which might be trebled if cultivation were extended at anything like the rate which it has been done in Bengal". 142

The main reason why the supposed capacity of Salsette remained underutilised was that cultivation called for a large investment. According to a report of 1836 one of the major obstacles in the development of Salsette was "the nature of the soil itself, which is not capable of being made productive without the constant and unceasing aid of expensive appliances". 163

There is one sense in which Salsette was tied to the economy of Bombay in the early 19th century. It provided a field for investment in land. Several prominent merchants of Bombay had been granted holdings in Salsette in this period, some of which had been given in exchange for land in the Fort. 164 Ardesar Dadaji had been granted the villages of Malhar, Dysar, Magatney, Tulsi, Areyn. Eksar, Kanari and part of Pahadi in lieu of land in the Fort. Hormasjee Bomanjee had similarly been given the villages of Kurlen, Maroli, Asalpay, Kolikalian, Mohili, Paraipor and Shahar (collectively referred to as the Kurla estate). 165 Some of the other prominent landowners in Salsette were: Cursetjee Manockjee (Anik); Dhakjee Dadajce (Varsavay); Framjee Cawasjee (Poway estate), Jamsetjee Bomanjee (Vila Parla, Jhu); Kharsetjee Cowasjec (Goregaum); Ratanjee Eduljee (Gatkopar); Krushnarao Raghunath (Borvday); and Luxmon Hurrichanderjee (Chincholi).166

It would seem that some of the indigenous investment in Salsette was of a speculative nature. It was rare for Bombay merchants to go in for investment in agriculture.167 One of those occasional instances is that of Framjee Cawasjee who tried to introduce scientific agriculture on his Poway estate. The relatively greater stability of indigenous enterprise in Bombay did not incline Indian merchants towards large investments in agriculture. Urban real-estate, over which they already had significant control (Pestoniee Bomaniee boasted to Maria Graham "that he received not less than Pond 15,000 a year in rents and his brother received nearly as much"),168 held greater attraction for them.

The development of capitalism in Bombay was not only expressed in the specific spatial pattern of the city but also in the availability of certain facilities and services so characteristic of a capitalist city, especially a major administrative and commercial centre. To some extent such facilities were the outcome of Bombay's privileged position within the colonial scheme of things: systematic appropriation requires an infrastructure.

In the context of early 19th century colonial Bombay the growth of specialisation could at times be deceptive, especially at the lower level. The non-manufacturing nature of Bombay in this phase must have, as we have already noted, led to a number of people becoming hawkers, vendors, small-shopkeepers, carriage drivers, palanquinbearers, etc. Unfortunately our information is limited to those services and facilities which were usually availed of by the English or upper class Indian inhabitants of Bombay.

There were, by the late 1830s and early 1840s several hotels, coffee-shops, eating houses and confectioneries in the city. In contrast to the situation at the beginning of the century when Maria Graham lamented that "there is but one tavern in Bombay and... that is by no means fit for the reception of ladies",169 and a similar statement by Mrs. Elwood in the late 1820s that "... it is most singular that there are no hotels to which a lady could with propriety go", 170 several hotels came up between the late 1830s and early 1850s: Victorial Hotel, Hope Hall, British Hotel, Madam Costa, Royal Family and Benson Hotel. 171 The hotels proclaimed their respectability by announcing the availability of accommodation for 'Families and Gentlemen'.122 These hotels were not exclusively European owned but had indigenous involvement as well. Victoria Hotel in Apollo Street had, for instance, Nasserwanjee Cooverjee as one of its owners.173

The Shop and Stall Tax of 1845 differentiated between two kinds of eating houses. Eating houses for Europeans on which the quarterly assessment was Rs 4, and ordinary eating houses (apparently for non-Europeans) on which the tax was one rupee. 174 The implied segregation is significant. A similar type of establishment referred to in the list pertaining to the Shop and Stall Tax is the coffee shop. 175

The taste for European confectionery was not limited to the British residents alone, but had percolated down to some indigenous sections as well. Indians were also engaged in vending this kind of confectionery. Dhunjeebhoy Framjee's bakery was one of the well known establishments in the early forties. 176 In the forties itself Rustomjee Framjee was one of the two 'iceconfectioners' in Bombay, the other being a European. 177 Wacha tells us of "a Parsi who had a bakery in Barrack Lane" in the 1850s. A shop, familiarly known as 'Bahadurji's Bakery' "had the custom of the rich and middle class Parsis", while another 'humbler confectioner of the Military Store Lane supplied the needs of the lower classes'.178

At a more mundane level, we have seen that the supply of food to Bombay had been taken care of largely through sea-borne trade. For highly perishable commodities like vegetables and fruits, however, local production was necessary. Among the vegetables grown in Bombay were brinjals, bhindi, various types of gourds, and sweet potatoes.<sup>179</sup>

Peas and beans were also grown but were of 'indifferent quality'. Not much success had attended planting of cabbage, carrots and turnips. There was some specialised horticulture also im Bombay was famed for its onions;181 Mazagaon for its mango.182 Finally, some rice was still cultivated on the island in the early 19th century.187

As settlements got dispersed over the island, the demand for transport also increased. Buggies, carriages, carts. palanquins, etc, were available for hire.184 The rise in their number necessitated legislation to regulate such transport. Act No IV of 1841 allotted specified parking places (stands) for public vehicles and palanquins. 185 The phenomenal rise in utilisation of road space can be guaged from the following statement pertaining to the 1860s:186

As many as 598 carriages in addition to bullock carts were counted passing along the Bhendy Bazar in one hour, and as there were 4,500 foot passengers for whom there are no foot paths, the danger to life is very great and many accidents occur.

The newspaper has been projected by RE Park as one of the hallmarks of modern urban life. It is, in his words, "The great medium of communication within the city, and it is on the basis of the information which it supplies that public opinion rests. The first function which a newspaper supplies is that which formerly was performed by the village gossip".187 In Bombay during the 1830s and 1840s there had been a steady rise in the number of newspapers published from the city. By 1851, 29 newspapers were being published in four languages - English. Gujarati, Marathi and Persian:

Finally, there was the seamier side of Bombay. Petty crime in the city was the obverse of a flourishing commerce in opium. J P Grant, judge of the King's Court in Bombay, delivering an address in 1828 stated that, "Daring robbenes are perpetrated within the walls of the fortified town by gangs goods are conveyed to the ramparts and lowered down by ropes attached to the guns of the fort".188 Crime had brought with it a police force. Bombay in the 1830s had a senior magistrate, a junior magistrate, a superintendent of police and a high constable. There were three police divisions - Fort, Byculla and Mahim - each with a head constable.184

This police force, along with the judiciary, became the instrument for safeguarding bourgeois property against pilferage and theft. Punishment was harsh: confinement, banishment, torture. In the Petty Sessions "the infliction of punishment by rattan" was "a very common sentence" during the 1820s. 190 Lashing was "ottended with extraordinary severity, drawing blood at every stripe, and sometimes taking off with it small pieces of flesh". 191 While upper class Indians served on juries or were appointed justices of peace, the poorer sections were the victims of such brutal methods of punishment. The scars caused by lashing which were "never obliterated but by death" could be observed "on many a native as he toils along the streets of the town under the burden of a palanquin".192

Magistrates exercised their authority most arbitrarily, carrying terror "into the poorest hovel by his peons dispersed over the island". 193 Appeal against such arbitrariness was not easy. In a Kafkaesque episode, "on the October 6, 1817, a man ... was sentenced to hard labour till he should find securities. Under this sentence he remained in jail till

#### **Appendix**

The pattern of Bombay's intercourse as it had developed by the beginning of the 19th century is perhaps best illustrated by the contrast between the situation in Bombay on the one hand and the Deccan and Konkan on the other during the famine of 1803." While shortages overtook the Deccan and Konkan, Bombay was in a position to support a growing population which flocked to the city to seek food and employment there in the wake of the famine. A perusal of records pertaining to this period, especially for the year 1804, leaves one in no doubt that by the early 19th century Bombay had an extensive sea-borne trading network for supply of grain to it. The Konkan was one of the major sources for the supply of grain to Bombay by the middle of the 18th century. However, Bombay's connections permitted it to tap alternative sources further afar with the help of a merchant class capable of handling a considerable trade in grain. This merchant class already included a number of Indians trading on their own account.

It is not surprising that Forbes and Company and Bruce, Fawcett and Company should have been at the forefront of those who contracted to supply grain to Bombay during the famine. These two firms had been in existence since the last quarter of the 18th century and worked in close alliance with each other during the early 19th century.4 Their connections and influence with the Bombay government are well known. They were therefore able to wangle several tenders for providing grain to Bombay. We know that in 1804 Forbes and Company had got at least one contract for 10,000 bags of rice (1 bag = 168 lbs) to be shipped from Bengal. In August 1804 a lengthy correspondence ensued between Forbes and Company, Bruce. Fawcett and Company, and some other firms and the Bombay government over the question of raising the price of rice originally stated in their tender. Initially, these firms had undertaken to supply rice at Rs 7 per bag. In August 1804 the Bombay government agreed to a price of Rs 9 per bag, though merchants kept grumbling that the price might rise to over Rs 12 per bag.h It was reported that the prices at Calcutta had been going up due to increase in demand at Bombay,' which is significant being indicative of a certain orientation of the market. Sea-borne trade made the economic

integration of Bombay with Calcutta much easier. The cost for transporting grain from Calcutta to Bombay was estimated to be four rupees per bag, for a ship-load of 10,000 bags. Among the Indian merchants involved in this trade we have reference to Nasserwanjee Manockjee of Bombay who had been commissioned by Dorabjee Byramjee of Calcutta to dispose 29,000 bags of rice. Nasserwanjee Manockjee's name appears in the Bombay Directory of 1792 as one of the prominent merchants of the 'Persic Caste'.

Not without reason then a large number of people sought refuge in Bombay, where food was more easily available as was some sort of poor relief and employment through public works like road construction." Of course, typically capitalist vices like speculation in foodstocks and adulteration were very much in evidence "

#### Notes

- (a) Among the causes of the Great Famine of 1803 in the Konkan was the partial failure of rains in 1802 and a more complete failure in 1803 See Campbell, Materials, Vol III, p 522. It might also be worth exploring a possible connection between colonial intervention and the famine.
- (h) Cf Imperial Gazetteer, Vol VIII, p 407.
- (c) By the 1740s the company was regulating the grain trade of the Konkan to meet Bombay's growing demands (cf Lakshmi Subramanian, 'Bombay and the West Coast in the 1740s', IESHR, Vol XVIII, 2 (1981), p 216).
- (d) James Douglas, Bombay and Western India, Vol I (London, 1893), p 244.
- Ibid, p 242; also Nightingale, Trade and Empire in Western India, pp 24-5.
- R Henshaw, Custom Master, Bombay, to J A Grant, Secretary, Bombay Government, August 20, 1804, Maharashtra State Archives (hereafter MSA), Grain Scarcity Records (hereafter GSR), Diary No 319
- Letter to Bombay Government, August 22, 1804, MSA, GSR, Diary No 319.
- (h) Ibid
- (1) lbid.
- lbid.
- Letter to Henshaw, August 23, 1804, MSA, GSR, Diary No 319.
- Douglas, Bombay and Western India, Vol
- (m) CfMSA, GSR, Diary Nos 317-22, September 1803 to June 1806
- Letter to Grant, July 17, 1804, MSA, GSR, Diary No 319

July 1823, a period of six years, when he died in jail". 194

Michel Foucault speaks of the "severe repression of illegality", out of all proportion to the offence, in bourgeois society: "The development of ports, the appearance of great warehouses in which merchandise was stored, the organisation of huge workshops... also necessitated a severe repression of illegality. The way in which wealth tended to be invested, on a much larger scale than before, in commodities and machines presupposed a systematic, armed intolerance of illegality". 195

The development of capitalism in Bombay was thus equipped to protect bourgeois property against petty-crime while, in a world of topsy-turvy morality, colonial and indigenous enterprise operating from the city merrily peddled opium to the Chinese.

#### Notes

[Financial assistance provided by the Indian Council of Historical Research is gratefully acknowledged.]

- 1 Gillian Tindall's, City of Gold: The Biography of Bombay, London, 1982.
- 2 "The British worked well with the Parsees of Bombay, ... who seemed to think more or less in the European manner, and were the first natives in India to play cricket ..." James Morris, Pax Britannica: The Climax of an Empire Harmondsworth, 1981, p. 148.
- 3 K N Chaudhuri, The Trading World of Asia and the English East India Company, 1660-1760 (Cambridge, 1978), p 131.
- 3a Samir Amin, Accumulation on a World Scale (Sussex, 1974), p 146
- 4 Cf A D King, Colonial Urban Development (London, 1976), pp 36ff.
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- King, Colonial Urban Development, p 228.
- 7 Cf Suhash Chakravarty, Anatomy of the Raj (New Delhi, 1981), p 90.
- 8 See Partha Mitter, 'Architectural Planning and other Building Activities of the British in Madras, Bombay and Calcutta c 1630c 1757' in Dilip Basu (ed), The Rise and Growth of the Colonial Part Cities in Asia (Berkeley, 1985), p 192.
- See Amar Farooqui, 'Colonial Get-Away'.
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- Economic and Political Weekly (bereafter, EPW) Vol XXVI, No 50, December 14, 1991, pp 2874-75.
- 10 It has a harbour with an effective area of about 194 square kilometres of shallowed deep water, making it one of the most suitable places along the western coast of India for receiving and putting out ships. See O H K Spate and A T A Learmonth. India and Pukistan: A General and Regional Geography, third edition (London, 1967), p 656.
- 11 The ghats are pierced by three passes: Tal, Nana and Bor. These make possible communication between the Konkan coast and the Deccan. At the northern end of the ghats, where the river Tapti flows towards the sea, another gap for communication is afforded.
- 12 R N Hamilton, Resident, Indore, to Crawford, Chairman, Great Indian Peninsular Railway Co, March 6, 1847, National Archives of India (hereafter NAI), Foreign Department (Political), No 89, April 24, 1847
- 13 The Bombay Times and Journal of Commerce, July 10, 1840.
- 14 Cf K N Chaudhuri, Trading World of Asia, p 49.
- 15 Jean de Thevenot in S N Sen (ed). Indian Travels of Thevenot and Careri (Delhi, 1949), pp 8-9; Travels in India by Jean Baptiste Tavernier, tr V Ball, Vol I (London, 1889), pp 48-50, 68 and 71-72; Durate Barbosa, The Book of Durate Barbosa, tr M L Dames, Vol I (London, 1918), p 129; Ashin Das Gupta, Indian Merchants and the Decime of Surat, c 1700-1750 (Wiesbaden, 1979), p 8; B G Gokhale, Surat in the Seventeenth Century: A Study in Urban History of Pre-Modern India (Bombay, 1979), pp 73.77.78 and 80; and Irfan Habib, An Allas of the Mughal Empire (Delhi, 1982), pp 25 and 58.
- 16 Cf Habib, Atlas, p 58.
- 17 Gokhale, Surat in the Seventeenth Century, p 82.
- 18 F Warden, Report on the Landed Tenures of Bombay, August 20, 1814, Selections from the Records of the Bombay Government (hereafter BGS), New Series, No 64 (Bombay, 1861), p 24
- 19 John Burnell, Bombay in the Days of Queen Anne, intro, and notes by S T Sheppard (London, 1933), p 61
- 20 Holden Furber, Bombay Presidency in the Mid-Eighteenth Century (Bombay, 1965), p 2.
- 21 Details of the early colonial history of Bombay are fairly well known. Suffice it to say that the 'Vasco da Gaina era' of its history began with the arrival of the Portuguese at the island in 1509 and the establishment of their authority over it in 1534. The Portuguese made over Bombay to the British under provisions of the treaty of 1661 concluded on the occasion of the marriage of Charles II of Great Britain and Catherine Braganza of Portugal. The British crown managed to eventually get actual possession of the island in 1665, and in turn

- passed it on to the East India Company, for token Ponds 10 annual rent.
- 22 Das Gupta, Decline of Surat, p 8.
- 23 Cf Gokhale, Surat in the Seventeenth-Century, p 73.
- 24 The answer to this question is not necessarily easy or obvious. If, for instance, we regard the decline of Surat, in the words of David" Hardiman, as being "bound up with the" increasing penetration and control of india's external trade by European powers in the period after 1500" it might be possible to see the rise of Bombay as a triumph for British enterprise along the western coast. (David Hardiman, 'Elite Conflicts in a Trading Empire', Review of Das Gupta, Indian Merchants and the Decline of Surat. EPW, Vol XVI, No 50, December 12, 1981, p 2039). In the case of Surat one is not entirely convinced that European penetration had indeed become decisive in the early 18th century Das Gupta in a rejoinder has provided evidence indicating that in this period "European companies at Surat carried no more than one-eighth of the city's maritime commerce" (Ashin Das Gunta, 'Indian Merchants in the Age of Partnership, 1500-1800', Dwijendra Tripathi (ed), Business Communities of India A Historical Perspective, New Delhi, 1984, p.30). It does appear that Gujarati commerce, especially with west Asia, was able to withstand the European onslaught till the beginning of the 18th century Gujarati resilience has to be seen in terms of the strong presence of the Ottoman. Safavid and Mughal empires, the crisis at Surat beginning with the decline of these three empires around the turn of the 18th century.
- 25 Tapan Raychaudhuri and Irfan Habib (eds), The Cambridge Economic History of India, Vol 1 (Cambridge, 1982), p 402.
- 26 Holden Furber, Rival Empires of Trude in the Orient, 1600-1800 (Minneapolis, 1976), pp 131-32 and 34.
- 27 Chaudhuri, Trading World of Asia, p 98.
- 28 Holden Furber, John Company at Work (Harvard, 1951), p 161
- 29 Ibid, p 162.
- 30 P J Marshall, East Indian Fortunes: The British in Bengal in the Eighteenth Century (Oxford, 1976), p 104.
- 31 E g. Ibid; Furber, Rival Empires of Trade, p 131; Chaudhuri, Trading World of Asia, p 98; Ashin Das Gupta, 'India and the Indian Ocean in the Eighteenth Century' in Ashin Das Gupta and M N Pearson (eds), India and the Indian Ocean: 1500-1800 (Calcutta, 1987), p 143.
- 32 In his earlier John Company at Work (p 164) and in his more recent Rival Empires of Trade (p 279), published in the same year as Marshall's East Indian Fortunes.
- 33 Marshall, East Indian Fortunes, p 104.
- 34 Ibid.
- 35 Cornwallis to Henry Dundas, November 4, 1788, Charles Ross (ed), Correspondence of Charles, First Marquis Cornwallis, Vol. 1, second edition (London, 1859), p.390.
- 36 Ibid.
- 37 Pamela Nightingale, Trude and Empire in

- Western India, 1784-1806 (Cambridge, 1970), p 23
- 38 Ibid
- 39 Trade between China and England with tea as the main commodity had been rapidly expanding right from the beginning of the 18th century The Commutation Act of 1784 only gave further encouragement to it K N Chaudhuri notes that the first decade of the 18th century "was the critical decade of take-off for tea consumption on a large scale", Trading World of Asia, p 388
- 40 See Lakshmi Subramanian, 'Banias and the British The Role of Indigenous Credit in the Process of Imperial Expansion in Western India, in the Second Half of the Eighteenth Century', Modern Asian Studies (hereafter MAS), Vol XXI, 3 (1987), p 485
- 41 Fort William to Bombay Government, July 23, 1801, NAI, Home Department (hereafter HD), Misc Letters
- 42 Subramanian 'Banias and the British', pp 473-510
- 43 Ibid, p 493 M Torri in a critique of Subramanian contends that the traditional sarraf network at Surat was on the verge of collapse towards the end of the 18th century "largely because of political and economic changes brought about by the rising colonial order" M Torri 'Trapped Inside the Colonial Order The Hindu Bankers of Surat and their Business World during the Second Half of the Eighteenth Century', MAS Vol XV No 2 (1991) p 369
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- 45 See Amar Farooqui, 'Opium Enterprise and Colonial Intervention in Malwa and Western India, 1800 1824' (forthcoming in Indian Economic and Social History Review, 1995)
- 46 Minute by J Malcolm, May 6 1830, NAI, Separate Revenue Branch (henceforth SRB) No 23 of 7 September 1830, also Bombay Government to Supreme Government, December 5, 1829, NAI, SRB, No 14 of January 12, 1830
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- 52 Fort William to Bombay Government, 29 December 1805 NAI, HD, Misc Letters
- 54 'Census of Population of Islands of Bombay and Colabah taken in 1826', Transactions of the Bombay Geographical Society, III (Bombay, 1840), p 72
- 55 Bombay Calendar and Almanac (hereafter BCA) of 1838 (Bombay 1838), p 121
- 56 W H Sykes, On the Census of the Islands of Bombay and Colabah (Bombay, 1852).
- 57 A H Leith, Report on the Sanitary State of

- the Island of Bombay, BGS, new series, No 80, (Bombay 1864), p 46
- 58 DR Gadgil, 'Origins of the Modern Indian Business Class An Interim Report', New York, 1959, reprinted in S Brahme (ed), Writings and Speeches of D R Gadgil on Economic and Political Problems (Pune, 1981), p 325, n 7 On the shortcomings of early census figures for Bombay see also Dossal, Imperial Designs, pp 24-25
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- 62 Census of Bombay, 1826, Table 1
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- 65 Ibid p 2
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- See Gareth Stedman Jones, Outcast London (Harmondsworth, 1976) especially, chapter 3

- Cf Enzo Mingrone, Social Conflict and the City (Oxford, 1981), p 91
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- 82 Cf Ibid, p 16
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## The United Nations, the US and Northern Iraq

#### **Ninan Koshy**

The dominance of the US in the security council led to the interpretation and implementation of the resolution 688 according to the US objectives, and a clear manipulation of UN processes including post-facto legitimisation by the UN of US actions. The overriding motive behind the US intervention in Iraq was not assistance to the Kurds, but maintenance of the gains of the Gulf war and the assuagement of public opinion in the west.

WHILE it is generally agreed that the recent missile attacks by the US on Iraq are a flagrant violation both of international law and Iraqi sovereignty it is not often recognised that practically all US actions in northern Iraq since 1991 are in contravention of international norms. A close examination of US actions and UN resolutions will show that the US and its allies deliberately misinterpreted UN resolutions to suit their plans, manipulated UN processes to attain their objectives, took actions in the name of the UN without authorisation and managed to obtain subsequent legitimisation by the UN in some instances.

We attempt here an analysis of security council resolution 688 which is frequently quoted by the US as the basis for its actions with regard to northern Iraq. The commander of the US naval forces in the Gulf claimed that the recent strikes against Iraq were meant as a warning to adhere to requirements outlined in the UN security council resolution. Secretary of State Warren Christopher said in Paris on September 5 that "importance of a no-fly zone was generally agreed to be a good way to carry out UN Resolution 688".

The security council of the UN at its 298th meeting on April 5, 1991 adopted resolution 688, condemning "the repression of the Iraqi population in many parts of Iraq, including most recently in Kurdish populated areas, the consequences of which threaten international peace and security in the region". The resolution outlined a series of measures to be undertaken by the Iraqi government and by the UN.

The resolution was an innovation and unprecedented. It clearly departed from the traditional interpretation of Article 2, paragraph 7 of the UN charter regarding non-intervention "in matters which are essentially within the domestic jurisdiction of any state". There were other elements also in the resolution which reflected a clear departure from previous practices of the security council.

#### THE BACKGROUND

'Operation Desert Storm', launched against Iraq for its invasion of Kuwait, was halted by the US president on February 27, 1991, at midnight. After less than five days of heavy ground warfare which followed hi-

tech aerial bombardment from January 16, 1991, the coalition forces led by the US had not only pushed Iraq out of Kuwait but occupied more than 15 per cent of Iraqi territory

In the wake of the devastating defeat of the Iraqi army, revolt against the Iraqi regime first erupted in southern Iraq and soon spread to the Kurdish populated region in the north. Kurdish forces were briefly in control of Arbil, Sulamaniyah, Dahok, Zakho and neighbouring towns. As government forces began to recapture these towns and cities, a mass exodus of Kurdish population began. By the end of March, it was estimated that over one million Kurds had fled to Iran, while hundreds of thousands headed towards the Turkish border, to escape the aerial and ground bombardment by Iraqi military forces.

Thus, one of the largest mass exoduses in recent history took place. The television pictures of hundreds of thousands of Kurds seeking refuge in the mountains in the winter, dying, destitute and dehydrated, forced international action. The pictures were politically uncomfortable and strategically inconvenient to the coalition states, especially the US. To them, it appeared that the gains of the war were being lost in the mountains bordering Turkey and Iraq. In several western nations, there were demands for action.

Some observers trace the uprising in the southern and northern parts of Iraq to a statement made by president Bush at the height of the war. In remarks made to the American Academy for the Advancement of Science he said: "But there's another way for the bloodshed to stop, and that is for the Iraqi military and the Iraqi people to take matters into their own hands to force Saddam Hussein, the dictator, to step aside and to comply with the UN and then rejoin the family of peace-loving nations".3 It is true that the president did not explicitly promise coalition support to any rebellion but it is quite conceivable that at least some sections of those who rebelled expected such support.4

In addition to the immense pressure from the public of many western countries, intensified by media exposure of the suffering of the Kurdish population, the US had to deal with the pressure from Turkey, whose support to the US was crucial in the war against Iraq. It was true that with the sudden influx of such a large number of refugees, Turkey was facing a massive humanitarian problem. It was also important for Turkey to try to contain the Kurdish problem in Iraq without further complicating its own problems with the Kurds in Turkey. It however, realised that this would not be easy.

Western nations felt that the UN had a special responsibility as the situation in the Kurdish region developed directly as a result of a UN-sanctioned war. It appeared that further action against Iraq would fit into the scheme of things and the series of actions initiated by the security council from August 1990, and that the continuation of punitive action against Iraq would have general international support. It is this context that made it possible for the security council to adopt resolution 688.

#### THE RESOLUTION

It is not clear under which provisions of the UN Charter this action of the security council was taken. The reference to "the consequences of which threaten international peace and security in the region" might give the impression that the action was taken under chapter VII of the charter. But a closer reading of the resolution leaves one with the impression that the security council did not want to refer to any particular provision of the charter under which it was acting. In fact the only reference to the charter in the resolution is Article 2(7) which is a negative one prohibiting the UN from intervening in matters which are essentially within the jurisdiction of any state.

The security council acted on the basis of letters from representatives of Turkey, France and Iran. The three letters underlined the magnitude of the suffering of Iraqi refugees, the international character of the crisis and its consequences for regional peace and security. On the other hand a letter from the permanent representative of Iraq to the UN addressed to the secretary-general had alleged that certain circles within the security council were taking actions "aimed at disrupting the internal security" of the country. Iraq thus maintained that the revolt by the Kurds and the Shiites was instigated from outside."

In addition to the recalling of Article 2. paragraph 7 of the charter, the preambular part of the resolution went on to "reaffirming the commitment of all member states to the

sovereignty, territorial integrity and political independence of Iraq and of all states in the area".

As mentioned earlier the resolution was unprecedented. There was no previous instance where the security council had condemned in such language the domestic policies of any government. While the security council attempted to maintain that its concern was with the repercussions of the Iraqi government's action for international peace and security in the region, it condemned "the repression of the Iraqi civilian population in many parts of Iraq, including most recently in Kurdish populated areas". It demanded Iraq "immediately end this repression". The 'insistence' that 'Iraq allows immediate access by international humanitarian organisations" was different from the generally accepted principle of consent regarding international assistance to affected populations within a state.

The resolution gave a rather vague mandate to the secretary-general in requesting him "to use all the resources at his disposal". It was not clear what kind of actions the secretary-general was expected to carry out or what the resources were. Statements by some member states later indicated that they had different kinds of expectations from the secretary-general. The secretary-general himself referred to this lack of clarity later in the year in his report to the general assembly.

It is important to point out that resolution 688 did not refer to the Kurds as a people. nationality, group or minority. The reference is only "to the Iraqi civilian population in many parts of Iraq, including most recently in Kurdish populated areas". It was known that earlier drafts of the resolution did refer to the Kurds as a group and that such reference was omitted because of objections from Turkey. Apparently, Turkey did not want a recognition of Kurdish identity in Iraq or in Turkey. In effect, the security council does not admit that it is acting with specific reference to the human rights of the Kurds. Even in the part of the resolution which expresses the hope for an open dialogue, it is in order to "ensure that the human and political rights of all Iraqi citizens are respected". Of course, it may be argued that "all Iraqi citizens" include the Kurds but that does not hide the fact that the omission of specific reference to the Kurds was deliberate. This lack of specific reference to the Kurds as a group and to their rights is specially noticeable when the Iraqi constitution and laws themselves recognise Kurds as a minority group and refer to the region as Kurdistan.10

The debate in the security council on the draft resolution and the statements made subsequent to its adoption became in effect a discussion on interpretation of two

significant aspects of international law: 'International peace and security' and 'intervention in the internal affairs of a state'.

But for the fact that events in Iraq took place in the aftermath of the Gulf war and that the UN security council had taken a series of measures against Iraq, including resolution 687 on the cease-fire adopted on April 4, the debate would have taken a different turn. There was a general mood of condemnation of Iraq in the UN from the time of the Iraqi invasion of Kuwait. It was difficult to discuss principles without appearing to condone or condemnate actions of the Iraqi leadership. The majority of the security council appeared to agree that Saddam Hussein should be punished.

There were 10 votes in favour of the resolution, three against and two abstentions. Cuba, Yemen and Zimbabwe voted against the resolution. China and India abstained. Different sets of arguments were put forward by those in each category.

Those who supported the resolution argued that developments in Iraq were a threat to regional peace and security; an internal development of gross violation of human rights which deserved UN intervention and action.

Turkey, Iran, the US and the USSR gave emphasis to the 'peace and security' argument to show that the action was well within the competence of UN. Turkey spoke of the "grave threat to the peace and security of the region posed by the tragic events taking place in Iraq". Iran maintained that "the situation inside Iraq, due to its gravity and implications for the neighbouring countries. has consequences that threaten regional and international peace and security". The US argued that the council was addressing the transboundary impact of Iraq's treatment of its civilian population which threatened regional stability. The USSR felt that "the Iraqı situation was creating a destabilising situation in the area and posing the threat of a new international conflict".12

Among those who supported the resolution France, Germany and the UK gave emphasis to the violation of human rights by the Iraqi regime. France referred to the threat to international peace and security in the region but clearly the emphasis was on the internal situation of Iraq. It was chiefly concerned about the responsibility of the UN in the protection of human rights. According to France, "violations of human rights such as those now being observed become a matter of international interest when they take on such proportions that they assume the dimension of a crime against humanity". Germany maintained that the Iraqi government actions "harbour the danger of genocide".13

The argument by the representative of the UK deserves special mention. He challenged the argument that "this action is in some way

outside the scope of the security council, that it is an entirely internal matter". His delegation could not accept that argument. The UK representative gave his interpretation of Article 2, paragraph 7. He said, it "does not apply to, matters which, under the charter, are not essentially domestic and we have often seen human rights - for example in South Africa - defined in that category". This implied that human rights are not essentially under domestic jurisdiction and the actions of the security council on South Africa set a precedent and indicated an expanding jurisdiction on human rights. According to the representative of the UK, the threat to international peace and security was a consideration which came only after the issue of violation of human rights in Iraq. The primary issue was human rights.14

This of course adds an important dimension to the debate. South Africa was treated as an exceptional situation in view of its policies of 'apartheid' condemned by the UN. Citing it as a precedent for action with respect to internal policies of governments and arguing that human rights do not come under the domestic purisdiction of states, would imply that the UN is entitled to intervene in a number of instances. It was not clear whether the UK representative was prepared to follow through the argument to other situations of violations of human rights and ask for action by the UN security council.

It is significant to note that most of those who spoke in favour of the resolution made reference to the preamble of the resolution recalling Article 2, paragraph 7 of the charter, as if a reaffirmation of that would be enough justification for any action by the security council

Those who spoke against the resolution based their arguments squarely on this very article. Yemen, Zimbabwe and Cuba maintained that the matter was part of the essential internal jurisdiction of Iraq and that the UN therefore had no competence to act. They argued that it was not within the council's purview to address internal issues in any country and that it was the first departure from the rule of maintaining a strict focus on the council's responsibilities under the charter. Cuba added the argument that questions of a humanitarian nature do not belong to the security council but to the general assembly and therefore the proper procedure would be to convene the general assembly.15

The two countries which abstained were India and China. They were apparently not convinced that there was a clear threat to international peace and security. They maintained that the security council should not consider or take action on questions concerning the internal affairs of any state. 16

The debate in the security council generally reflected the positions of members on UN

actions on Iraq from the time of its aggression against Kuwait. The US, the UK and France were members of the coalition which took military action against Iraq. Germany had all along joined the other western members of the security council in its actions against Iraq. The Soviet Union also had regularly supported the US in the security council. The new international situation had not only brought the US and the Soviet Union closer but had actually made the Soviet Union dependent on the US for economic assistance. The Soviet Union had already lost its leverage in international affairs.

Yemen and Cuba were consistent in their opposition to the actions against Iraq. Yemen was one of the few supporters of Iraq in the Arab world. Cuba generally upheld positions which would have been in the past voiced in the UN by the Soviet Union and members of the non-aligned movement. Countries like Zimbabwe were under considerable pressure from the US during the discussion on Iraq. Zimbabwe had supported earlier actions of the security council. But it felt that resolution 688 was inconsistent with the clear parameters of the council's competence as provided for in the charter.

India had become a member of the security council only in January 1991. Its arguments in the council seemed to indicate that it would have preferred to oppose the resolution. It was not however prepared to displease the US to such an extent in view of a number of important negotiations on economic issues in which the role of the US was crucial. It is known that India has been wary of the apparently expanding international jurisdiction of the UN especially with regard to human rights and internal conflicts. It was particularly concerned about international spotlight being focused on Kashmir. India's positions in the security council during 1992-94 deserve further scrutiny as they seem to reflect the fragmentation of the consensus in India's foreign policy. The views expressed by China showed that it was clearly against the resolution. But instead of opposing it and thus vetoing it, China abstained as it had done on the earlier resolution 678 which authorised the use of force against Iraq. It has to be pointed out that China very rarely uses its veto power in the security council Like India, China also had an 'internal problem' often eliciting international attention, viz, Tibet. So it really did not want to create a precedent for UN intervention in internal matters. But it was not willing to displease the US because of economic and other considerations.

#### INTERPRETATION AND IMPLEMENTATION

It was apparent from the subsequent actions of some member states and the UN itself that the resolution was interpreted in various ways. There seemed to be differing expectations about actions by the UN in implementing the resolution. Some states undertook actions whose conformity with the resolution was in serious doubt. In general, the interpretations and actions broadened the scope of the resolution. But more than that, these interpretations and actions linked the resolution to other actions of the security council on Iraq and made it part of a package of sanctions against Iraq.

In an earlier section, the vagueness of the mandate given to the secretary-general in the resolution was referred to. This led to some states having expectations from the secretary-general which he did not feel were consistent either with his powers or the resolution.

In the security council debate on resolution 688, the representative of Germany linked it to the resolution on cease-fire (security council resolution 687 laid down conditions for the cease fire). According to him resolution 688 was a follow-up of the ceasefire resolution. It could be argued that several elements of the cease-fire resolution already constituted intervention in the domestic jurisdiction of Iraq and that it was possible to take action in the case of Kurds only because it was in the aftermath of the war and because the cease-fire resolution contained various actions which curtailed the military power as well as the military activities of Iraq. However, two things deserve mention; in the cease-fire resolution there is no reference to human rights of people in Iraq or to domestic policies of the government; while the resolution provided further ground for continuing economic sanctions it did not refer to renewed military action. As pointed out earlier resolution 688 does not refer to resolution 687 in its text. However, in the actions by some meinber states and the UN, resolution 688 became increasingly linked to the cease-fire resolution and its enforcement measures

The proposal by the British prime minister, John Major for the establishment of a 'safe haven' for Kurdish refugees was on the basis of such a link. At a press conference at Luxembourg on April 8, 1991, after the meeting of the European Community (EC), he said that at the meeting he had put forward an action plan of four main points "that are intended to build on security council resolutions 687 and 688". The first referred to "a generous community contribution to the international appeal which has also been launched today by the Secretary-General of the UN". "The second suggestion was to propose the establishment of a safe haven in northern Iraq under UN control where refugees, particularly Kurds, although there would be some of course who would not necessarily be Kurds, would be safe from attack and able to receive relief supplies in a regular and in an orderly way". The third proposal wa that "sanctions must remain in force until Saddam Hussein's offer of an amnesty is made permanent and the persecution of the Iraqi Kurds ceases". "Fourth, I proposed to colleagues a total embargo must be maintained on Saddam Hussein's Iraq for as long as he remains in power". "7 The meeting of the EC agreed to all these points.

The proposal for the establishment of a 'safe haven' in northern Iraq "under UN control" was made without any prior discussion in the security council or with the secretary-general. In making the four proposals the prime minister claimed that he was 'building on' resolutions 687 and 688. He thus not only linked the two resolutions but was ready to go beyond them. He linked sanctions explicitly to the treatment of Iraqu Kurds though there was no basis for such a link in the security council resolutions. He added a new condition to lift embargo, and said that total embargo should be maintained for as long as Saddam Hussein remained in power. There was no basis for this in any UN actions. Statements by the prime minister seemed to indicate that he assumed that 'safe haven' could be established under UN control without any further action by the security counci!.

It was president Bush who followed up the proposals of prime minister Major. He was apparently more knowledgeable about UN procedures than the British prime minister, and realised that the proposal for 'safe haven' was on shaky ground. On April 16, president Bush, following consultations with (British) prime minister Major, (French) president Mitterrand, president Ozal of Turkey, (German) chancellor Kohl and UN secretary-general Perez de Cuellar, announced at a press conference, "consistent with the UN security council resolution 688. I have directed the US military to begin immediately to establish several encampments in northern Iraq where relief supplies for these refugees will be made available". He added that "adequate security will be provided at these temporary sites by US, British and French air and ground forces again consistent with UN security council resolution 688".18

The president was at pains to show that the establishment of 'safe haven' under the protection of the coalition troops — not 'under UN control' as prime minister Major had originally proposed — was consistent with resolution 688. He did not mention which part of the resolution he was referring to. He added, "We intend to turn over the administration of and security for these sites as soon as possible to the UN. The UN forces will be coming down into the south — the Blue Helmets — and it may require for a UN peacekeeping force in there or UN Blue Helmets, a new resolution from the security

council. And that is a complicated problem, given the fact that some of the members who were steadfastly with us in the coalition might have problems with something of the nature". 19

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The decision to establish a 'safe haven' was made by the western nations. This was clearly an invasion of Iraqi sovereignty. The claim that it was consistent with resolution 688 cannot be sustained. It was also the western nations which announced without any discussion in the security council that the UN will take over the responsibility of the 'safe haven'. In a letter dated April 21, 1991 from the minister of foreign affairs of Iraq addressed to the secretary-general of the UN, the Iraqi government took serious objection to the entry of armed forces of the US and other countries in northern Iraq "since it would constitute serious, unjustifiable and unfounded attack on the sovereignty and territorial integrity of Iraq".

Bush was knowledgeable enough about UN procedures to realise that a new security council resolution could be required to send any UN troops. He also knew that it would be difficult to get such a resolution adopted. His attempt was therefore to legitimise by the UN the sending of coalition troops without going through the process of a new action by the security council.

While president Bush did not directly link resolutions 687 and 688, he was apparently ready to give a generous interpretation of resolution 688. On this he had agreed with the EC. They were ready to bend the rules to suit their plan. After a European Economic Community consultation with secretary Baker on April 17, 1991, Luxeinbourg foreign minister Jacques Poos said: "The Twelve and the US also agree on interpreting in an extensive manner resolution 688 regarding the protection of the security camps inside. Iraq. itself". 21

The joint statement by secretary James Baker and Turkish foreign minister Ahmet Iptemocin, on April 8, had already linked resolutions 687 and 688. The statement said, "the plight of these refugees – as the security council resolution says a threat to international peace and security – has thus become another important issue in the full implementation of the cease-tire resolution". As pointed out earlier nowhere in the cease-fire resolution is any reference to human rights in Iraq or the domestic policies of Iraqi government or to the refugees. Nor is there any reference to any of the earlier resolutions in resolution 688.

A link between resolution 688 and the cease-fire resolution was made also by US assistant secretary for Near Eastern and South Asian Affairs, John H Kelly, in a statement before the sub-committee on Europe and the Middle East of the House Foreign Affairs Committee, Washington, DC on June 17.

1991. He said that "behind UNSC resolution 688 are the enforcement provisions of 687 dealing with conditions to alleviate sanctions and reparation". This was a deliberate misinterpretation of resolution 688.

A proposal by the executive delegate for the UN inter-agency humanitarian programme made in his report of July 15, 1991 also linked of resolution 688 to the sanctions policy of the UN against Iraq. Resolution 706 adopted by the security council on August 15, 1991 made financing of the UN humanitarian operations including those for the Kurdish population contingent upon Iraq's compliance with the cease-fire resolution and part of the package of sanctions against Iraq. This diminished substantially the humanitarian value of resolution 688

Iraq did not accept resolution 688. However subsequent actions by the Iraqi government show that Iraq complied with some of the provisions of the resolution

From April 13-18, the UN mission led by Eric Suy, personal representative of the UN secretary-general, and from April 16-18, the UN inter-agency mission led by Prince Sadruddin Aga Khan, executive delegate of the UN secretary-general for the UN humanitarian programme for fraq, Kuwait and Iraq/Iran and Iraq/Turkey border areas visited fraq. The fraqi government cooperated with both the missions.

The discussions between the UN and the leaque government became difficult at one stage as a result of statements and actions by prime minister Major and president Bush. A Memorandum of Understanding (MoU) was signed on April 18, 1991 by Ahmed Hussein, minister of foreign affairs of Iraq and Sadruddin Aga Khau, executive delegate of the UN secretary-general. In the MoU, the Iraqi government pledged "its fall support to and co-operation with the UN and its

specialised agencies and programmes" in the efforts to promote the voluntary return home of displaced persons. The government of Iraq agreed to the "establishment of UN sub-offices and Humanitarian Centres (UNHOCs)". The memorandum also provided for "routes of return with relay stations along the way as well as logistic back-up capabilities". A further agreement was made between the government of Iraq and the UN for the deployment of a UN guards contingent within the framework of the MoU."

In general the memorandum covered all the humanitarian aspects in the resolution. The demand that "Iraq co-operate with the secretary general on humanitarian efforts" was in a large measure complied with at least initially. On the political aspects, the security council had expressed the hope "that an open dialogue will take place to ensure that the human and political rights of all Iraqi citizens are respected". The Iraqi government held a series of discussions with representatives of Kurdish movements regarding autonomy of the Kurdish region and democratic reforms in Iraq as a whole. These talks were not successful and have to be seen against the background of such discussions and the developments in the Kurdish region from the late 1960s. The Iraqi government was perhaps neither serious nor sincere about these talks. The Kurdish leaders were not yet ready to trust Saddam Hussein

It may be argued that rather than the security council itself, it was the action by members of the council who utilising of the resolution contravened article 2 paragraph 7 of the charter. But it was in the name of the UN. The creation of 'safe haven' utilising the resolution violated the principle of domestic jurisdiction. The legitimisation of this by the UN thus constituted a flouting

## CENSUS AS SOCIAL DOCUMENT

S.P. Mohanty & A.R. Momin (Eds.)

The papers included in this volume cover a wide spectrum of themes relating to the census. These include an appraisal of economic data relating to working population, an analysis of occupational diversification and urbanization, poverty-induced migration, the aging population and its economic activities and a review of the demographic situation of the tribal population.

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3-Na-20, Jawahar Nagar, JAIPUR 302004 Phone: 0141-651022 Fax: 0141-651748 of the principle. The military operations undertaken by the US, the UK and France was by any standards intervention in the affairs of a sovereign country, though ostensibly for humanitarian reasons. The establishment of 'no-fly zones' in the north and south of Iraq was not endorsed by the UN.

#### A HUMANITARIAN INTERVENTION?

At the press conference on April 16, 1991 when president Bush announced the sending of coalition troops to northern Iraq he said, "And some might argue that this is an intervention into the internal affairs of Iraq. But I think the humanitarian concern is so overwhelming that there will be a lot of understanding for it". 28 The president was not exactly saying that it was not intervention. He said this would be justified under the circumstances as humanitarian intervention.

Two examples usually cited as justifiable humanitarian interventions are India's intervention in East Pakistan and Tanzania's intervention in Uganda. But even they do not go unchallenged. It would be argued that both these interventions were hardly disinterested, and motives other than humanitarian ones prevailed

After arriving at the conclusion, on the basis of analysis of several cases, a 'blanket prohibition of humanitarian intervention' is "neither mandated by law, nor is it desirable on policy considerations". Ved P Nanda offers the following criteria to evaluate the permissibility of intervention on humanitarian grounds:

- 1 The severity of the rights violations the necessity criterion (a) genocide, (b) gross, persistent and systematic violations of human rights.
- 2 The nature of the intervention the proportionality criterion (a) duration, (b) was the lorce proper/excessive?
- 3 The purpose of the intervention (a) humanitarian concern?, (b) self-interest, (c) mixed?
- 4 Was the action collective or unilateral?
- 5 Balancing alternatives and outcomes (a)
  Does the intervention maximise the best outcomes?<sup>179</sup>

The military intervention in northern Iraq by the US and its allies may be examined with the above criteria. There was no doubt about the severity of the human rights violations of the Kurds and others in northern Iraq. However the actual intervention was only after the worst excesses were committed by the Iraqi forces. It may be conceded that the force used was not excessive. The motives were obviously mixed. There was the humanitarian concern but that was subservient to domestic political interests of western nations, strategic objectives in the region and the interests of Turkey. The overriding motive was the compulsion to

pursue the actions against Saddam Hussein and therefore the intervention became part of a package of punitive measures against Saddam Hussein. While the US and its allies did not directly support the Kurdish rebellion, statements by president Bush and prime minister Major reflected their intention to see Saddam Hussein removed from power. The intervention though on humanitarian grounds was a continuation of the sanctions policy against Iraq and it was announced that the sanctions would continue as long as Saddam Hussein remained in power.

The action was collective only to the extent that the military forces of the US, Great Britain and France were used. It was presented as a collective action of the UN but this was clearly a case of legitimisation of actions initiated by the US and its allies. The creation of 'safe haven' sending of the coalition troops and 'no-fly zones' were not authorised by the security council and the link established between resolutions 688 and 687 (on cease-fire) had no basis. The US and its allies pursued actions primarily in their self-interest and made use of the UN for the cloak of legitimacy. The concept of 'safe haven' might have become significant as a precedent but for the manner in which it was created. The security council was not asked to authorise or endorse the protective measures in the safety zones, presumably because not all of the permanent members were prepared to support them. The absence of explicit security council endorsement, together with the basic charter provision against intervention in matters essentially within domestic jurisdiction, was cited by dissenting UN members as grounds for condemning the use of troops in the safety zones as charter violations of serious import. All states, it was argued, had reason to fear the effect of that precedent. The case would have been different if the troops were sent under the auspices of the UN.

#### SOME CONCLUDING OBSERVATIONS

The UN security council resolution on northern Iraq was unprecedented. It was made possible only as a result of a series of earlier actions against Iraq. It broke tradition both in the content and the tenor of the resolution. It followed the cease-fire resolution which in various aspects was a direct intervention in the internal affairs of Iraq. Resolution 688 was enforced the way in which it was done because it was linked to the cease-fire resolution, though such a link was uncalled for and resolution 688 did not contain enforcement measures. The cease-fire resolution was in the form of conditions imposed on the vanquished by the victor in a war and that attitude of the security council was reflected in the implementation of the resolution on the situation in northern Iraq also.

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possible because of the new dynamics in the security council at the end of the cold war. The US virtually dominated the security council and the challenge from the Soviet Union to the US which had existed for four decades had come to an end. In fact the Soviet Union became dependent on the US. The western nations followed the leadership of the US. The developing nations were too weak to oppose the US and even China was not ready to displease the US because it needed the US support for economic and trade benefits.

This dominance of the US in the security council made the objectives of intervention in Iraq subservient to the US objectives in the region, conditioned very much by the Gulf war, This also led to the interpretation and implementation of the resolution according to the US objectives and a clear manipulation of UN processes including post-facto legitinisation by UN of the US actions. The overriding motive for the US was not assistance to the Kurds but the maintenance of the gains of the Gulf war and the assuagement of public opinion in the west.

It can be pointed out that the action by the US through UN and the manner in which it was carried out was very much influenced by Turkey After the collapse of the Soviet Union, it was at a time when a new rationale had to be found for the US's need for Turkey that Iraq invaded Kuwait. It was therefore natural that the US gave more importance to the interests of Turkey than those of Iraqi Kurds. Turkey's record of human rights violations of Kurds in Turkey often matched that of Iraq and was in many ways even more deplorable. It was in the interests of Turkey which has a much Kurdish population than in Iraq not to recognise any Kurdish identity. The lack of reference to the Kurds as a people or group diminished the human rights aspect of the resolution.

The statement by the foreign minister of Zimbabwe in the security council meeting at the level of heads of governments in January 1992 is relevant here.

In the era we are entering the Council will be called upon to deal more and more with conflicts and humanitarian situations of a domestic nature that could pose threats to international peace and stability. However, great care has to be taken to see that these domestic conflicts are not used as a pretext for the intervention of the big powers in the legitimate domestic affairs of small states or that human rights issues are not used for totally different purposes of destablising other governments. There is, therefore, need to strike a delicate balance between the rights of states, as enshrined in the charter and the rights of individuals, as enshrined in the Universal Declaration on Human Rights. Zimbahwe supports very strongly both the Universal Declaration and the CHARGE OR DIESE ISSUES: AIMOROWE IS B HITM subscriber to the principles in the UN Declaration on Human Rights. However, we cannot but express our apprehension about who will decide when to get the security council involved in an internal matter and in what manner. In other words, who will judge when a threshold is passed that calls for international action? Who will decide what should be done, how it will be done and by whom? This clearly calls for a careful drawing up and drafting of general principles and guidelines that would guide decisions on when a domestic situation warrants international action, either by the security council or by regional organisation. 10

#### Notes

- 1 UN Documents, S/RES/688, 1991
- 2 UN Charter Article 2(7), "Nothing contained in the present charter shall authorise the UN to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the members to submit such matters to settlement under the present charter, but this principle shall not prejudice the application of enforcement measures under chapter VII"
- 3 Financial Times, London, February 16, 1991.
- 4 The US administration probably weighed such support but apparently decided against it. As a staff report to the committee on foreign telations of the US senate on the civil war in Iraq states, "As the anti-Saddani rebellion gained force in March, several strategically located Iraqi military figures contacted principals in the joint action committee according to both Arab and Kurdish opposition leaders. As the Iraqi military figures contemplated bringing possibly decisive force to the side of the rebels, they looked for a sign that the sponsors of the rebellion had the support of the US, the one country pre-eminent militarily and politically in Iraq. No such signal was given" (Staff Report to the Committee on Foreign Relations, US Senate, May 1991, p 15)
- 5 Resolution 688 does not refer to any of the previous resolutions on Iraq. These included among others, resolutions condemning the Iraqi invasion of Kuwait (resolution 660 of August 2, 1990), authorising states in alliance with Kuwait to use all necessary means to ensure the withdrawal of Iraq from Kuwait (resolution 678 of November 29) and laying down conditions for cease-fire (resolution 687 of April 3, 1991)
- 6 Chapter VII of the Charter is on "action with respect to threats to the peace, breach of the peace and acts of aggression".
- peace and acts of aggression".

  7 UN Documents S/22442, April 4, 1991
- 8 UN Documents S/22440, April 3, 1991
- 9 UN Documents S/RES/688, 1991.
- 10 According to the constitution of Iraq, "The Iraqi people is composed of two main nationalities, Arabs and Kurds The constitution confers the nationalities rights of the Kurdish people and the legitimate rights of all other minorities within the framework of Iraqi unity". The country is divided into 15 provinces and three autonomous regions including the Kurdish autonomous region.
- 11 The cease-fire resolution (resolution 687) laid

- demolition of weapons of mass destruction and nuclear weapons capacity.
- 12 UN Documents S/PV 2982, April 5, 1991.
- 13 Ibid.
- 14 Ibid
- 15 Ibid The Cuban representative said, "If it is felt that the international community should show conc⊕n for the humanitarian aspects of a question, then the security council has no right to do so in a way which the Charter specifically precludes". According to him the powers of the security council did not include questions of a humanitarian nature
- 16 Ibid. The Indian representative said, "Only where such conditions, including indiscriminate use of force, result in a clear threat to international peace and security would it be within the competence of the security council to address the issue... We believe that the Council should have concentrated on the aspect of peace and security, which is its proper mandate under the Charter, and left the other aspects to other, more appropriate organs of the UN".
- 17 Foreign Policy Bulletin, Washington, May/ June 1991, p 19-20
- 18 Ibid, p.21. The statement by the president that his action was in consultation also with the secretary-general is to be taken as another instance of the US using the UN and seeking legitimacy of its actions. In view of the fact that there was no security council endorsement of 'safe haven' this also raises questions about the role of the secretary-general.
- 19 lbid, p 21-22. President Bush knew that procedurally a peace-keeping force could not be sent to northern Iraq without a new resolution of the security council and without the consent of the Iraqi government. He also knew that under the circumstances such a resolution would not be adopted by the security council. Therefore in a way the US circumvented the UN and then sought to legitimise its action.
- 20 UN Documents, 5/22513, April 22, 1991.
- 21 Foreign Policy Bulletin, Washington, May/ June 1991, p 862.
- 22 Dispatch, US Department of State, April 15, 1991, Vol No 25, p 271.
- 23 Dispatch, US Department of State, June 24, 1991, Vol 2, No 25, p 460. It may be pointed out that official compilations of UN security council resolutions on the Gulf crisis do not include resolution 688. See, e.g., United Nations Security Council resolutions relating to the situation between Iraq and Kuwait', UNIDPI/110/Rev. 3-41183-December 1991.
- 24 Report to the secretary-general on humanitarian needs in Iraq by a mission led by Aga Khan, executive delegate of the secretary-general, July 15, 1991
- 25 UN Documents SC Res/706, August 15, 1991.
- 26 UN Documents S/33513, April 22, 1991, pp 4-7
- 27 International Legal Materials, May 1991, p 862.
- 28 Foreign Policy Bulletin, Washington, May/ June 1991, p. 21.
- 29 Ved P Nanda, 'Humanitarian Intervention and International Law' in Elizabeth G Ferris (ed), The Challenge to Intervene: A New Role for the United Nations?, Life and Peace Institute, Uppsala, 1992.
- 30 UN Documents 8C/5359, January 31, 1992.

## **Regional Analysis: Confusion Confounded**

#### P C Sarker

IN his article, 'Regional Imbalances in Indian Economy, Caught in Computerised Confusion' (EPW, November 11, 1995), S.M. Vidwans has tried to point out 'inconsistencies' in my paper on 'Regional Imbalances in Indian Economy over Plan Periods' (EPW, March 12, 1994). However, except for one or two points, his criticism is mostly unwarranted

At the outset, I admit that I should have taken equal number of variables across the five time-points. This limitation has been pointed out in the paper: "Thus nonavailability of data uniformly for all the five bench-mark years and the use of estimates for some data items have introduced certain limitations in the study" [Sarker 1994:627]. Besides, the conclusions drawn regarding the validation of inverted U-shaped hypothesis in interregional disparities could have been moderated, though the thrust of the argument would have remained the same. Therefore, too much criticism on this ground such as "the varying number of indicators has in fact played a havor with Sarker's analysis and conclusions" (p 2887) is unwarranted.

Vidwans has unnecessarily tried to mix up p-dimensional plotting of n units and variance of data set with one-dimensional scale plotting of 'dendrogram' in cluster analysis. His confusion is reflected in his comment, "simple geometrical and statistical relationships, however, spoil the excitement" (p 2888). In dendrogram analysis, euchdean distances (d) were used as inputs and the linking of d<sup>2</sup> with the variance does not arise at all. One can use different types of distance measures (Distance or Dissimilarity Matrices) or use correlation matrix (Similarity Matrix) for dendrogram plotting. Therefore, the concept of p-dimensional plotting of n units and relating with variances do not come into the discussion of dendrogram. Here the distances (even rescaled distances) are considered for plotting the graph. While plotting a dendrogram, at every stage of amalgamation the smallest distances are considered in the single-linkage method which has been used in my exercise. After choosing the cut-off point at certain distance by examining the dendrogram, one chooses the clusters of units based on one's judgment. For choosing the cut-off point, I have calculated 'average' distances and presented along with 'maximum' and 'minimum' distances which incidentally is not required for dendrogram analysis

Vidwans' other remark on dendrogram was that "a dendrogram is further ineffective in representing reality because a highly developed state and a backward state will appear as neighbours in it simply because both are removed from the rest...it is not clear how, by themselves, these pictures help in telling anything about disparities, development, or structural changes" (p 2892). His statement itself shows that he could neither understand the interpretation nor the purpose of using dendrogram. In dendrogram, the clusters are formed based on similarity or dissimilarity pattern among the units (states). It was not used to measure the disparity or judging structural change, but to identify the similarity (closeness) in the pattern of development. Again, interpretation of dendrogram might confuse a layman but not any genuine multivariate user The graph should be always interpreted with respect to real data. The graph helps to concretise the idea in a better way than the raw data do. Thus the amalgamation of a unit (state) on the right or left side of another unit is not a problem at all to a multivariate user. It is the convenience of drawing and depends on the starting procedure followed by any individual. Here only one thing matters, that is, the distance of merger of two units/clusters. Therefore, Kerala which is drawn near Punjab in the first graph does not mean that they have formed a cluster or they have less distance. It can only be said that Kerala has merged with the 'cluster of the rest of states' earlier than Punjab. The minimum distance with Punjab may be occurred with any state within the cluster. If Kerala is drawn even on the left side of the cluster, the interpretation of the result will not differ. Several types of graphs may be plotted using different methods and in different ways. Some exercises in this respect may be seen in Aldenderfer and Blashfield (1990).

Another major area of his graceless criticism is regarding the use of 'principal component analysis (PCA)' for developing a composite index and thereby measuring disparities based on these indices/scores. He has raised several questions in different dimensions. I am quoting some of his comments and presenting my arguments in that respect in the following paras.

Firstly, the use of principal component score as a development indicator is controversial since the beginning of its application in computing is composite index.

Many researchers have argued in favour while many others are against its application. In reality, it depends on individual's choice. Principal component analysis (PCA) and its related analytical techniques are being used in economics from the time of Kendall (1939). Subsequently, several analyses were carried out by Farrar (1962), Anderson (1963), Pal (1963), Adelman and Morris (1973), Cant (1975), Kundu (1980), Mitra et al (1981), Chakravarty Committee (1981), Hemlata Rao (1984) and many others. The advantages and disadvantages have also been discussed by many researchers. It has been used extensively to judge the level of development and thereafter the inter-regional disparities in development have been judged based on component scores [see Adelman and Morris 1973, Rao 1984, Dadibhavi 19911.

Secondly, Vidwans' argument that "the change in the variance of the first PC scores and changes in disparities are two unrelated aspects of situation" (p 2888) and his subsequent argument in the next para that "the PCA fails in its objective of assessing the changes in disparities over the study period" are controversial in nature. He has not given any references in support of his arguments but tried to prove some other established facts. In the PCA, I have derived the first component which accounts for the maximum variability (or variation) within the data set. If the first PC is highly correlated with all the variables, it captures the maximum variation and represents the data adequately [see, Chakravarty Committee 1981]. In reality, it may not happen. If any changes occur in any variable as discussed by Vidwans, it would not be exactly reflected in the transformed variable (i.e., PC Score). It depends on what is the percentage of variation explained by the component, what is the loading of the indicator and also the relative changes that have occurred in other indicators. It is a well known fact which he has tried to re-establish. Many researchers like Ashok Mitra, S Mukherji, R Bose and L Ray (1981) have used these scores for further analysis, where they have carried out 'factor analysis'-cum-'distance analysis'cum-'cluster analysis'-cum-'bunch analysis'. As against these traditional techniques, many have tried to develop alternative indices like Iyengar and Sudarshan (1982) and UNDP (in its various reports on human development).

Thirdly, though Vidwans has objected to the use of principal components, he has also suggested different alternatives for computing the scores in his Statistical Notes (p 2893). Actually, the computation of the PC score based on standardised variables timits the variances to lesser dimension. The scoring formula used in my paper was (G<sup>T</sup>G)-1 G<sup>T</sup>X, where G is the loading matrix and X is the standardised data matrix which is similar to the formula suggested for calculating scores by Vidwans (second alternative, i e,  $y(x) = \sum u_i x_i$ , where  $u_i = a/(\sum a_i)^{n_i}$ (p 2893). In Vidwans' formula, scores depend wholly on the loading vector of the corresponding component, whereas the formula defined in my paper takes into account the whole loading matrix. His comment in this respect was that "the use of wrong statistic gives an exaggerated impression of increase in variance of the first PC and, by Sarker's logic, in disparities over this period" (p 2894). I do not understand how his formula is superior to the one used by me. It is well known that after standardisation of the variables, the variancecovariance matrix turns into a correlation matrix and that matrix is the basis for computing the component loadings Therefore, the scores based on our formula will be higher in magnitude and also will generate variance of higher order, which he has described unfortunately as inflated one in his statistical note. Actually, the tiend visualised in the standard deviation (SD) for the PC scores calculated by me was also revealed in his calculation for yex) even after adjustment with number of variables, i.e, by multiplying them by square root of (13/14) in his article (see Table, p.2894). The actual magnitude of variance depends on the scaling of scores and the trend of that was important but not the actual magnitude. For convenience, it can be inflated for better interpretation. Similar opinion may be found in Kundu (1980), where he has suggested the variables may not be divided with their respective variances. Then the variance of the score actually gets multiplied by the variance of x (indicator) if it were calculated earlier based on standardised variables. According to him, if the aim is to examine the disparity, one should not divide variables by SD. An application on the lines suggested by Kundu may be found in Sarker (1995).

Fourthly, in a similar vein Vidwans has put forward his suggestion for computing combined component scores (CCS) while criticising my approach without understanding the reasons behind that. I quote his statement verbatim: "The CCS should be the total of the two y scores, which in effect means weighted addition of the two w-scores with weights inversely proportional to the square root of the respective latent roots. What Sarker has done is the opposite when he uses weights proportional to the variance of the respective score, that is propostional to two latent roots" (p 2894). It is a fact that I have chosen the proportion of variances explained by the corresponding components as weights. As the main purpose in my study

was to examine the variation across states. it was felt that the first component should get more weight as it explains the maximum amount of variation in the data set. Similar logic is also applied while computing principal components from the original indicators. An indicator which has higher variation also gets higher loading. Some researchers like Nanjappa (1968) and Iyengar and Sudarshan (1982) have developed an alternative to principal component analysis (or factor analysis), some methods where weights for calculating index are chosen as inversely proportional to variance. As we have used PCA method, the weighting pattern which I have used seems to be justified.

Fifthly, Vidwans has criticised the changes in loading pattern or loading values over five different time points. His confusion is clearly reflected in his statement "the results show some clear aberrations that needed explanations which Sarker does not ofter. One does not therefore know whether he noticed them in his rush to analyse and interpret" (p. 2892). Virtually he has questioned all the loading values of the indicators and their changes over time by putting a question mark: 'Why?'. Actually, getting higher leading values depends on the variability of the indicators and the relational dimensions that exist between the component and the indicators. When there is not much variation in the values of the variable, the variable will lose weight in the loading structure. Then it will naturally lose its importance as a development indicator for comparison of inter-regional disparity Again, if any variable moves to the opposite direction of the general trend of other variables, it will get negative signs. Therefore, 'number of people below poverty line' gets a negative sign which is valid. If this did not happen, it would have contradicted common sense. But Vidwans has put a question mark on all these points. It is true that I should have given more explanation in this respect. As I have not presented the data set at all, it was not considered necessary to explain the variables in detail

Sixthly, the conclusion drawn about the trend of disparity taking a few time-points was another point of objection of Vidwans. Actually, similar type of conclusions are drawn by others also as in the case of Kuznets (1957), Williamson (1965), Nair (1985), Tewari (1985), Hemlata Rao (1985), Roy Choudhury (1992, 1993), and many others also. The variation explained by PC Score depends on the communality  $\Sigma a^2$ , which itself varied over time. At each time-point, the loading structure was different even though variables were standardised. Therefore, the capacity of explaining the variability is taken care of by loading structure also. The trend in disparity was examined using coefficient of variation (CV) on the scores by many others such as Hemlata Rao (1984) and Dadibhavi (1991, 1992).

In the case of two-dimensional plotting of first two PC components, Vidwans' observation was that "since in actuality the two scores are uncorrelated in all benchmark years, one would expect roughly uniform distribution of 15 states in four quadrants" (p 2892). He has not given any theoretical justification except making a plain statement. I have plotted the graphs taking mean at the centre of plotting in the paper and also in other papers but have never observed this to happen. I have also examined the graphs plotted in books like Chatfield and Collins (1980) and Lebart, Morineau and Warwick (1984). The validity of his statement was not found in any literature. Besides, he has some doubts in respect of judging the influence of one factor (component) on another factor when they are perpendicular. He should be aware that this happened not only in PCA but also similar type of other graphical techniqueslike bi-plot, correspondence analysis, etc. In correspondence analysis, the main purpose is to examine the inter-relationship between two factors. In both bi-plot and correspondence analysis, the transformed data matrix is bifurcated into two orthogonal matrices using singular value decomposition (SVD) method and examine the relationship between two factors. Weller and Romney (1990) have shown the relationship between correspondence analysis and PCA and also other multivariate techniques

About the use of cumulative plan outlays (CPO), his observation for not giving proper explanation about percapita CPO is justified. I could have given the reasons for choosing per capita CPO at current price also. In my study, I have examined the impact of plan outlay on development measuring the relationship between per capita CPO and index of development (CCS). In his critique, he has remarked "it is mentioned that it is unrealistic to relate it to the values of indicators for 1960-61 because that assumes all indicator values to be zero at the beginning of 1951-52, i.e. before the first UYP" (p 2889). The checking of causal relationships, that is, whether development attracts fund allocation or allocation of fund leads to development, was not my aim. My purpose was to examine whether the higher developed states had received higher plan ontlays or not. This relationship was examined by simple correlation analysis Correlation measures the linear association between variables and is independent of both origin and scale. It is not always true that to examine the effect in regression, one has to subtract the variables from the starting point because the constant coefficient (a) in the equation takes care of the unexplainable portion. The contributory part is explained by the coefficient of explanatory variable (b). Besides, in social variables, subtraction is more dangerous as it is known that to increase life expectancy say from 75 to 78 requires more expenditure than the amount required to increase from 30 to 50. This is also true for literacy, urbanisation, irrigation, food-production, etc. My statement that planning might have played a role in the development process of a state is a fact. This was examined by many other personalities, viz, Das (1993) and Gupta (1973).

Considering that the plan outlays from 1960-61 onwards had no effect on any state and on the values of the 13 indicators already reached in 1960-61, he has calculated the values of  $r^2$  which were 0.47, 0.51, 0.52 and 0.53 for the last four bench-mark years. However, his comment that "no development took place at all" is wrong. The result only signifies that the trend of relationship remains, more or less, the same in nature, ie, the explanatory power of per capita CPO for development remains at same level. It is really strange that he has also calculated the correlation between the index of past period (say, 1960-61) with the per capita plan outlay for the next decade (say, between 1960-61 and 1970-71, ie, 1961-71) (p 2891). If he would have taken the plan outlay for the period between 1950-51 and 1960-61, he would have got a better relation for the year 1960-61 and, applying similar logic. much better relation in 1970-71 would have been arrived.

Some mistakes in the figures in my article have been pointed out by him in the writeup. Actually, one can easily verify them from the table as he has done. As the proofs were not sent to me for correction, they could not be corrected. The values of 'd' (1 e, euclidean distance) for the states were compiled taking standardised variables where decimal corrections had been carried out three times and ultimately presented the values in two decimal places in the tables The average values of d2 (squared euclidean distance) which Vidwans has pointed out are not substantially different from the average values calculated by me if one converts the 91 values of d' in the table into that of d?. Therefore, magnifying these averages as 'mistakes' is unwarranted. Besides, he has shown an allergy for computer as he has mentioned on several counts. Under the subheading 'A Greek Tragedy', he has said, "He became a prisoner of the analytical procedures and mechanisms rather than one concerned with their relevance to the substantive issues underlying his questions. The scale of his computational work led me to assume that he used a computer and ready softwares, and that assumption made me employ the adjective 'computerised' in the title of the critique" (p 2893). The fact is that I have used only one computer package

for calculating component loadings in principal component analysis. All other calculations were carried out manually taking some help of pocket calculators because multivariate graphical packages were not available in my organisation at that time.

In some cases, Vidwans has tried to disprove some of my conclusions only to support the same at large. It is a matter of regret that instead of clarifying some points, he has contributed to the popular phobia about computers and computer-based techniques. Vidwans' critique would have been useful had it been directed towards suggesting a constructive alternative. Instead, a large part of his article is devoted to some points which have no validity either in theory or in practice. I have done no more than to apply techniques used by others in different contexts. In conclusion, I may point out that no statistical technique can do justice to a data set.

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#### Vol XXXI Nos 41 and 42

October 12-19,"

### Language and Its Identities

Kannada nationalism, like all nationalisms, attempts to produce a solidarity among all Kannada speakers in order to efface the specificities of caste and class, and pits itself against other dominated minorities rather than addressing the hierarchical division of labour that has ensured Kannada's dominant status. As long as it continues to privilege the identity of Kannada over other democratic aspirations, the Kannada movement will tend increasingly towards alignment with strident communal or anti-minority forces. Already a range of moderate and progressive intellectual positions within the movement have been overshadowed by more strident voices.

### Miracle or Meltdown?

In the past few months several of the more 'successful' south-east Asian economies have been plagued by problems of decelerating exports and deteriorating balance of payments positions, slow-down of output expansion and decline in employment in export industries, domestic imbalances requiring stabilisation policies, and the like. While the situation is not anywhere near the Mexican case, the strong dependence on foreign capital does bring out one similarity – that of external vulnerability – which also has important policy lessons for other Asian countries.

#### Lessons for the Left

In the context of the rise of the communal variant of fascism and its striving towards gaining a parliamentary majority, the historical experience of the Left in grappling with the issues of consensus and nationalism; fascism; and bolshevism, commune and socialism holds vital lessons for the Left in India. 2823

#### Wrong Model

For India it will be a sound strategy to draft a wide-bodied law to protect plant varieties without accepting the restrictions of the UPOV model. In this way when TRIPS comes up for review in 1999 and the pressure mounts to tighten our intellectual property rights regime further, we will have more space to negotiate. 2788

#### Not Islam's Fault

The law of marriage in its essence, like all civil laws, is about regulating economic transactions, specifically women's access to and control over property. The Islamic provisions of 'mehr' and marriage agreements had stood Muslim women in good stead in the last century. The subsequent decline is not a reflection on the Islamic law of marriage but a sad comment on the fate of women's rights in a communally vitiated and patriarchally tilted social order.

2832

#### Pakistan and Islam

In attempting to Islamise Pakistan, the country's leaders from Jinnah to Zia were not so much upholding Quranic principles as placating influential sections within the polity. 2800

#### **Credit Disarmed**

The RBI's conventional approach of tinkering with reserve requirements and signalling monetary policy changes through open market operations has robbed credit of its dynamic role in the development of the economy. 2781

#### **Exports in Ninth Plan**

A policy framework for exports in the Ninth Plan against the backdrop of the trends in exports in the last five years and the issues thrown up by them. 2817

#### A Rare Man

A generation ends with the passing of Satya Brata Sen, a generation which believed that the focus of the nation's affairs deserves to be exclusively on expanding the welfare of the hundreds of millions of Indians made up by the peasantry and the working classes and, further, that a scientific approach must inform analysis of the problems and issues that affect the common people.

2789

#### **Power Losses**

Changes in the pattern of demand for power and weak distribution systems are the major contributors to the rising transmission and distribution losses. 2793

#### **Rural Credit**

The finance minister's proposal to set up state agricultural finance corporations provides an opportunity to revive the Agricultural Finance Corporation, an all-India public sector institution which has the necessary consultancy expertise in rural financial services. 2791

## Gay and Lesbian Movement

THOUGH Sherry Joseph's analysis of the gay and lesbian movement in India (August 17) is mostly an accurate and faithful account of what has been transpiring in the movement to free sexual minorities in India, there are some unconscious discrepancies. Joseph has written (p 2229) thus: "None of the publications have a lesbian on their editorial board and the columns are male dominated. It is also known that the lesbians who were members of the editorial board of *Bombay Dost* in 1990, no longer serve in that capacity."

The facts of the matter are as follows. Bombay Dost started with an editorial collective of three gay men and three lesbians. There was no imperative or necessity at all for the gay men to work with the women except for a sincere desire towards both gender justice and equity. Bombay Dost was started not just as a platform for gay activism but primarily to confront issues related to unprotected homosexual transmission of HIV/AIDS and STDs. As pointed out by this author in the important session on 'Maleto-Male-Sexual Transmission' at the Second International Conference on AIDS in the Pacific held in Delhi in 1992, there is a wilful and purposeful refusal to accept the existence of homosexual behaviour in India. From the very beginning of the HIV/AIDS crisis, the contention of the Indian government has been that homosexuality is a result of "western bourgeoise decadence". The very refusal of the West Bengal government to agree to sero-surveillance for HIV in the general population can be traced to this refusal to accept some uncomfortable issues on sexuality in India. Not only did this attitude lead to the victimisation of female sex workers but it also eleverly diverted attention away from studying the sexual behavioural patterns of the male population.

As a homosexual who grew up in the sensual urban homocrotic ambiences of Mumbai city, I knew we were sitting on a time bomb. With a declining female-male ratio, more disposable income in the hands of the male working class for recreational sex and the slow but steady visibility of homosexuals because of the urban milieu, three of us male homosexuals decided to publish Bombay Dost around issues of HIV/ AIDS. When it was pointed out that safer sex messages did not sink in without stressing sexual orientation, sexual education and orientation became the foundation of the charter. With that it became very important to have both gender justice and a lesbian perspective in the subcontinental context.

When it became impossible for the newsletter Bombay Dost to be run on an issue-by-issue basis without funding or

grants, and with no support in marketing or editing from the lesbians (articles, writing, poetry either came in way past deadlines or never arrived at all), new strategies for survival had to be charted out. The lesbian members were not at ease with each other and thus could not work as a cohesive team; there was no follow-up to the deluge of letters from isolated lesbians in the mofussil towns and a personal discomfort working with somebody like me who was open and guiltless about my sexuality. I also discovered the hard wall of political correctness lying under the gentle feminity of the head of the lesbian group.

Meanwhile, no effort on our part has ever been or will be made to break the organic relationship. Bombay Dost still functions as an address for lesbian mail which is forwarded dutifully without even a single protest of what the women's group is doing with it. Till date we have no record of who sorts the letters and how the letters meant for women have been handled or whether they have been answered at all. As responsible members of this coalition, it was pointed out that at least the basic information be shared but the answer has been disappointing. Finally, the male members of the board decided to do some forward planning. I was also exhausted running around looking for funding to run the newsletter. In late 1994, three years after running it with meagre funding, two of us (Suhail Abbasi and me) founded Pride Publications, a company incorporated under the Indian Companies Act, to raise capital from within the emerging gay community.

What was uncomfortable was the fact that lesbians did not perceive the HIV crisis as a feminist problem. As a matter of fact neither do the feminist groups anywhere in India. And this despite the fact that the worst

infected groups at risk are female sex workers. the wretched of the earth in the hell-holes of Indian redlight districts. We also did not realise that whereas Indian lesbians saw private space as their theatre of operation. Indian gay men operated in the open public spaces as sexual environments where they met other men and had sex with them (as in public parks, public toilets and public transport termini). The problems were thus vastly different. Police brutality with us was on a completely different level than that experienced by women. The lesbians also refused to see us differently from other men in heterosexual patriarchal structures where we operated as subversives and comrades in arms when the need arose. We on our part found it increasingly difficult to re-educate ourselves about the misogynism within the emerging gay community in India because of the general drift between the gay men and lesbians. But there is no gainsaying that we have tried very hard to make progress in this direction. The fact that HIV prevalence in the gay community in Mumbai has crossed 50 per cent, makes it imperative that we need all the support we can get to help us come to terms with our condition; more than half the 'human' guinea pigs in the illegal BIV vaccine trials unearthed recently in Mumbai are gay men.

The editorial pages of *Bombay Dost*, however, have always remained open to the lesbians. Whenever articles are submitted, they are warmly accepted without hesitation. We have had fresh meetings with the lesbian group, Stri Sangam, on our own initiatives to evolve a new relationship. We sincerely wish that this will be a fruitful one.

ASHOK ROW KAVI

Mumbai

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## Chimera of Monetised Deficit

In its Annual Report for 1995-96 the Reserve Bank has suggested that the central budget should present an estimate of the monetised fiscal deficit consistent with the objectives of overall monetary control. The proposal should cause some raising of eyebrows for two reasons. First, it is difficult to estimate in advance how much of the fiscal deficit would have to be financed by RBI credit. Second, and more important, what turns out to be the final year-end monetised deficit may contain a major component determined not by the year's fiscal operations and needs but by the central bank's open market operations in keeping with the emerging monetary situation, over which the RBI should have exclusive control.

All measures of the budgetary deficit - whether the conventional deficit, the gross and net fiscal deficit, the primary deficit or the revenue deficit - yield numbers which are endogenous to the budget in that they are directly derivable from the budget's estimates of receipts and expenditures. The monetised deficit, however, is a different animal; it goes beyond the government's budgetary operations to cover the Reserve Bank's holdings of government paper acquired by the central bank from the market in pursuance of monetary policy objectives or successful debt management. The monetised deficit represents increase in net RBI credit to the central government which is the sum of increases in the RBI's holdings of government debt instruments plus any draw-down by the government of its cash balances with the RBI. The debt instruments comprise (i) ad hoc treasury bills, (ii) 91-day treasury bills sold on tap, (iii) 91-day treasury bills sold by auction, and (iv) dated securities. While ad hoc treasury bills are issued to the RBI alone and represent automatic monetisation of the budget deficit, the other types of TBs and dated securities may enter the RBI's holdings either by initial subscription or by net purchase from the market. While purchases from the market are essentially guided by monetary policy considerations, initial subscriptions by the RBI to take up any slack in the market response too may be part of debt management. The finance minister, while framing the budget for the coming fiscal year, need not be expected to have any clue to the possible size of these central banking operations. The central bank itself may not be able to anticipate the size of the monetised deficit that emerges eventually in pursuance of various fiscal and monetary policy objectives. Even when the RBI plans to inject a certain amount of primary money into the system as part of domestic credit expansion, it may choose to contract liquidity through open market operations in government paper and pump in liquidity instead through refinance to the commercial sector or through foreign exchange operations.

Against this background, to expect the budget to "indicate the total recourse to the Reserve Bank whether by way of dated

securities, treasury bills or other temporary accommodation", as the RBI wants it to, is unrealistic. Recent experience confirms this. Probably under the impulse of the so-called long-term fiscal policy, the 'Budget at a Glance' document began to present every year the estimate of 'net increase in RBI credit' just below that of the 'overall budget deficit'. While the overall budget deficit or the conventional budget deficit is the gap between all receipts and expenditures and is financed by the issue of 91-day treasury bills (including rediscounted and auctioned bills) irrespective of whether held by the RBI, banks or others, net RBI credit to the government covers the outcome of all the operations of the RBI in government paper, TBs and dated securities alike. Presenting the estimate in the budget documents, it was evidently realised. served no purpose and the practice was abandoned from the budget for 1994-95. The irrelevance of the exercise was evident from the fact that for every year the estimate of 'net increase in RBI credit' was shown as identical to that of 'overall budget deficit', implying that the projected monetised deficit was the same as the conventional deficit which, of course, is never the case in reality. The budget documents then carried the disclaimer that the figure of net increase in RBI credit was not independently estimated, but even if a bettergrounded estimate of the 'monetised deficit' could be projected, what purpose would it serve?

Recent experience, even during the period when the ministry of finance and the RBI have been implementing the stabilisation and structural adjustment programme in concert, is distinctly unpro-mising. For 1992-93, the budget deficit was Rs 12,312 crore (Rs 12,757 crore according to the RBI), but net RBI credit to the central government was just Rs 4,257 crore. In the next year the budget had anticipated a deficit of Rs 4,314 crore, but the year ended with a deficit of Rs 10,960 crore, net issue of ad hoc TBs of Rs 6,300 crore and, startlingly, one of the lowest levels of net RBI credit to the central government at Rs 260 crore. Explaining the outcome, the RBI had claimed in its Annual Report for 1993-94 that its open market operations had partly neutralised the expansionary impact of capital inflows and the large budget deficit. Sale of government securities to the tune of Rs 9,047 crore from the RBI's holdings had brought down the monetised deficit. Obviously neither the central budget nor the RBI's monetary policy statements could anticipate these developments. Again, for 1994-95 the budget deficit was initially placed at Rs 6.000 crore but the final outcome was a deficit of only Rs 946 crore, net issue of ad hoes of Rs 1,750 crore and net RBI credit to the government of Rs 2,130 crore. The RBI had then gone to town with the claim that for the first time in almost two decades monetary expansion through the year could not be attributed to monetisation of the budget deticit and that this had been made possible by "the fundamental reform announced in the union budget 1994-95 and the agreement subsequently reached between the government and the Reserve Bank to delink automatic monetisation from the budget deficit". This 'fundamental reform', made possible only by unprecedented portfolio inflows of over Rs 30,000 crore in the second half of 1993-94 and the first half of 1994-95, could not be sustained beyond one year. The government read in the large capital inflows false signals to borrow massively in the market and the RBI complacently assumed that its agreement with the government on limiting and eventually phasing out the use of ad hoc TBs was already a success. However, once the portfolio inflows slowed down and the financial assets showed no significant rise, these facile expectations were belied and the much-vaunted agreement between the finance ministry and the RBI was frequently breached.

The official expectations were, of course, quite unrealistic on many counts - the low revenue elasticity and unsatisfactory fiscal situation, the unpredictability of portfolio inflows and the inadequacy of financial savings, all of which the finance ministry and the RBI refused to recognise. Hence their attempt to foist the unsustainable 'reform' of delinking the budget deficit from monetisation Already in 1995-96, the overall deficit, initially budgeted at Rs 5,000 crore, touched Rs 9,934 crore, but with net issue of ad hoc TBs of only Rs 5.965 crore. Even so net RBI credit to the centre rose to Rs 19,855 crore because the market simply could not absorb the high budgeted levels of gross borrowings of Rs 40,806 crore and net borrowings of Rs 27,087 crore. In government paper auctions, the devolvement on the RBI aggregated Rs 12,655 crore (32.8 per cent of gross market loans) in 1995-96 compared with only Rs 157 crore (0.7 per cent) in 1994-95. Also, by the end of March 1996 RBI holdings of auctioned 91-day TBs had jumped to Rs 3,211 crore compared with only Rs 68 crore at the end of the previous March. Leave alone the government, the RBI could not have imagined that its working estimate of the expansion of aggregate deposits of scheduled commercial banks of Rs 65,000 crore (or 17 per cent) would prove so wide of the mark, with the actual achievement turning out to be only Rs 49,370 crore (12.8 per cent). This compared with deposit growth of Rs 53,630 crore (16.1 per cent) in 1994-95 and Rs 52,144 crore (18.6 per cent) in 1993-94

In the current year as well the monetaryfiscal situation has developed along unexpected lines. While overall financial assets are not growing, the RBI has pumped in as much as Rs 12,725 crore by slashing the effective CRR from 15.7 per cent in March 1995 to 11.5 per cent by July this year. The CRR is to be brought down further to approximately 9.2 per cent by January 1997, releasing yet another Ks 8,550 crore. As a result, banks' investments in government securities have risen by as much as Rs 13,074 crore so far this year up to September 27, against Rs 6,178 crore in the comparable period last year. The government has already completed two-thirds of its net borrowing programme of Rs 25,498 crore for 1996-97. Hence the use of ad hocs has dwindled to such a low figure as Rs 3.360 crore as of October 4 compared with Rs 10,610 crore last year and net RBI credit to the centre has come down to Rs 3.801 crore as of September 27 compared with Rs 8,714 crore in the comparable period last year. Clearly, such moderate levels of monetised deficit and use of ad hoc TBs could not have been foreseen at the time of framing the budget for 1996-97.

Such being the record of mismatch between initial budgetary expectations and the final outcomes, on what basis does the RBI expect the government to anticipate the sources of financing of the gross fiscal deficit among non-bank institutions, banks and the Reserve Bank? The relative importance of these sources in financing the fiscal deficit will fluctuate depending upon the evolving financial situation in particular years. In the interest of monetary and financial stability the RBI necessarily has to combine different central banking instruments such as open market operations, refinance and rediscount facilities and even direct lending to promotional agencies. The RBI's suggestion that the central budget present a target figure of monetisation of the fiscal deficit for the year, on the other hand, stems from a narrow monetarist perspective on money supply targets and money multiplier processes.

HEALTH

#### In a Shambles

THE recent outbreak of dengue fever is yet another and highly ominous sign of the breakdown, not only of the disease control programme, but in general the welfare of the state. For the ennui that appears to have gripped the health administration has its roots in the administration's helplessness in the face of circumstances which are creating disease conditions.It also shows the limitations of vertical programmes in the presence of an inefficient, badly funded and rigid health infrastructure. And what is of even greater concern is that the courts had to be moved to direct the Delhi and the central governments to take preventive and other measures against the disease.

Historically, health planners and administrators have had a blind spot for epidemiological inputs. Partly, this has been a reflection of the supposedly modern methods of controlling 'tropical'/communicable diseases which prescribed technical/medical solutions, quite ignoring the socio-economic components. This led in the 1950s and 1960s to an overwhelming emphasis being given to

centrolling disease vectors by destroying them without giving serious attention to the set of circumstances which make them breed. As a consequence of the vertical approaches to single diseases, ecological factors in vector control were often neglected: a glaring example of the current interpretation of this approach is the malaria control establishment pleading its inability to do anything about dengue carriers because its workers did not know how to distinguish the different types of mosquitoes. For instance, there was at one time a plan to eradicate the Aedes mosquito. the carrier of the dengue virus. However, objections came from a group of eminent epidemiologists and entomologists that destruction of the Aedes type would inevitably provide greater encouragement to the yellow fever carriers, and such a changed ecological picture would make for the entry of the far-more-difficult-to-control yellow fever into the country. It was felt at that time that with a good health care infrastructure, early detection and efficient case handling, dengue would be the lesser evil.

Today the dengue 'epidemic', not yet officially designated so, has brought the whole issue into the open in a different light. And the real danger is that the health establishment's blinkered response may be to launch an extensive eradication programme without comprehensive deliberations and without, of course, any move to introduce a health component in planning and implementing development programmes, urban and rural. In fact, just as industrial and large development projects now have to obtain environmental clearance. there ought to be a provision for considering the health consequence of any such project or plan before it goes off the drawing board... Some 50 years ago the Bhore Committee had appealed, in vain, for just such an arrangement.

**UTTAR PRADESH** 

### **Calculations Gone Awry**

THE most significant aspect of the Uttar Pradesh assembly elections has been the inability of the BJP to approach anywhere near the 213 scats mark required for a simple majority. The SP-BSP stand-off was expected to benefit the BJP in the three-cornered contest. Yet, the disjointed efforts of the Congress-BSP alliance on the one hand and the UF-Bharatiya Kisan Kamgar Party (BKKP) alliance on the other succeeded in restricting the BJP-Samata alliance to 176 seats, exactly the tally the BJP had reached when the SP and BSP had joined hands together in 1993. This time, for a change, all the main contenders in the election - the BJP. the SP and the BSP - made a conscious effort to do away with their caste identification and to project themselves as representing larger sections of society. The BJP, normally looked upon as an upper caste party, distributed 190 tickets to the OBCs as part of its programme of social engineering. The BSP which has a stronghold among the dalits of UP, gave only 86 tickets of its 299 tickets to scheduled caste candidates There were 102 OBC, 53 Muslim, 12 brahmin and 25 thakur candidates fighting on BSP tickets. The SP, the champion of OBC interests, put up 47 Muslims, 36 thakurs, 18 brahmins and 6 banias as candidates. Yet despite this conscious reorientation in seat distribution by the main contenders, none of them managed to drastically improve their performance. In the recent Lok Sabha elections the BJP had secured a majority in 236 of the assembly segments. But in the assembly polls it could garner only 174 seats. The BSP maintained its 67 seats while the SP by winning 110 seats improved upon its earlier position by one seat The Congress which stuck to its upper caste base, marginally improved its tally The party had given a majority of its 126 tickets to brahmins and a apputs and won 33 seats compared to 29 culier

By granting statehood to Utt wakhand announcing sops to farmers of western UP and forging an alliance with Ant Singh and Mahender Singh Likait prime minister Deve Gowda had made a scrious attempt to crode the BJP base in its strongholds. The formation of Uttarakhand has in fact turned out to be a boon to the BJP. The BJP bagged 18 out of the 19 seats from this region. The Congress (Tiwari) was trounced because of the impression that it had effected a rapprochement with Mulay in Sin h Yadav the principal foc of Uttar ikh indi i in western UP too the BKKP could win only 8 seats thereby largely failing to make a dent into the lat votes of the BIP. The Jinata Dal won 7 scats confirming its marginalised existence in the state

The first reports of the voting behaviour suggest that the Muslims to a large extent remained apathetic to the elections. They form 18 per cent of the state's population and can be decisive in determining the outcome in some 130 constituencies. The BSP made an attempt to win the Muslim votes by soliciting the support of the Shahi Imam of Jama Masjid of Delhi Though the All India Milli Council and the Mislim Personal Law Board opposed the move the common Muslim voter seemed apathetic and resigned This perhaps helped the BIP to capture seven out of 12 seats and six out of nine seats in Muslim dominated Moradabad and Bureilly districts, respectively

Given the poor performance of the allies of the SP and the low Mus im turnout the BJP should have performed bester. Instead, the large number of OBC condidates put up by the BJP seems to have alienated the upper caste support base of the party and idversely affected its fortunes. The delicate balancing of caste interests is the intractable problem facing the BJP in the state. Its opponents, on the other hand, having checked the BJP, will have the equally difficult task of making the SP and BSP sit together if the BJP is to be prevented from forming the government.

#### **POWER POLICY**

### Beating about the Bush

THE conterence of state chief ministers and power ministers in Delhi this Wednesday was an indication of how grim the power situation in the country, even as perceived by the government, is turning out to be The prime minister himself inaugurated the conference But while the meeting had the benefit of a 'national action plan' prepared by the central power ministry, judging by reports in the press, the prime minister's and the state leaders choice of issues to highlight does not hold out much hope for progress towards a transparent long-term national policy and the necessary institutions to implement it, the absence of both of which has been so largely responsible for landing the power sector in the present cul-de-sac despite all the hoopla about throwing the sector open to foreign capital and the domestic private sector

It is the lack of a clear policy and of independent agencies whose objectivity was above board which has been responsible for every one of the initial lot of private power projects the so called 'fast track projects, getting mired in allegations of corruption and padded costs and inflated tariffs. The prime minister, who himself has been the butt of charges over his handling of the Cogentrix project in Kainataka when he was the state crict minister evidently had this situation in mind when he lamented at the conference that if either the states or the centre take some decisions there are forces which try to attribute motives alleging that there is a nexus between the investors and the government" But his solution not untypically perhaps was to try and arrange a political truce a time has come when we should all collectively work forgetting our political party affiliations" The proposal may have its attractions, since political power in the states is now shared widely enough among different parties which may find it mutually beneficial to arrive at an understanding not to raise inconvenient questions

But, of course that does not take care of the problems either of corruption or of ensuring that power plants with the most efficient parameters are built. It is not the case by and large that investment in power projects has been held up because the state governments have not had sufficient authority or that decision making has been concentrated at the centre. Yet the main burden of the prime minister's speech at the chief ministers' conference was that the state governments would now be given unfettered freedom to decide on power projects. This is proposed to be ensured by further raising the size of projects which are required to be referred to the Central Electricity Authority (CEA) for techno-economic evaluation or indeed even doing away with this requirement altogether. In the same vein Deve Gowda also proposed that environment clearance of projects should be left to the state governments. Are the state governments not responsible to the people of their states, was his question

Techno-economic evaluation of large power projects and assessment and amelioration of their indisputably enormous environmental consequences are vital matters which require to be handled with competence, objectivity and transparency. The real issue is not whether these tasks should be undertaken at the state or the central level but that they call for independent agencies with the necessary technical competence. Not that the CEA today anywhere near fills the bill It had already been marginalised by the Narasimha Rao government and the then power minister NKP Salve But there is no getting away from the need for such agencies for the proper planning and operation of power projects, whether in the public or the private sector. And, contrary to the prime minister's implied suggestion, the popular democratic credentials of governments at the centre and in the states will in no way be compromised by setting up such bodies and placing them and their functioning within their legitimate sphere beyond the pale of (central or state) political and bureaucratic control Without such institutions however much the major political parties, following the prime minister's advice, may agree upon arrangements to share the loot, so to say, questions and suspicions will keep cropping up about the legitimacy of the projects which will certainly not be in the interest of their speedy implementation and smooth working One would have expected the Planning Commission to have given a lead on such matters but going by newspaper reports, the subject of a clear policy covering the many dimensions of the long term development of the power sector and the concomitant institutional framework does not seem to have figured very prominently in the address of the commission's deputy chairman to the chief ministers conference

Interestingly, on the very day that the chief ministers were meeting in Delhi finance minister Chidambaram, speaking in Vadodara was quite categoric that since the centre was not prepared to extend its counterguarantee to any more power project sheyond the five to which a commitment had been made private investors, whether foreign or Indian were unlikely to be enthusiastic about investing in the power sector unless the state electricity boards were restructured and made viable. The action plan' prepared by the power ministry does apparently siress the need for revising and restructuring electricity rates especially those for the agricultural sector, but the prime minister himself studiously avoided the subject at the meeting of state chief ministers and power ministers He had to for was not he just weeks back promising farmers in UP cheap electricity in the course of his campaigning for the state assembly elections there?

The current fiscal year has seen a rise of \$ 1.4 bn in official foreign currency assets (including SDRs) against a fall of \$ 1.8 bn in the comparable period last year. While both imports and exports have slowed down, a sharper contraction in import growth has resulted in a narrowing trade deficit from \$ 2.1 bn to \$ 1.4 bn. The deceleration in industrial growth has been very pronounced, with infrastructure industries suffering a setback since the latter half of 1995-96. While basic industries and consumer durables have experienced a sharp dip in growth in the first quarter of this year, growth of capital goods and intermediate goods industries too has slackened. Consumer non-durables, however, continue to do well.

4

#### Macroeconomic Indicators

|                                                                 |                        | 0                  |                        |                      |                      |                          |                   | n                    |                           |                                        |                     |
|-----------------------------------------------------------------|------------------------|--------------------|------------------------|----------------------|----------------------|--------------------------|-------------------|----------------------|---------------------------|----------------------------------------|---------------------|
| Index Numbers of Wholesale                                      | Weights                | Sept 28, _         | Owan                   | 0                    |                      | ariation (F              |                   |                      |                           | 1002 04                                | 002.02              |
| Prices (1981-82 = 100)                                          |                        | 1996               | Over<br>Month          |                      | 2 Months<br>Previous |                          | 1995-96           | 1777.70              | 1994-95                   | 1773-74                                | 774-73              |
|                                                                 |                        |                    |                        |                      |                      |                          |                   |                      | <del></del>               | <del></del>                            |                     |
| All Commodities Primary Articles                                | 100.0<br>32.3          | 316.9<br>330.9     | 0.9<br>1.0             | 6.3<br>7.5           |                      | 5.8<br>7.5               | 4.5<br>5.4        | 4.9<br>5.7           | 10.4<br>12.7              | 10.8<br>11.5                           | -7.0<br>3.0         |
| Food Articles                                                   | 32.3<br>17.4           | 372.3              | 0.5                    | 7.3<br>9.4           |                      | 8.0                      | 3.4<br>8.4        | 3.7<br>9.7           | 11.9                      | 4.4                                    | 5.4                 |
| Non-Food Articles                                               | 10.1                   | 342.6              | 2.0                    | 5.3                  | 13.0                 | 7.9                      | 0.5               | -1.1                 | 15.5                      | 24.9                                   | -1.4                |
| Fuel, Power, Light and Lubricants                               |                        | 330.0              | 1.8                    | 16.1                 | 1.6                  | 11.8                     | -0.1              | -0.1                 | 2.4                       | 13.1                                   | 6.0                 |
| Manufactured Products Food Products                             | 57.0<br>10.1           | 306.6<br>305.9     | 0.7<br>2.2             | 4.0<br>7.3           |                      | 3.8<br>13.0              | 4.8<br>4.6        | 5 4<br>0.3           | 10.7<br>8.1               | 9.9<br>12.3                            | 7.9<br>6.8          |
| Food Index (computed)                                           | 27.5                   | 347.9              | 1.1                    | 8.7                  |                      | 9.6                      | 7.1               | 6.6                  | 10.6                      | 7.0                                    | 5.8                 |
| All Commodities (Average Basis)<br>(April 6-September 28, 1996) | 100.0                  | 309.1              | _                      | 5.7                  | 9.9                  | 5.4                      | 9.2               | 7.8                  | 10.9                      | 8.3                                    | 10.1                |
|                                                                 | <del>,, ,</del>        | Latest             |                        |                      | V:                   | ariation (F              | er Cent):         | Point-to-P           | oint                      | ······································ |                     |
| Cost of Living Indices                                          |                        | Month              | Over                   | Over 12              |                      |                          |                   |                      | 1994-95 1                 | 993-94                                 | 1992-93             |
|                                                                 |                        |                    | Month                  |                      | Previous             |                          |                   |                      |                           |                                        |                     |
| Industrial Workers (1982=100)                                   |                        | 343.0 <sup>K</sup> | 1.2                    | 8.9                  | 10.9                 | 7.5                      | 7.5               | 8.9                  | 9.7                       | 9.9                                    | 6.1                 |
| Urban Non-Man Emp (1984-85=1                                    | 00)*                   | 263.0 <sup>1</sup> |                        | 96                   | 10.1                 | 7.8                      | 8.1               | 0.9                  | 9.9                       | 8.3                                    | 6.8                 |
| Agri Lab (1986-87=100) @                                        |                        | 252 07             |                        | 7.2                  | 14.1                 | 6.3                      | 6.3               | 7.2                  | 11.1                      | 11.2                                   | 0.6                 |
| @ Based on linking factor                                       | of 5.89 betw           |                    |                        |                      |                      |                          | r 1995-96         |                      |                           |                                        |                     |
|                                                                 |                        |                    |                        |                      |                      | v                        | ariation          |                      |                           |                                        |                     |
|                                                                 | Sept I                 | 13,                |                        | Fisc                 | al Year So           |                          |                   |                      |                           |                                        |                     |
| Money and Banking (Rs crore)*                                   | 199                    | 96 Over N          | Aonth (                | 1996-9               | 7 I                  | 995-96                   | 1995              | -96                  | 1994-95                   | 19                                     | 93-94               |
| Money Supply (M <sub>3</sub> )                                  | 6343                   | 95 408             | 3 (0.6)                | 32559 (5             | .4) 134              | 64 (2.5)                 | 70410 (           | 13.2) 7              | 9241 (17.5                | 7330                                   | 7 (19.3)            |
| Currency with Public                                            | 1232                   |                    | ( <del>-</del> 0.5)    | 5076 (4              | .3) 70               | 96 (7.0)                 | 17480 (           | 17.4) 1              | 8698 (22 8                |                                        | 0 (20.9)            |
| Deposits with Banks                                             | 5050                   |                    | 7 (0 8)                | 24688 (5             | .1) 34               | 75 (0.8)                 | 52973 (           |                      | 9685 (16 2                |                                        | 5 (18.7)            |
| Net Bank Credit to Govt                                         | 2800<br>3372           |                    | 2 (0.8)                | 22602 (8             |                      | 16 (8.0)                 | 34991 (           |                      | 16328 (7.9                |                                        | 5 (16 3)            |
| Bank Credit to Comml Sector<br>Net Foreign Exchange Assets      | 833                    |                    | (=0 8) ·<br>(1.1)      | 1-) 3661-<br>6184 (8 |                      | 96 (1.9)<br>5 (-3.3)     | 48179 (<br>-628 ( |                      | 8059 (19.6<br>5159 (47.8  |                                        | 61 (7.5)<br>(110.9) |
| Reserve Money (Sept 20)                                         |                        | 90 -2334           |                        | -8946 (4             |                      | 22 (6.7)                 | 25054             |                      | 0611 (22.1                |                                        | 2 (25.2)            |
| Net RBI Credit to Centre (Sept 20)                              |                        | 30 -2753           |                        | 5662 (4              | .8) 96               | 88 (9.8)                 | 19855 (           |                      | 2130 (2.2                 |                                        | 60 (0.3)            |
| Ad hoc Treasury Bills (Sept 27)                                 |                        | 70                 | -3950                  | -11                  | 75                   | 6440                     |                   | 5965                 | 175                       | 0                                      | 6300                |
| Scheduled Commercial Banks (Se<br>Deposits                      | :pt 27)<br>4617        | 45 8640            | (1.9)                  | 27926 (6             | 4) 117               | 40 (3 0)                 | 46961 (           | 12.1) 5              | 3629 (16.1                | 5214                                   | 4 (18.6)            |
| Advances                                                        | 2509                   |                    |                        | -3066 (-1            |                      | 28 (4.8)                 | 42455 (           |                      | 0638 (23.8                |                                        | 66 (7.3)            |
| Non-Food Advances                                               | - 2425                 |                    |                        | -1710 (-0            | .7) 98               | 96 (5.0)                 | 44938 (           |                      | 7798 (23.4                |                                        | 75 (5.8)            |
| Investments                                                     | 1770                   |                    | 3 (0.6)                | 12245 (7             |                      | 64 (4.7)                 | 15529 (           |                      | 4171 (10.5                |                                        | 1 (26.9)            |
| * Based on March 31 figures afte<br>March 29, 1996.             | er closure of          | governmen          | it accoun              | is, except           | 101 1342-            | on (Iuii ye              | ar) and 15        | 990-9/ WI            | iere the ba               | nking data                             | a relate to         |
| Index Numbers of IndustrialWe                                   | ights Jun              | p Fire             | al Year S              | o For                | <del></del>          |                          | Fieral V          | Year Avera           | 1066                      |                                        |                     |
| Production (1980-81=100)                                        | ignis Jun<br>1990      | -                  |                        | 95-96                | 1995-96              | 1994-95                  |                   |                      |                           | 1-92 1                                 | 990-91              |
|                                                                 |                        |                    |                        |                      |                      |                          |                   |                      |                           |                                        |                     |
|                                                                 | 0.0 280.               |                    |                        |                      |                      |                          |                   |                      | (2.3) 213.                |                                        |                     |
|                                                                 | 1.5 247.<br>7.1 277    | 8 278.0(10         |                        |                      |                      |                          |                   |                      | (0.6) 222.<br>(2.2) 206.2 |                                        |                     |
|                                                                 | 1.4 327.               |                    |                        |                      |                      |                          |                   |                      | (5.0) 257.                |                                        |                     |
|                                                                 |                        | t II. Mon          |                        |                      | -97 So Fai           |                          |                   |                      | and of Fisc               |                                        |                     |
| Capital Market                                                  |                        | 96 Age             |                        |                      | ugh Peal             |                          |                   | 1995-9               |                           |                                        | 993-94              |
| BSE Sensitive Index (1978-79=10                                 | 00) 3161(-             | -6.7) 3389         | 3572(-                 | 19.2) 3              | 003 4069             | 2826                     | 3584              | 3367(3.3)            | 3261(-13                  | 3.7) 377                               | 9(65.7)             |
| National Index (1983-84=100)                                    | 1414(-                 | -7.6) 1530         | ) 1622(-               | 22.0)                | 321 1843             | 3 1304                   | 1691 1            | 549(-3 5)            | 1606(-12                  | 2 2) 183                               | 0(79.2)             |
| BSE-200 (1989-90=100)                                           | 314(-                  |                    |                        |                      | 298 413              |                          | 385               | 345 (-6.3)           | 368(-18                   | 3.2) 45                                | 0(92.3)             |
| NSE (Nov 5, 1995=1000)<br>Skindia GDR Index (Apr 15, 1994       | -)909(-<br>1-)90 (100) |                    |                        | 29 3)                | 874 1196<br>56 90    |                          | 91                | 79(1.3)              |                           | 78                                     | -                   |
|                                                                 |                        |                    |                        | ~, ')<br>            | 90                   | ., 01                    | 7 I               | 7 7(1.3)             |                           | , u                                    |                     |
| Foreign Trade August                                            |                        | iscal Year         |                        |                      | 5 06                 | 1004.04                  | g 1/              | 102 04               | 1000 00                   | 1 104                                  | 1 02                |
| 1996                                                            |                        |                    | 1995-96                |                      | 5-96                 | 1994-9                   |                   | 993-94               | 1992-93                   |                                        | 91-92               |
| Exports: Rs crore 9292                                          | 2 47393 (              | (21.5) 390         | 016 (26.5              | 106465               | (28.8) 8             | 2674 (18.                | 5) 6975           | 1 (29.9)             | 53688 (21                 | 1.9) 4404                              | 2 (35.3)            |
| US \$ mn 2603<br>Imports: Rs crore 10370                        |                        |                    | 41) (26.2<br>511 (37.3 | ) 31831<br>) 121647  | (35.2) 8             | 6331 (18.4<br>19971 (23. | 1) 7310           | 8 (20.0)<br>1 (15.3) |                           | 3.8) 1786<br>2.4) 4785                 |                     |
| US \$ mn 2905                                                   | 5 14957                | (3.3) 14           | 476 (37.0              | ) 36370              | (26.9) 2             | 28654 (22.5              | 9) 233(           | 06 (6.5)             | 21882 (12                 | 2.7) 19411                             | (-19.4)             |
| Non-POL US \$ mn 2219                                           | 9                      | (-4.7) 11          | 823 (42.3              | ) 28822              | (26.8) 2             | .2727 (29.:              | 5) 1755:          | 2 (11.2)             | 15782 (12                 | 2.3) 14047                             | (-22.2)             |
| Balance of Trade Rs crore -1078<br>US \$ mn -302                |                        | -5057<br>-1442     | -649:<br>-206          | , -<br>6             | -15182<br>4539       | -729<br>-232             | 24                | -3350<br>-1068       | -90<br>31                 | 687<br>345                             | -3809<br>-1545      |
|                                                                 |                        | 6, Mar 31          |                        |                      |                      |                          | tion Over         |                      |                           |                                        |                     |
|                                                                 | .996 199               |                    |                        | th Ye                | ar Free              | al Year So               |                   | 05-96 19             | 94-95 19                  | 993-94                                 | 1992-93             |
| (excluding gold)                                                | 177                    | . 1/70             | Ag                     |                      | -                    | 5-97 199                 |                   | 70 17                | , <del>1</del> -70 13     |                                        | 774-73              |
|                                                                 | 1045 441               | 10 6070            |                        |                      | ,<br>                |                          |                   | 7202                 | 19402 3                   | 7420                                   | 5205                |
|                                                                 | 5845 6447<br>3492 1896 |                    |                        |                      |                      |                          |                   | 7302 1<br>3690       |                           | 7430<br>8724                           | 5385<br>731         |
| - CC 9 JUII 10                                                  | 777L 107               | ., 1/12            | ., 20                  | ,,                   | */-/                 | JUU -1                   | U77 -             | ,U7U                 | ./040/                    | 0127                                   | 121                 |

| Index Nunbers of Industrial<br>Production: Major Groupwise<br>(1980-81=100) |                 | Apr-<br>June 96   | Jan-<br>Mar 96  | Oct-<br>Dec 95   | Jul<br>Sept 95          | Apr-<br>Jun 95  | 1995-96          | 1994-95         | 1993 94         | 1992-93         | 1991 92          | 1990 91         |
|-----------------------------------------------------------------------------|-----------------|-------------------|-----------------|------------------|-------------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|
| General Index                                                               | 1000 00         | 282 6             | 3168            | 288 5            | 271 6                   | 260 5           | 284 3            | 253 7           | 232 0           | 218 9           | 2139             | 2126            |
| Mining and quarrying                                                        | 114 64          | (8 5)<br>251 7    | (11 8)<br>312 6 | (10 5)<br>267 1  | (116)<br>2409           | (147)<br>2430   | ((12 1)<br>265 9 | (9 4)<br>248 8  | (6 ())<br>231 5 | (2 3)<br>223 7  | (0 6)<br>222 5   | (8 2)<br>221 2  |
|                                                                             |                 | (36)              | (47)            | (27)             | (62)                    | (157)           | (6 9)            | (75)            | (3.5)           | (06)            | (0 6)            | (4 5)           |
| Manufacturing                                                               | 771 07          | 278 ()<br>(10 4)  | 312 0<br>(14 0) | 284 ()<br>(12 8) | 267 4<br>(12 7)         | 251 7<br>(14 9) | 278 8<br>(13 6)  | 245 4<br>(9 8)  | 223 5<br>(6 I)  | 210 7<br>(2 2)  | 206 2<br>(-0 8)  | 207 8<br>(9 0)  |
| Electricity                                                                 | 114 29          | 344 5<br>(2 2)    | 353 3<br>(5 8)  | 340 0<br>(5 1)   | 330 8<br>(9 6)          | 337 0           | 340 3<br>(8 2)   | 314 6<br>(8 5)  | 290 0<br>(7 4)  | 269 9<br>(5 0)  | 257 ()<br>(8 5)  | 236 8<br>(7 8)  |
| Index Numbers of<br>Industrial Production.<br>Use-Based Classification      |                 |                   |                 |                  |                         |                 |                  |                 |                 |                 |                  |                 |
| Basic goods industries                                                      | 394 18          |                   | 321 0           | 290 9            | 281 6                   | 275 8           | 292 3            | 269 0           | 254 9           | 232 9           | 226 9            | 2131            |
| Capital goods industries                                                    | 164 27          | (4 0)<br>364 0    | (7 l)<br>44l 7  | (4 1)<br>405 2   | (11.6)<br>358.6         | (12 3)<br>315 7 | (8.7)<br>381.0   | (5.6)<br>318.8  | (9 4)<br>255 4  | (2 6)<br>266 4  | (6 5)<br>266 8   | (6 9)<br>291 6  |
| Intermediate goods                                                          | 205 07          | (14 2)<br>242 5   | (17 4)<br>249 7 | (25 2)<br>235 7  | (11 5)<br>234 4         | (25 6)<br>216 8 | (19 5)<br>234 1  | (24 8)<br>211 4 | ( 4 1)<br>203 9 | ( 0 1)<br>182 6 | (85)<br>1732     | (15.9)<br>176 8 |
| industries                                                                  |                 | (119)             | (159)           | (101)            | (106)                   | (6 2)           | (108)            | (37)            | (117)           | (5.4)           | (20)             | (47)            |
| Consumer goods industries                                                   | 236 48          | 253 5<br>(9 2)    | 281 0<br>(12 3) | 249 2<br>(9 7)   | 726 6<br>(12 6)         | 232 1<br>(16 2) | 247 2<br>(12 6)  | 219 6<br>(8 7)  | 202 0<br>(3 9)  | 194 2<br>(1 8)  | 190 8<br>(1 0)   | 189 0<br>(6 8)  |
| a Consumer durables                                                         | 25 50           | 528 7             | 665 6           | 568 1            | 524 2                   | 475 8           | 558 4            | 407 2           | 369 3           | 318 i           | 320 5            | 159 6           |
| b Consumer non durables                                                     | 210 98          | (11 1)<br>220 2   | (45 9)<br>234 5 | (37 1)<br>210 7  | (37 <b>7</b> )<br>190 6 | (26 0)<br>202 7 | (37 I)<br>209 6  | (102)<br>1969   | (16 3)<br>181 7 | ( 09)<br>1794   | ( 10 9)<br>175 1 | (10 7)<br>168 4 |
|                                                                             |                 | (86)              | (41)            | (3.0)            | (62)                    | (137)           | (64)             | (8 3)           | (13)            | (22)            | (40)             | (5.8)           |
| Production Groupwise Code No 20 21 Food products                            | 53 27           | 2318              | 3114            | 212 0            | 124 6                   | 177 9           | 206 5            | 1817            | 160 0           | 175 3           | 178 0            | 169 8           |
| 22 Beverages tobacco and                                                    | 15 71           | (30)<br>180 3     | (110)<br>1/0 ₫  | (2 4)<br>158 4   | (9 2)<br>148 ?          | (42 5)<br>167 4 |                  | (136)<br>1348   | (87)<br>1378    | ( 15)<br>1137   | (48)<br>107 3    | (12.5)<br>104.8 |
| tobacco products                                                            |                 | (77)              | (18.8)          | (411)            | (226)                   | (29)            | (19 5)           | (-2 2)          | (21 2)          | (60)            | (2 4)            | (18             |
| 23 Cotton textiles                                                          | 123 09          | 166 2<br>(4 9)    | 163 I<br>(3.5)  | 159 9<br>(2 4)   | 157 0<br>(1 6)          | 158 4<br>(2 1)  | 159 6<br>(2 4)   | 155 8<br>(-2 9) | 160 5<br>(6 9)  |                 | 139 ()<br>(9 8)  | 176 (<br>(12 7  |
| 25 Jute hemp and mesta                                                      | 19 99           |                   | 95 4            | 98 2             | 91.0                    | 85 8            |                  | 915             | 103 2           | 67 0            | 90 8             | 101 (           |
| textiles 26 Textile products                                                | 8 17            | (85)<br>870       | ( 3 2)<br>94 7  | (–68)<br>915     | (10 0)<br>88 9          | (8 3)<br>83 7   |                  | (114)<br>786    | (18 6)<br>73 4  |                 | ( 10 6)<br>97 2  | (4 3<br>103 :   |
| 26 Textile products other than footwear                                     | 017             | (39)              | (197)           | (16 3)           | (120)                   | (8 4)           |                  | (7.1)           | (32)            | ( 27 ())        | (58)             | (313            |
| 27 Wood and wood produc<br>furniture and fixtures                           |                 | 248 4<br>(8 1)    | 252 9<br>(14 3) | 231 4<br>(14 2)  | 244 ()<br>(25 6)        | 229 8<br>(12 7) |                  | 205 5<br>(3 1)  |                 |                 | 185 O<br>( 6 2)  |                 |
| 28 Paper and paper product and printing publishin                           |                 | 293 5             | 291 ()          | 286 5            | 290 0                   | 277 9           | 286 4            | 258 1           | 2248            | 210 9           | 203 0            | 198 (           |
| and allied industries                                                       |                 | (56)              | (52)            |                  |                         | (146)           |                  |                 |                 |                 |                  |                 |
| 29 Leather and fur products                                                 | s 4.89          | ) 226 6<br>( 0 5) |                 |                  |                         | 227 6<br>(0 4)  |                  |                 |                 |                 |                  |                 |
| 30 Rubber plastic petrolei and coal products                                | ım 40 00        |                   | 199 5           | 197 4            | 200 1                   | 188 0<br>(7.7)  |                  |                 |                 |                 |                  |                 |
| 31 Chemicals and chemical product except product                            | l<br>ets 125 13 | 377 5             | 394 8           | 156 3            | 369 0                   | 333 4           | 363.4            |                 | _               |                 |                  |                 |
| of petroleum and coal Non metallic mineral                                  | 29 99           | (132)             |                 |                  |                         | (7.8)<br>256.5  |                  |                 |                 |                 |                  |                 |
| products 33 Basic metal and alloys                                          | 98 02           | (5 1)             | (90)            |                  |                         | (10.5)<br>211.3 |                  |                 |                 |                 | -                |                 |
| industries  Metal products and part                                         |                 | (25)              |                 |                  |                         |                 |                  |                 | (33.0)          | (0.4)           | (~ 7)            | (10 '           |
| except machinery and                                                        | 22 8            |                   |                 |                  |                         |                 |                  |                 |                 |                 |                  |                 |
| transport equipment  Machinery machine to                                   |                 | (9 4)<br>0 242 5  |                 |                  |                         |                 |                  |                 |                 |                 |                  | ,               |
| except electrical machinery                                                 | 62 4            | (15.6)            |                 |                  |                         |                 |                  |                 |                 |                 |                  |                 |
| 36 Flectrical machinery apparatus, appliances and supplies and parts        | 57 7            | 9 697 1           |                 |                  |                         |                 |                  |                 |                 |                 |                  |                 |
| 37 Transport equipment ar                                                   |                 | •                 | 340             | 3 305 2          | 289 6                   | 248             | 8 296            | 7 239 2         | 211             | 2 200 (         | 5 191            | 192             |
| parts                                                                       |                 | (20 4             |                 |                  |                         | -               |                  | •               | -               |                 |                  | •               |
| 38 Other manufacturing industries                                           | 9 0             | 5 260 9<br>(-4.7) |                 |                  |                         |                 |                  |                 |                 |                 |                  |                 |

Notes (1) Superscript numeral denotes month to which figure relates e.g. superscript 4 stands for April (11) Figures in brackets are percentage variations over the period specified or over the comparable period of the previous year

# South-East Asian Economies: Miracle or Meltdown?

Jayati Ghosh Abhijit Sen C P Chandrasekhar

In the past few months several of the more 'successful' of the south-east Asian economies have been plagued by problems of decelerating exports and deteriorating balance of payments positions, slowdowns in output expansion and declines in employment in exporting industries, domestic imbalances requiring stabilisation policies, and the like. The south-east Asian situation is not anywhere near the Mexican case, but the strong dependence on foreign capital does bring out one important similarity – that of external vulnerability – which also has important policy lessons for other Asian countries.

THE recent growth experience of the southeast Asian economies has been the focus of much worldwide attention. This is partly because of the widespread conviction that Asia has become the new 'growth pole' of the world economy, able to sustain high growth rates even when there is no impetus to growth in other regions; and partly because of the assessment that this experience constitutes concrete illustration of the virtuous interaction between trade and foreign investment to create economic growth The successful proliferation of capitalism in east and south-east Asia is cited as evidence in support of economic liberalisation policies which encourage greater inflows of exportoriented FDI as well as countering the arguments that greater international integration can work against the interests of developing economics.

Thus, past and current patterns of growth in these economies are of immense interest to countries like India, as are the recent economic warning signals emanating from these countries. In the past few months, several of the more 'successful' of the southeast Asian economies have been plagued by problems of decelerating exports and deteriorating balance of payments positions, slowdowns in output expansion and declines in employment in exporting industries, domestic imbalances requiring stabilisation policies, and the like. In some of the 'secondtier' east Asian countries such as Thailand, Malaysia and even to some extent Indonesia, these problems have been compounded by speculative behaviour affecting exchange rates, in the context of large external debt. Such problems, appearing so soon after these countries have just been getting kudos from both multilateral organisations and international financial analysts for their strong economic performance, inevitably bring to mind the Mexican experience of 1995-96, in which celebratory appraisals were rapidly followed by dramatic collapse. The southeast Asian situation is not anywhere near the Mexican case but the strong dependence on foreign capital does bring out one important similarity – that of external vulnerability – which also has important policy lessons for other Asian countries

#### GROWTH IN ASIAN DEVLLOPING COUNTRIES

To understand the nature of the current economic difficulties, it is necessary to consider first the pattern of previous growth in east and south-east Asia. Over the past decade in particular, the Asian region has been the most dynamic in the world in terms of economic growth as well as increased trade involvement. Both in terms of the growth rate of GDP and the rate of export growth, the developing economies of Asia in the aggregate outperform any other grouping. In addition, the dominant share of capital flows to the developing world is now absorbed by Asia, and by a small set of countries (such as China) within Asia. Furthermore, within Asia, this growth has been much more evident in east and southeast Asia, especially China, the four Asian NICs and the second-tier high-growth economies of ASEAN. Indeed, south Asia has grown much less rapidly. West Asia has experienced stagnation and central Asia declines in per capita incomes.

The economic growth of east and southeast Asia is usually seen as trade-led, and certainly it has been fuelled by, or expressed in, high rates of growth of imports and exports, as shown in Table 1. It is evident from this table that while world trade – in terms of exports - has grown more than twice as rapidly as world income, developing countries as a group have shown faster rates for both of these than industrial countries, and Asian developing countries have been the fastest of all. The rapid rate of export expansion is usually seen as the engine of growth in these countries. Yet it is also evident that import volumes have also grown significantly faster in developing Asia than in the rest of the world, and have also grown more rapidly than export volumes. Consequently, many of the high-growth Asian economies have actually had continuing current account deficits despite the emphasis on exports. This suggests that there have been other factors, such as the ability to attract capital inflows, which have been significant in explaining balance of payments 'stability' in these cases.

It is worth noting another feature which emerges from Table 1: the difference in purchasing power of exports between developing Asia and industrial countries is much less than the difference in export volume growth. In fact, for all developing countries the purchasing power of exports has actually increased more slowly than that for industrial countries, despite more rapid growth in export volumes in the former. This suggests a fairly sharp movement in the terms of trade against all developing countries, and a slightly less sharp but still adverse movement in terms of trade for Asian developing countries.

There are currently two standard ways of interpreting these data. The first suggests that exports have been the engine of growth in these countries, fuelling rapid increases in GDP and thereby also in import volumes. Within this broad interpretation, there are varying positions on whether the export growth itself has been related to 'marketfriendly' economic policies which encouraged production for export, or whether such growth was the outcome of systematic neo-mercantilist strategies in such economies. The second approach treats export growth as a result rather than a cause of the growth process, and relates all of these features to the observed high rate of capital inflow into Asia. The most well known exposition of this notion is the 'flying geese' model originally developed by the Japanese economist K Akamatsu in 1932, and subsequently applied to the recent experience. It is worth considering the elements of this paradigm in some more detail.

#### 'FLYING GEESE' PARADIGM

This is essentially a variant of the 'productcycle' hypothesis of Raymond Vernon, in which trade becomes the vehicle for transferring new goods and technology across countries. As countries industrialise and their factor proportions change, some production (of certain more labour-intensive goods or particular labour-intensive processes) from the "leader" countries is shifted to the 'follower' countries Imports from the more advanced countries allow for the introduction of new goods, transfer of technology and capital goods into 'follower' countries, and eventually for their export to other countries Ultimately, the leader country loses competitiveness in a particular product, whose domestic production is then phased out and replaced by imports from the 'followers' who have by then built up competitiveness in that product FDI here becomes an additional channel for this process, as domestic investment withdraws from those sectors suffering from loss of competitiveness (typically labour-intensive sectors, such as textiles and leather goods) and instead becomes FDI relocating to places where labour is cheaper, in order to supply both domestic and foreign markets. Despite this, aggregate investment in the leader' country does not diminish because industry is constantly restructured and upgraded to move towards higher-skill, higher-technology products

The result is a constantly evolving division of labour within a group of regional eco nomies Increasingly, this formulation is used to describe a process which (contrary to Akamatsu's original exposition) is consistently benign and harmonious for all the countries involved. Since aggregate investment continuously increases and simul taneously promotes trade flows there is no trade-off between domestic investment and FDI in either the investing leader country or in the 'follower host countries FDI is seen to be essentially trade oriented and is always complementary to the productive structure of the host economy, even as it increases the exports of the follower Tech nological advances and transfers, shifts in competitiveness and changing trade patterns operate to the mutual advantage of all the concerned countries and do not involve either frictions or dislocations

This process is said to be in operation in Asia over the past decade in particular, with relocative FDI from the leader country Japan, moving first into the first-tier NICs and transforming productive structures there and then entering the second-tier NICs (the ASEAN-4 of Indonesia Malaysia, Thailand and the Philippines) and now even spreading into countries such as Myanmar and Bangladesh in ever spreading dynamic Lon centric circles of export oriented expansion

Obviously, the reality of the obscived process is both more complex and more problematic than this rosy picture. It is clear that the initial penetration of imports into a 'follower' country will adversely affect domestic producers even it consumers are better off Similarly, when follower countries can compete successfully in a range of products, the leader country's interests may be affected The many costs, difficulties and occasional impossibility of restructuring in both leader and follower countries are ignored in this paradigm. Further, the complex integration strategies of global MNCs mean that activities in any particular host country may not be such as to definitively benefit the host In fact, the requirements of flexibility and the need to safeguard technological advantages have meant that MNCs have typically ignored the specific requirements of their hosts in terms of building national competitiveness, and where this has occurred it has usually been an accidental by-product of overall MNC designs rather than part of the strategy

Most significantly of all, relocative FDI of this variety has rarely been of sufficient magnitude to ensure dynamic shifts in comparative advantage by itself. Most of the more successful Asian economies - that is those who have completed or are successfully completing the transition to industrialisation and higher value added produc tive structures - had crucial domestic policies in place, as well as particular initial conditions (including an early levelling of asset or income distribution through institutional reforms) which allowed them to benefit from increased trade. The most successful countries in Asia Japan and South Korea, did not industrialise using FDI at all, and South Korea relied largely on foreign aid and then external borrowing to finance its balance of payments deficits during the 1950s and 1960s The largest FDI hosts among the Asian countries until recently have been Singapore and Hong Kong, and in both of these countries, it is accepted that FDI has contributed little to upgrading and industrial deepening, and has been much more footloose than in the other Asian NICs

In fact the actual pattern of FDI nflow into cast and south Asia suggests that although recent FDI into some parts of south-east Asia may be broadly consistent with the 'flying geese' paradigm, in general the model is of very limited significance in explaining the relationship between FDI and growth in Asia Closer examination suggests that there is no 'homogeneous' east or south-east Asian experience with regard to either the pace of industrialisation or the role that FDI can play Rather, there are four broad and quite different categories of industrialisation and FDI experience, even in the south and southeast Asian region, as described below Elsewhere, FDI has played a very limited and typically ambiguous role, and certainly in most of south Asia, central and west Asia, there is no evidence of a virtuous cycle of growth spurred by foreign investment

#### REGIONAL DIVISION OF LABOUR

Asian economies can be divided into four sub regional groups (1) the first-tier NICs (newly industrialised countries) consisting of Republic of Korea, Taiwan Province of China Singapore and Hong Kong. (2) Southeast Asia, comprising Indonesia, Malaysia, the Philippines, Thailand, Cambodia, Laos and Vietnam, (3) China, and (4) south Asia, including Bangladesh, India, Pakistan, Sri Lanka, Nepal Bhutan, Myanmar, and Maldives These sub-regional groupings have varied in terms of recent growth rates of GDP, as evident from Table 2

It is clear that the average high rates of growth mask substantial differences between groups of countries. The differences would be even more noticeable if all the countries were considered individually, since some of the countries which are already among the least developed, such as Nepal, Bhutan and Myanmar, have also experienced very low rates of growth In general, the countries and sub-groups with lower rates of growth in the

TABLE I WORLD INCOME AND TRADE 1985 94

| Rates of Growth of          | World | Industrial<br>Countries | Developing<br>Countries | Developing<br>Asia |
|-----------------------------|-------|-------------------------|-------------------------|--------------------|
| GDP                         | 2 3   | 2 3                     | 36                      | 61                 |
| Export volume               | 54    | 47                      | 8 8                     | 128                |
| Purchasing power of exports |       | 62                      | 3 8                     | 8 8                |
| Import volume               |       | 50                      | 86                      | 132                |

Developing Asia here excludes China It should be noted that including China would actually Note raise the growth rates of GDP as well those of exports and imports

Source UNCTAD Hundbook of Trade and Development Statistics

TABLE 2 GDP GROWTH RATES IN DEVELOPING ASIA

| Rate of Growth of | 1992 | 1993 | 1994 | 1995* | 1996* |
|-------------------|------|------|------|-------|-------|
| World GDP         | 0.7  | 09   | 2 1  | 2 7   | 3 3   |
| Asian GDP         | 75   | 79   | 8 2  | 76    | 74    |
| of which          |      |      |      |       |       |
| NICs              | 5.8  | 62   | 74   | 70    | 67    |
| China             | 13.2 | 13 4 | 118  | 98    | 89    |
| South-East Asia   | 63   | 68   | 75   | 75    | 74    |
| South Asia        | 4 8  | 41   | 51   | 57    | 63'   |

\* ADB Estimates

Source Asian Development Outlook 1995 96 ADB Manila

1990s are typically also those which in 1990 started from a much lower base of per capita GDP. The virtuous nexus between FDI, exports and economic growth is supposed to describe the first three sub-regions, with the exception of the least developed countries. Yet even here, the experience is not uniform, and can once again be classified into four groups.

First, there is the experience of city-states such as Singapore and Hong Kong, which have been completely open 'free ports' from the start. Singapore in 1995 had the third largest stock of inward FDI in the developing world (after China and Mexico) at more than \$ 55 billion. Hong Kong too figured among the top 10 recipients of FDI, but the special characteristics of these two city-states make them unconvincing examples of the 'flying geese' style FDI-based expansion. This is particularly so because (as mentioned above) inward FDI in these countries has not been associated with technological upgradation in frontline areas, and has been part of footloose capital seeking further avenues in the immediate neighbourhood of these citystates. Thus Hong Kong is not only one of the largest recipients of FDI but also the single largest outward investor among developing countries, suggesting that much of its role may be in recycling and reexporting capital just as it does in goods trade. A similar story could be told of

In the other first-tier NICs of South Korea and Taiwan, FDI was never central to the industrialisation process. Rather, the government played the critical role, and statedirected production oriented towards the world market was the factor that determined the export thrust in these countries. Both these countries in 1995 had total inward FDI stock of only around \$ 15 billion each, just above one-third the level in Malaysia and one-fourth that of Indonesia. Since the mid-1980s, inward FDI has amounted to less than I per cent of gross domestic capital formation in South Korea and less than 4 per cent in Taiwan. However, in recent years these two countries have become capital exporters of significance, contributing strongly to the onethird of FDI flows into Asia which come from within the sub-region

The case of China, which has the largest stock of inward FDI in the developing world, at around \$130 billion in 1995, is exceptional on many counts. Having been through many phases of reconstruction, China has managed to generate relatively high domestic savings and investment rates. It embarked on the 'reform and liberalisation' path some years ago, but on the basis of an egalitarian agrarian structure and the almost complete absence of a domestic capitalist class, with the industrialisation process still firmly under overall state control. It is noteworthy that China has recorded extremely high foreign

investment inflows, along with rapid rates of industrialisation, GDP growth and export. expansion, within the framework of a 'restrictive' and controlled economic regime, excepting in the special export enclaves. Much of the GDP and export growth has been concentrated in the south-eastern part of the country, especially the coastal regions. The role of overseas Chinese in inward FDI has been crucial especially in the early years of FDI inflow into China beginning from the late 1980s. Nonetheless, despite this record of very high FDI inflow which is quite spectacular by contemporary standards, there is evidence that inward foreign investment is decelerating (World Investment Report 1996) and may have reached a temporary peak. This is partly because the Chinese government has become more selective in screening FDI projects to ensure compliance with national development priorities, and has also introduced measures to prevent speculative investment, for example in real estate. But it is also related to the fact that outward FDI from the top sources for China - Hong Kong, Macau and Taiwan - is losing momentum as the transfer of labour-intensive production slows down. Because of increases in land and labour costs in the coastal regions, labour-intensive export-oriented production has already become less attractive in China than in several other Asian economies. However, as long as the large domestic market continues to grow, China will still continue to receive a sizeable amount of FDI, although not necessarily of the 'flying geese' variety.

Finally, there is the more recent experience

- really confined to the past decade - of the

second tier NICs of south-east Asia. including essentially Indonesia, Malaysia and Thailand (ranked third, fourth and fifth, respectively, in terms of inward FDI stock in Asia in 1995) and to a much lesser extent, the Philippines. These could be said to constitute the second phase of industrial proliferation in south-east Asia, which corresponds most closely to the positive view that links 'openness' with economic growth based on FDI-led export expansion. If any countries could be said to approximate the mechanism suggested in the 'flying geese' paradigm, it is these, which have experienced very large increases in relocative FDI in the past five years, and have also delivered very high rates of export growth. Yet it is precisely these economies which are currently encountering the most severe difficulties, which calls into question the validity of the entire hypothesis.

EXPORT DECELERATION AND BALANCE OF PAYMENTS DIFFICULTIES

An important backdrop to the current predicament of the south-east Asian countries is the deceleration in exports which had become the engine of growth for these economies over the previous decade. Most Asian countries have experienced deceleration or decline in their manufactured export since the middle of 1995, and the causes for this sudden drop have still not been adequately explored. Two factors are most commonly cited: the saturation of developed country markets for electronic goods, which have been among the most dynamic export sectors; and the increased protectionism-

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(despite GATT and the WTO) by industrial countries in the area of textiles and clothing imports, which remain the mainstay of NIC exports.

Yet these two factors are surely not sufficient to explain the precipitous decline in export expansion which many countries have felt in the past year. Thus, China's exports for 1996 are slated to decline in absolute dollar terms, after growing at an annual average of nearly 20 per cent over the 1990s. South Korea's exports, which grew at 13 per cent per annum in the period 1980-94, have fallen by 6 per cent in the past year, and the decline has been particularly marked in July and August 1996 (Asian Wall Street Journal, September 3, 1996). In Thailand, the deceleration in exports meant a growth rate of only 6 per cent in the first half of 1996, compared to 27 per cent in the same period last year. This reflects absolute declines in at least 18 important exporting sectors, and has been estimated to involve a likely decline in foreign exchange earnings in the current year and lead to job losses of more than 4,40,000 workers (Thai Banker Association, Business Day, September 3, 1996). Similar stories abound across Asian NICs and even south Asian countries like India and Bangladesh are experiencing export deceleration.

The point is that such patterns in exports have not been accompanied by reductions in imports, which have continued to increase strongly, thus leading to widening trade and current account deficits throughout most of south-east Asia. In the second-tier NICs, which have been more dependent upon foreign capital as well as less developed internally, this has in turn led to collapses of investor confidence, with worrying implications.

The most dramatic example is that of Thailand, whose international credit rating was recently downgraded by the rating agency -Moody's. Until very recently, Thailand was being held up as a model of prudent macroeconomic management and liberal economic policies that all other developing countries could usefully emulate. Thus the World Bank in 1994 reported that "Thailand provides an excellent example of the dividends to be obtained through outward orientation, receptivity to foreign investment, and a market-friendly philosophy backed up conservative macro-economic management and cautious external borrowing policies". However, the recent speculative run on the Thai currency, the baht, exposed a number of features of several such economies, which had hitherto been underplayed.

Principal among these is a high current account deficit projected at 7.8 per-cent this financial year. High current account deficits have been an accepted feature of Thailand's balance of payments during her 'miracle growth' years. Between 1988 and 1990 such'

deficits rose from 3 to 9 per cent of GDP. Since then deficits in the range of 6-8 per cent of GDP have been the norm. How do we explain these deficits, which are not only high when compared with deficits in most developing countries, but way above the level of 3.2 per cent, for example, at which India faced a balance of payments crisis in 1991?

Thailand's current account deficits were recorded in a context of robust export growth, averaging close to 15 per cent per annum during the 1990s. International comment on Thai economic performance focused on this aspect and her high current account deficits did not draw attention. Part of the reason for this silence was the perception that an external current account deficit is acceptable so long as it does not reflect a deficit on the government's budget, but 'merely' an excess of private investment over private domestic savings, financed with an inflow of foreign capital. Countries with significant budget deficits, such as India in 1991, are presented as unduly profligate even when the current account deficit on their balance of payments is much lower. Alarmist statements from international agencies often trigger the 'capital flight' needed to generate a balance of payments crisis. This provides the setting for adjustment programmes involving a 'retreat of the state' and a more open trade regime.

On the other hand, in countries with balanced budgets or budgetary surpluses, a high current account deficit is merely seen as reflecting the appropriate environment for foreign private investment rather than public or private profligacy. The acceptability of Thailand's unusually high current account deficits was thus due to the fact that, despite rising budgetary expenditures, it was a country which had run a budget surplus in recent years. Financial year 1996 is also expected to end with a 'healthy' budget surplus of 3 per cent of GDP.

It now appears that private financing alone is inadequate to sustain a high current account deficit. The nature of that financing matters. Initially, Thai deficits were financed with FDI inflows which also supported the country's export effort and raised the rate of growth. FDI inflows into Thailand rose from a little more than \$ 250 million in 1986 to almost \$ 2,500 million per annum by 1990. Further, host country data suggests that, even by the mid-1980s foreign affiliates in the manufacturing sector diverted a substantial part of their sales, estimated at 33 per cent, to the export market.

However, the situation appears to have changed recently. After 1990, annual FDI inflows have been on the decline from a peak of \$2,444 million to \$2,014 million in 1991, \$2,116 million in 1992, \$1,726 million in 1993 and \$640 million in 1994. A temporary reprieve in 1995 took the inflow to a

reasonable \$ 2,300 million. While FDI inflows were slowing, exports were not growing fast enough to finance burgeoning imports. As a result, after taking account of FDI inflows, the current account deficit left to be financed from other sources has risen to an estimated 7.5 per cent of GDP. The 'structural deficit' in Thailand's current account stemming from the openness of its economic regime, was no longer accompanied by adequate inflows of private direct foreign investment.

To finance its external deficits, therefore, Thailand had to resort to borrowing from international credit markets, implying a rapid increase in external debt from \$ 23 billion in 1989 to more than \$ 60 billion in 1994, amounting to nearly half of GDP. Much of this was necessarily short-term debt, which is very susceptible to the level of investor confidence. Financial markets had been concentrating on the rate of export growth as the single most important indicator of creditworthiness, rather than the external imbalance, and once the export deceleration led to an increase in the projected current account deficit, the run on the baht began.

The Malaysian-case is similar, even though it has not experienced a balance of payments crisis like that of Thailand, Malaysia has benefited from much higher FDI inflows than Thailand, which has meant that the current account deficit to be financed from sources other than FDI has been more limited at 3.8 per cent of GDP in 1995. Nonetheless, the recent export deceleration has also increased Malaysia's reliance on borrowing, and the external debt-to-GDP ratio has risen to 39 per cent. Malaysia's principal problem is that because of large outflows on account of consumer goods imports, the current account deficit has been large even in years of relatively good export performance, and tends to widen sharply in bad years like the current one. As a result, in recent times the Malaysian currency, the ringgit, has reflected the pressure stemming from the current account deficit. As in the case of Thailand, the blame cannot be laid on fiscal imprudence: the Malaysian government's budget is expected to register a surplus this year. In response to the potential crisis, the government has already said it may impose quotas and import permits to curb imports of nonessential goods.

Similar rumblings are also evident in Indonesia, which currently runs a current account deficit amounting to 8 per cent of GDP, and whose inward FDI also has been declining after a peak in the early 1990s. Here too, the external debt amounts to nearly 40 per cent of GDP. In fact, the potential for disaster is greater than that in Thailand or Malaysia, because official foreign exchange reserves in Indonesia are barely adequate to cover three-fourths of its short-term foreign debt. Thus, if a speculative run on the rupiah

occurs, the Indonesian government will be forced to seek direct help from its traditional patrons, the US and Japan, since it simply cannot cope with any crisis on its own. The economy of the Philippines has always been the weakest of these four, and it has weathered an earlier debt crisis in the 1980s. Its current difficulties are no less intense than those of the other countries, although they may appear less sharp simply because the Philippines was never touted as a major economic success story along the lines of its ASEAN partners.

#### **IMPLICATIONS**

The story of the south-east Asian NICs is by no means over Yet the process that has already unfolded does contain important lessons for other developing countries in Asia The first is that relocative investments can play a role in increasing output and employment, but there is no evidence that they will occur in sufficient quantity and quality to affect an industrial transformation as projected in the flying goese model. In fact, if excessive reliance is placed on FDI then reversals or declines in such inflow can play havoc with the industrialisation process Ultimately there is no alternative to increasing rates of savings and investment domestically

Second the advantages of cheap labour are fundamentally ephemoral. Even if a

country is recognised as an attractive site for FDI at one point of time, there is no guarantee that it would remain so for long, especially when alternative attractive sites (in terms of cheap labour) are available in abundance. Nor is it the case that FDI always responds positively to fiscal and other incentives offered by desperate governments. Rather, the evidence seems to indicate that FDI typically goes where it is needed the least, that is where a sustainable growth process is already under way.

Third, liberalisation of economic policies which is aimed at attracting FDI need not have the desired affect, but it can still lead to other undesired consequences. Thus in developing countries it typically results in a large inflow of imports that may not be matched with exports. Furthermore it permits domestic entrepreneurs to borrow in international markets to finance projects (for example in infrastructure) that yield only domestic currency revenues. This can create the seeds of future balance of payments and debt repayments difficulties.

Fourth, and related to this, any source of external financing other than relocative FDI even if it is available in amounts ade quate to finance a current account deficit and build official reserves, tends to increase external vulnerability if it is depended upon for long periods of time. The irony is that

policy packages that are designed to attract relocative FDI are also those which set in motion these other forms of external vulnerability

Finally the widespread belief that stable and prudent macro-economic policies and high domestic savings rates are adequate guarantees against rising current account deficits is false, as clearly indicated by the examples of Thailand and Malaysia In both of these countries, the current account deficit has been rising despite budget surpluses of the government This has reflected private sector decisions about the structure of consumption and the level and composition of investment, which governments have ceased to try and direct because of their commitment to neo-liberal marketfriendly policies In a financially liberalised world this also means that private decisions about borrowing affect a country's external debt position, and render it vulnerable in ways that a government may not anticipate

The experience of these south east Asian countries indicates that it is the structure of economic growth, and not whether or not it is dominated by government that can create a predicament for a so called successful industrialising economy. This is a lesson that those in other Asian countries can ignore only at their own peril



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# **Clueless against Emerging Recession**

The RBI's conventional approach, reiterated in its latest Annual Report, of tinkering with reserve requirements and signalling monetary policy changes through open market operations may achieve the objective, to which the RBI evidently attaches the highest importance, of establishing closer links among the money, capital, gilt and foreign exchange markets, but it will certainly not help stimulate the dynamic role of credit in the development of the economy.

### I The Macro Scene

THE operations of the financial system have begun to reflect some distinct signs of a slow-down in overall industrial activity. In the real economy, the reduced rate of industrial growth does not fully reflect the arresting of the tempo of activity. The growth of infrastructure industries has suffered badly, many industrial projects have been kept on hold, and there are clear indications of stockpiling of finished products and growing receivables amongst corporates. Even the persistence of a reasonably low level of inflation is attributable to reduced demand for manufactured goods. Apart from the deleterious effects of unprecedentedly high real rates of interest, the reduced flows of bank credit and institutional finance into the industrial sector reflect both the cause and consequences of the subdued tempo of economic activity; slower exports of manufactured goods also seem to display the same phenomenon.

A major contributory factor for the sluggish economic activity appears to be reduced aggregate demand in the economy which has originated in the cutback in public expenditure with a view to projecting a better fiscal scenario. An indication of this is to be seen in a drastic drop in the central government's resort to ad hoc treasury bills from the Reserve Bank of India (RBI). From a peak of Rs 22,095 crore as of July 5, there has occurred an unusual turnaround in the use of ad hoc TBs in the most recent period; such use has dipped to a negative figure of Rs 1,175 crore as on September 27, 1996 against the rise of Rs 6,440 crore in the comparable period last year. Such a remarkable turnaround could not have happened but for some compression of public expenditure by the central government. Of course, to an extent the government's borrowing programme has run at a faster pace than last year. Though RBI credit to the central government has declined from Rs 9,688 crore during April-September 1995 to Rs 5,662 crore during April-September 1996, other banks' credit to government (central and states together) has shot up from Rs 6,861 crore to Rs 14,664 crore. But at the same time, during the first half of 1996-97 revenue receipts have remained considerably sluggish, particularly under union excise duties and direct taxes. The annual growth in direct tax receipts during April-September has slowed down to 11 per cent compared to the year's target of 17 per cent. Likewise, excise duty receipts during April-August grew by 8.7 per cent against the target of 14.4 per cent.

A disquieting aspect reflecting the sharp dip in investment intentions is seen in a reported 20 per cent absolute fall in financial assistance sanctioned by the all-India termfinancing institutions. During April-July 1996, their sanctions aggregated Rs 12,930 crore against Rs 16,551 crore during the corresponding period of 1995. The first quarter of the year of course, saw a 40 per cent rise in financial disbursements but the rise was over a low base, for the rate of increase in disbursements had actually dropped from 22.9 per cent in 1994-95 to 12.4 per cent in 1995-96. Funds mobilised from the capital market by the corporate sector during April-September 1996, at Rs 8,103 crore have also been only fractionally higher than the Rs 7,989 crore raised during the comparable period of 1995-96. In 1995-96 the level of funds mobilised by non-government public limited companies. government companies, PSUs and financial institutions at Rs 22,919 crore was about 26 per cent lower than that (Rs 30,824 crore) in 1994-95. There has been some shift in favour of debt instruments but the authorities have recognised that debt fatigue has set in among the investors as evident from the fact that such triple-A rated companies as TISCO and L & T were hard put to secure subscription for their bond issues of Rs 500 crore each. Mutual funds, including the UTI, have also mobilised a lower amount of Rs 1,299 crore during April-September this year against Rs 2,200 crore in the same period last year. During the year 1995-96 as a whole, net collections by mutual funds were a negative figure of Rs 5,141 crore due to large redemptions of many UTI funds; in 1994-95, they had collected Rs 11,275 crore in net terms.

A more complex aspect of the financial scene during the recent period concerns the contraction in bank credit. Between March 31 and September 27, advances of scheduled commercial banks experienced an absolute fall of Rs 3,945 crore (-1.5 per cent) compared with a rise of Rs 10,228 crore during the same period of 1996-97. As is evident from the banks' deposit growth and deployment of funds in investments of government and other approved securities, the short-term liquidity situation appears comfortable and yet there has been a large reduction in credit offtake, which can be only partly explained in seasonal terms. Both the supply and demand factors seem to have triggered this phenomenon. On the supply side, the banks have been charging unusually high rates of interest for commercial loans and preferring government securities for deployment of funds. It is now recognised that the recent Supreme Court judgment casting full responsibility on bank officials sanctioning loans has had an adverse effect on decision-making by the banking bureaucracy. On the demand side, the corporates are reluctant to borrow from banks partly because of the high rate of interest and partly because of the sluggish industrial activity.

# POLICY PERSPECTIVES

The root cause of the current impasse is the premature liberalisation of interest rates which has produced unbridled competition amongst banks, financial institutions and non-banking financial companies (NBFCs) for mobilising scarce financial assets of the community. It is now proven beyond doubt that high real interest rates have of late hurt production and investment activities in the industrial sector without, at the same time, producing benefits in terms of any rise in

TABLE 1: Auctions of 364-Day Treasury Bills

(Amount in rupees, crore)

| Date of | Bids            | Tendered               | Bids | Accepted               | Cut-off                     | Cut-off                  |  |
|---------|-----------------|------------------------|------|------------------------|-----------------------------|--------------------------|--|
| Auction | No              | Face Value<br>(Amount) | No   | Face Value<br>(Amount) | Price<br>(Rupees)           | Yield Rate<br>(Per Cent) |  |
| 1995    |                 |                        |      |                        | THE PERSON NAMED ASSESSMENT |                          |  |
| Sept 13 | 24              | 116.50                 | 4    | 32.00                  | 88 60                       | 12.87                    |  |
| Sept 27 | 13              | 86.10                  | 5    | 69.60                  | 88.57                       | 12.91                    |  |
| 1996    |                 |                        |      |                        |                             |                          |  |
| Sept 11 | 12 <sup>.</sup> | 242.91                 | 6    | 195.00                 | 88.80                       | 12.61                    |  |
| Sept 25 | 19              | 436.60                 | 8    | 321.00                 | 88.80                       | 12.61                    |  |

financial savings. Depending solely on conventional stabilisation and structural adjustment programmes, the monetary authorities have responded to the complex situation by injecting larger liquidity through reductions in reserve requirements. The effective CRR has been brought down from 15.7 per cent in March 1995 to 11.5 per cent in July 1996. Instead of helping improve credit offtake by reducing average interest rates, and promoting commercial credit expansion, scheduled commercial banks have used the excess liquidity to increase their investments in government securities (as indicated above) and, more significantly, to drastically curtail their export refinance from the RBI. Since March 31, banks have surrendered over Rs 15,000 crore of investible funds available in the form of RBI refinance - an unimaginably large loss for the productive sectors.

Despite the all round recognition and the crying need for reducing average interest rates for banks and financial institutions, expanding both short-term and long-term credit offtake, and helping to improve the tempo of economic activity, the RBI in its latest Annual Report for 1995-96 continues to place faith in monetarist perspectives of breaking price expectations and hoping that "nominal interest rates would eventually decline". The reduction in CRR, which the RBI recommends, may be necessary but not enough of a measure to break the impasse of high cost of funds, high lending rates and reduced credit expansion. The situation calls for reimposition of interest rate regulations for bank deposits and lending and also for inter-bank money market borrowings; this

will have to be followed up by definitive norms for the inter-sectoral distribution of bank credit, as also for credit drawals by medium- and large-scale industries. Mere injection of CRR funds would not expand the community's savings and competition amongst banks and institutions would persist, pushing up the rates of interest. Secondly, the RBI ought to have reconsidered its narrow perspective on sector-specific refinance and deployed the refinancing arrangement as a potent instrument of credit policy with twin objectives of stabilisation and promoting sectoral growth, both by modulating the supply of funds and their cost at the margin. Again, in this regard, the RBI has chosen to tread the conventional path, as reiterated in its Annual Report of "reducing reserve requirements and reducing refinance limits" and of signalling monetary policy changes through open market operations. Such a strategy may result in massive treasury operations and bring closer the links between money, capital, gilt and foreign exchange markets which the RBI has sought to commend in its Annual Report, but it would have less social relevance and certainly would not help stimulate the dynamic role of credit in the process of development; it would rather hinder the latter.

#### OTHER POLICY DEVELOPMENTS

As a major liberalisation measure, the union finance minister, while granting a number of tax concessions to buoy up the capital market, announced that Fils operating dedicated debt funds would be permitted to increase their investments in debt instruments.

from the present 30 per cent to 100 per cent of their funds. FII investments in government securities, however, remain prohibited. This measure along with the permission granted to FIIs to invest in unlisted companies is expected to facilitate creation of separate funds for infrastructure projects. The SEBI would issue detailed guidelines regarding the sinvestment limit of each FII (roughly \$100 million) and the cap to be fixed for all FIIs together (reportedly \$1.5 billion). It is unlikely that FIIs would be allowed to invest in short-term debt instruments of less than one year maturity.

Secondly, the six primary dealers (PDs) authorised by the RBI have created a selfregulatory organisation so that they observe certain discipline in their operations. This was found necessary because there have been severe criticisms when some of the PDs have passed on the benefits of commission with their parent banks who preferred to route their bids for government paper through the PDs. The RBI has frowned upon such a practice and made it clear that the commission offered was intended for facilitating the PDs to fulfil their role as market makers until the PDs came of their age. Apparently, the PDs have now decided to dispense with the practice of sharing their commission with investors, including their parent banks.

# II Operations of Primary Markets

The primary debt market in September was dominated by bond issues of manufacturing firms and financial institutions,

TABLE 2 AUCTIONS OF 91-DAY TREASURY BILLS

(Amount in rupees, crore)

| Date of<br>Auction | Notified<br>Amount | В         | ids Tendered                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Bid       | s Accepted             | Subscription<br>Devolved | Cut-off<br>Price in | Cut-off<br>Yield   | Amount ( | Outstanding ( | (Rupces)@   |
|--------------------|--------------------|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------------------|--------------------------|---------------------|--------------------|----------|---------------|-------------|
| Auction            | (Rupees)           | No        | Face Value<br>(Amount)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | No        | Face Value<br>(Amount) |                          | (Rupces)            | Rate<br>(Per Cent) | Total    | With RBI      | Outside RBI |
| 1995               |                    |           | The state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the state of the s |           |                        |                          |                     |                    |          |               |             |
| Sept 1             | 500.00             | 45<br>(5) | 706.85<br>(1075)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 21<br>(5) | 286.27<br>(213.73)     | 0.00                     | 96 96               | 12.54              | 6500.00  | 1771 16       | 4728.84     |
| Sept 8             | 500.00             | 16<br>(6) | 179.50<br>(1450)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 7<br>(6)  | 47.53<br>(452.47)      | 0.00                     | 96.96               | 12 54              | 6500.00  | 1639.16       | 4860.84     |
| Sept 15            | 500 00             | 19 (4)    | 107.42                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | (4)       | 29.92<br>(470.08)      | 0.00                     | 96 96               | 12.54              | 6500.00  | 1285.16       | 5214.84     |
| Sept 22            | 500.00             | 13 (4)    | 47.75<br>(830)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 4 (4)     | 19.09<br>(480.91)      | 0.00                     | 96.93               | 12.67              | 6500.00  | 958.16        | 5541.84     |
| Sept 29            | 500,00             | 7 (4)     | 23 00<br>(930)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | (4)       | 4 53 (495.47)          | 0 00                     | 96 93               | 12.67              | 6500.00  | 834.16        | 5665.84     |
| 1996               |                    | ٠.,       | (750)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | ```       | (12.111)               |                          |                     |                    |          |               |             |
| Sept 6             | 500 00             | 33<br>(3) | 465.54<br>(900)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 22<br>(3) | 234 31<br>(265.69)     | 0.00                     | 97.57<br>[97.59]    | 9.96<br>[9.88]     | 6500.00  | -             | 6500.00     |
| Sept 13            | 500 00             | 20 (3)    | 165 80<br>(850.00)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | (3)       | 75 98<br>(424 02)      | 0.00                     | 97.56<br>[97.57]    | 10.00<br>[9.96]    | 6500,00  | ٠             | 6500 00     |
| Sept 20            | 500.00             | 22 (1)    | 220 40 (300)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 6<br>(l)  | 50.00                  | 129.60<br>20.40 *        | 97 53<br>[97.54]    | 10.13              | 6500.00  | -             | 6500.00     |
| Sept 27            | 500 00             | 17<br>(3) | 187 60<br>(550)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 7<br>(3)  | 109.21<br>(390 79)     | 0.00                     | 97.52<br>[97.53]    | 10.17<br>[10.13]   | 6500.00  | 129.60        | 6370.40     |

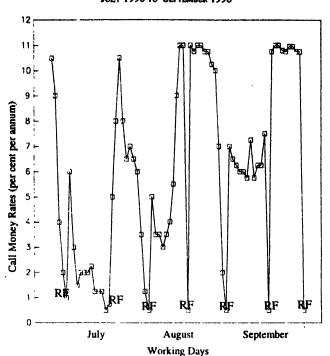
Figures in parentheses represent numbers and amounts of non-competitive bids which are not included in the total.

Figures in the square brackets represent weighted average price and respective yield.

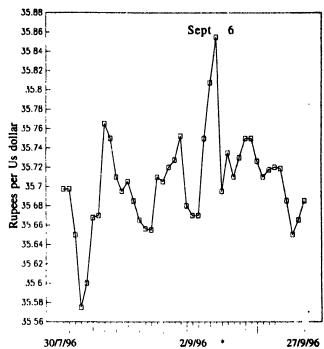
<sup>\*</sup> Devolvement on primary dealers, exclusive of RBI.

<sup>@</sup> Outstanding amounts are estimated for last few weeks of September 1996.

GRAPH A: DAILY TOP-END QUOTATIONS OF CALL MONEY RATES, JULY 1996 TO SEPTEMBER 1996



GRAPH B: SPOT QUOTATIONS FOR THE US DOLLAR IN THE DOMESTIC INTER-BANK MARKET



with the government having achieved a substantial part of its borrowing programme in the early part of the year. A major motivation for the corporates to prefer bonds has been the unusually high rates of interest charged by banks and FIs on their loans. Bond and debentures issued by corporates, PSUs, government companies and banking and financial institutions had aggregated Rs 10,550 crore during 1995-96, which is expected to jump to a range of Rs 20,000-25,000 crore during the current year. A large number of manufacturing firms are also in the fray this year. PSUs alone are slated to raise over Rs 10,000 crore during the year as against Rs 2,082 crore during 1995-96. Such a heavy demand for debt instruments in a period when banks have preferred to surrender their refinance facilities with the RBI, will imply that yield rates on government securities including treasury bills will remain high as has been shown in the September floatations, and that the government's programme of disinvesting PSU shares may suffer a setback.

#### **DATED GOVERNMENT SECURITIES**

The government came to the market only once during September, seeking to float for the first time during the current financial year a medium-term paper. It sought to raise Rs 2,000 crore through a six-year paper which was auctioned on September 17. It was in July 1994 that the government had come up with a six-year paper on the earlier occasion.

Despite offering such a high yield rate as 13.82 per cent compared with 13.85 per cent offered for a 10-year paper less than a month earlier on August 26, the market has shown lukewarm interest in this paper. In 82 bids, its contribution was Rs 1,611.10 crore. The Reserve Bank accepted 43 bids which brought in Rs 1,026.10 crore or 51.31 per cent of the notified amount. The Reserve Bank and the primary dealers took the slack and contributed Rs 872.61 crore and Rs 101.29 crore, respectively. This poor response once again demonstrated a few important features: the market's

appetite for insisting on high coupon rates; its reluctance to invest in long- or even medium-term securities; and the government is being pushed by the process of liberalisation into high interest cost leading to high debt. Also, due to lack of interest in medium- and long-term papers, the yield curve on the primary government paper has remained distorted this year (see table below)

| Tenure of the paper (No of Years) | Coupon Rate<br>(Per Cent) |
|-----------------------------------|---------------------------|
| 2                                 | 13 62                     |
| 3                                 | 13.70                     |
| 4                                 | 13.72*                    |
| 5                                 | 13.75                     |
| 6                                 | 13.82                     |
| 10                                | 13.85                     |

<sup>\*</sup> Zero coupon bond

Foreign banks reportedly did not participate in the auction but subsequently bought the paper from the PDs. With 50

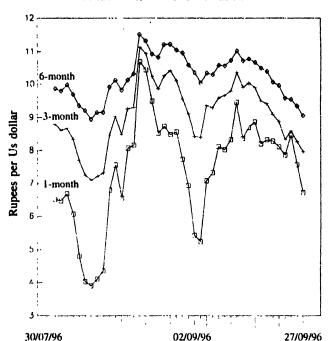
TABLE 3: CALL MONEY RATES

(Per cent per annum)

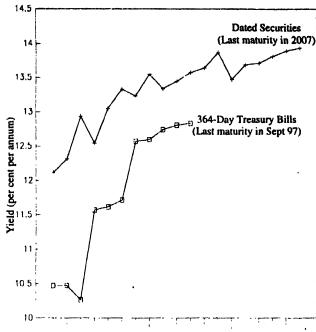
|                     |              | Septe         | ember 1996   |               | August 1996  |               |              |               |             |  |  |
|---------------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|-------------|--|--|
| ltems'              | 27(RF)       | 20            | 13(RF)       | 6             | 30(RF)       | 2?            | 16(RF)       | 9             | 2(RF)       |  |  |
| Weekly range        | 0.25-10.95   | 10 25-11.00   |              | 5 50-7 00     |              | 9.25-11.00    | 0.10-11.00   | 2.00-5.00     | 0.25-6.25   |  |  |
| , ,                 | (0.25-22.00) | (12.50-18.50) | (1.00-11.25) | (10.50-11.50) | (0.50-11.25) | (10.50-11.50) | (0.25-11.25) | (10.25-12.00) | (0.25-9.75) |  |  |
| Weekend (Friday)    | 0.25-0.50    |               |              | 5.50-5.75     |              | 9.25-10.00    | 0.10-0.50    | 3.50-5.00     | 0.25-0.50   |  |  |
| Weekly weighted ave |              | 10.43         | 6.00         | 5.75          | 7.64         | 10.48         | 7.04         | 2.84          | 3.78        |  |  |
| DFHI lending        |              |               |              |               |              |               |              |               |             |  |  |
| rates (range)       | 1.00-10.95   | 10.00-10.90   | 0.50-7.50    | 5.75-7.00     | 0.50-10.75   | 10.00-11.00   | 0.30-11.00   | 2.25-5.00     | 0.40-6.50   |  |  |

<sup>\*</sup> Weighted average of borrowing rates reported to the RBI by selected banks and DFHI, weights being proportional to amounts borrowed. Figures in the parentheses represent weekly range during similar period last year.

GRAPH C: Annualised Daily 1-Month, 3-Month, and 6-Month Forward Premia in Percentage for the US Dollar by the Domestic Inter-Bank Market



GRAPH D: YIELD CURVES FOR 364-DAY TREASURY BILLS AND DATED SECURITIES - WEIGHTED AVERAGE FOR SEPTEMBER 1996



Period to Maturity in Ascending Order

paise commission apparently shared with them, the yield on this paper worked out to

13.95 per cent.

The market also paid the last instalment of Rs 1,250 crore for the partly-paid security floated in June. Subsequently, the government offered on September 25, sale of one more issue of Rs 2,000 crore zero coupon bonds (third series) maturing 2000. To be sold on October 7, the bonds were offered at a discounted price of Rs 60.66 or the cut-off yield of 13.31 per cent, at which the same bonds were issued early this year.

#### 364-Day TBs

In two auctions of these TBs, the government raised Rs 516 crore during September (Table 1). Despite significant improvement in short-term liquidity, the cut-off price has remained constant at Rs 88.80 giving an YTM of 12.61 per cent for the third month in succession.

## 91-Day TBs

Further Rs 2,000 crore were raised through four auctions of 91-day TBs during September. With the commercial banks preferring to surrender their refinance with the RBI (borrowed at 11.5 per cent), the money market conditions became relatively tight. Hence, the market response to this paper sharply declined and the YTM offered steadily increased in September, thus reversing the declining trend in yield noticed since April. In fact, in three out of four auctions, there was no devolvement only because of the non-competitive bids. They bid for as much as Rs 2,600 crore. Nevertheless, between the first auction and the last auction held in this month, the yield on this paper had to be increased by 21 basis points; it went up from 9.96 per cent to 10.17 per cent. From the market, only Rs 469.50 crore were raised. Of the balance, Rs 1,380.50 crore were contributed by non-competitive bidders and in one auction the Reserve Bank and PDs contributed through devolvement Rs 129.60 crore and Rs 20.40 crore, respectively.

The Reserve Bank has been, for the past couple of months, announcing the weighted average price on 91-day TBs along with the cut-off price. It has been found that initially in August the weighted average yield considerably lagged behind the cut-off yield reflecting a general tilt in favour of lower yields but in September this gap has been narrowed implying a firming up of the preferred yield (Table 2).

# **Bonds Market**

The bonds market boom which began around the beginning of April 1996, gathered momentum during September. Issues of high-rated corporates such as, TISCO, L&T, and

Arvind Mills dominated the market However, surprisingly even with high yield offers of over 17.15-17.44 per cent by TISCO, 17.12-17.49 per cent by L&T, and 18.26-18.33 per cent by Arvind Mills these bonds barely scraped through. TISCO was torced to raise the front-end discount to 3 per cent, following which L&T raised the discount to 2.8 per cent and Arvind Mills to 4 per cent. ACC also entered the market for a five-year bond with an effective yield of 18.27 per cent. The difficult sailing of these issues was to an extent attributable to their bunching. After large issues of IDBI, ICICI and IFCI, the market found it difficult to support three additional large issues of the private sector.

The market was caught off-guard when IDBI offered 16 per cent for one year for its Omni Bond V series and 16.5 per cent plus one per cent commission on its 3-year bonds, totalling Rs 300 crore to be closed on October 31, 1996. With the growing competition, ICICI privately placed bonds for 15 months at a yield of 16.3 per cent and 3 years at a yield of 17.7 per cent, IFCI,

TABLE 4: DAILY QUOTATIONS OF HIGHS AND LOWS OF CALL RATES IN PER CENT PER ANNUM: SIMPLE STATISTICAL CHARACTERISTICS

|                                    | All Four<br>Weeks |       | •     | ber 1996<br>Ended |      | All Five<br>Weeks |       | August 1996<br>Week Ended |       |       |       |
|------------------------------------|-------------------|-------|-------|-------------------|------|-------------------|-------|---------------------------|-------|-------|-------|
|                                    | of the<br>Month   | 26*   | 20    | 12*               |      | of the<br>Month   | 29*   | 23                        | 15*   | 9     | 2     |
| Mean<br>Standard                   | 8.20              | 10.70 | 10.68 | 6.11              | 5.81 | 6.15              | 5.45  | 10.55                     | 7.94  | 2.95  | 3.06  |
| deviation Coefficient of variation | 2 41              | 0 28  | 0.27  | 0.54              | 0.58 | 3.70              | 3.66  | 0.42                      | 2.36  | 0.99  | 2.35  |
| (percentages                       | ) 29 47           | 2.66  | 2.60  | 8.86              | 9.95 | 60.14             | 67.16 | 3.94                      | 29.77 | 33.77 | 76 66 |

<sup>\*</sup> Data for reporting Fridays (RF) are omitted.

a regular borrower, also entered the market to mobilise unlimited resources by providing yield rates of 17.8 per cent. After FIs and top-rated companies, now state financial corporations have started entering the debt market. During September, Haryana Finance Corporation intended to raise Rs 50 crore through 6-year SLR bonds at a yield of 19.18 per cent. Similar amount was raised by Punjab State Industrial Development Corporation through 5-year SLR bonds at yield of 17.84 per cent. Also, Rajasthan state electricity board placed privately SLR bonds at very high yield of 19.02 per cent. In addition, MPFC also chose to raise Rs 17 crore through 10-year SLR bonds at 13.85 per cent. These state-level bond issues scraped through after strong pursuance by respective state governments as the investors are very wary of such issues. Recently, state government guaranteed bonds raised by the SEBs of West Bengal, U.P. and Bihar had delayed their debt repayments.

The spirit of issuers, however, is far from dampened. Following the private sector, large PSUs, such as, IPCL and Coal India are likely to tap the bond market in the near future. IPCL will enter the market with its Rs 300 crore non-convertible debenture issue along with Rs 200 crore worth of deposit offer. Coal India is planning to raise Rs 400 crore. Bond issues by financial institutions like IDBI, ICICI, IRBI and Krishna Valley with their sizeable offerings and corporates like Escorts and Sanghi Polyesters with their moderate offerings are further on the anvil.

The sudden resurgence of the debt market has been induced by the unusually high rates of interest charged by banks and FIs and the simultaneous depression of the share markets. Corporates have obviously found it cheaper and easier to borrow through bonds and the investing public gets attractive returns. Yields of 16 to 18 per cent per annum on bonds issued by Fls, 18 to 19 per cent on taxable bonds of PSUs and 20 to 24 per cent on NCDs of private companies, have tended to place the equity market at a discount. The only competition now faced by corporate bonds are the deposit rates offered by NBFCs which range from 18-20 per cent. Many of the NBFCs seem to violate the RBI guidelines whereby only the registered and rated companies are freed from the 15 per cent deposit rate ceiling.

The continued buoyancy of debt market was further boosted by the recent liberalisation policy measures, such as, first, permitting the FIIs to invest 100 per cent of their dedicated debt funds in bonds, debentures and other commercial debt instruments; secondly, individual investor's access to bank funds against shares and debentures was doubled from Rs 5 lakh to Rs 10 lakh; and thirdly, the investment made in the CBDT notified bonds and debentures through mutual funds up to 3 years would be exempt from capital gains tax under Section 54E of the Income-Tax Act.

As the debt market expands, it is also

undergoing significant transformation. First, contrary to the earlier practice of plain, vanilla type of bond issues, the recent period has witnessed multi-option, family bonds to cater to the asset preferences of investors. Among these instruments, deep discount honds (DDBs) are much sought after due to the advantages of no tax deduction at source, initial below par payment and the scope of availing capital gains tax if sold in the secondary market before maturity. Also several innovative characters are being attributed to debt instruments, such as, frontend discounts, early bird incentives, redemption premium, put and call options, facility for housing loans, etc. Of course, many of these offerings commit the borrowing institutions to high-cost funds on a long-term basis which has implications for their lending rates.

Secondly, further innovations were added to the debt market when the ministry of finance permitted ICICI and SCICI to go in for (i) self-registration which would do away with the delay associated with frequent vetting by SEBI, and (ii) bonds on tap which will help companies to mobilise resources as per the availability of liquidity in the system at cheaper rates. Thirdly, the debt market is noticeably dominated by a spate of issues of NCDs by private corporate sector, mostly led by NBFCs. Most of these issues are for shorter maturity of 18 months and less, so as to obviate the SEBI's mandate of rating required for longer maturities. The market is likely to get additional boost with the expected permission of SEBI to allow rollover of debentures before 18 months. Currently, SEBI's rules permit rollovers for 18 months to 36 months, but do not explicitly

ban others. Fourthly, the process of book building is the current fashion of resource mobilisation through private placements. Book building is a process of share price fixation based on realtime feedback from bulk investors. Finally, the debt instruments have become more liquid following the BSE's introduction of on-line trading of 698 debt instruments out of 1,700 and add listed instruments, effective from September 10, 1996.

### Other Instruments

The interest rates on CDs dropped to a low of 9-10 per cent. As banks refused to roll over the CDs thanks to a robust growth in deposits, the investors had to look for other attractive avenues to invest their surplus cash. The corporate sector's interest in commercial paper (CP) was renewed as it could form a cheaper resource avenue at a time when banks were unable to lower their interest rates beyond a point. There were not many issues as without a standby facility. but now the instrument has rendered itself riskier. Corporates were also complaining of the delays encountered in obtaining no objection certificate from the bank consortium leaders for issuing CPs. As a result the corporate sector was found stuck with high-cost cash credit.

The inter-corporate deposit (ICD) market has been experiencing lack of confidence for some time now. During the credit squeeze of the last financial year, many corporates had defaulted or delayed repayments of their ICDs. As a result, the market had become extremely wary of lending through this unsecured route. Last month, there were reports of arrest warrants issued to the chief executives of two well known corporate

Table 5: Operations of National Stock Exchange (NSE) during September 1996 - Actual Traded Amount

| Descriptors                | Week En | ding Septe | mber · An | nount in C | rore of Rupees            |                        |
|----------------------------|---------|------------|-----------|------------|---------------------------|------------------------|
|                            | 27      | 20         | 13        | 6          | Total during<br>September | Total during<br>August |
| 1 Treasury Bills           | 110.68  | 52.56      | 70 00     | 184.00     | 417 24                    | 1152.84                |
| i) 91-day Bills            | 52.68   | 42.56      | 40.00     | 157 00     | ?92.24                    | 838.54                 |
| ii) 364-day Bills          | 38 00   | 10.00      | 30.00     | 27.00      | 105.00                    | 289.30                 |
| iii) Repo                  | 20.00   | -          |           | -          | 20 00                     | 25.00                  |
| 2 Dated Securities         | 650.62  | 243 07     | 175 00    | 314.36     | 1383.05                   | 1793.44                |
| A GOI Securities           | 650.47  | 24? 97     | 170.00    | 303.33     | 1366.77                   | 1779.46                |
| i) Converted               | 112.00  | 50.00      | 30 00     | 64 00      | 256 00                    | 253.00                 |
| ii) Regular                | 340.51  | 167 02     | 56.50     | 163.33     | 727 36                    | 1250.66                |
| iii) Zero Coupon           | 197 96  | 25 95      | 36.50     | 71.00      | 331.41                    | 230.60                 |
| iv) Floating Rare Bonds    |         | -          |           | 5 00       | 5 00                      | 10.00                  |
| v) GCB                     | -       |            |           | -          | 0.00                      | 5,20                   |
| vi) Repo                   | -       |            | 47.00     | -          | 47.00                     | 30.00                  |
| B State Govts Stocks       | 0.15    | 0.10       | 5 00      | 11.03      | 16 28                     | 13.98                  |
| 3 PSU Bonds                | 18.46   | 10.35      | 13.90     | 24 90      | 67 61                     | 59.99                  |
| i) Tax free                | 3 15    | 10 35      | 13.90     | 15 20      | 42.60                     | 18.84                  |
| ii) Taxable                | 15.31   | -          |           | 9.70       | 25.01                     | 41 15                  |
| 4 Commercial Papers        | •       | -          | 5.00      | 4.00       | 9.00                      | 0.00                   |
| 5 Certificates of Deposits | 1.00    | 6.00       | 5.00      | 8.55       | 20.55                     | 13 65                  |
| 6 Debentures               | -       | 0.10       | 24.96     | -          | 25 06                     | 7.44                   |
| 7 Floating Rate Bonds      | 20.50   |            | 3 00      | 0.10       | 23 60                     | 2.67                   |
| 8 ID+IB+BB+PD              | 38.35   | 17.46      | 26.15     | 20.06      | 102.02                    | 34.24                  |
| Grand total (volume)       | 839.61  | 29.54      | 323.01    | 555.97     | 2048.13                   | 3064.26                |

<sup>-</sup> No trading. ID Non-SLR Institutional Bonds BSLR Institutional Bonds GCB Government Compensation Bonds BB Bank Bonds PD Promissory Note.

|                                     |                        |           | Wee     | k Endin       | g Septe   | mber I             | 996; Yie        | ld to Mat          | urity on | Actual T        | rading         |        | Total                 | for the r      | nonth      |
|-------------------------------------|------------------------|-----------|---------|---------------|-----------|--------------------|-----------------|--------------------|----------|-----------------|----------------|--------|-----------------------|----------------|------------|
| Descriptions                        | Amt                    | 27<br>YTM | CY      | Amt           | 20<br>YTM | CY                 | Amt             | 13<br>YTM          | CY       | Amt             | 6<br>YTM       | CY     |                       | ptember<br>YTM | 1996<br>CY |
| 1 Treasury Bills                    |                        |           |         |               |           |                    |                 |                    |          | <b></b>         |                |        |                       |                |            |
| A 91-Day Bills                      |                        |           |         |               |           |                    |                 |                    |          |                 |                |        |                       |                |            |
| i) Sept 7, 19                       | 96 -                   | -         |         | -             | -         |                    |                 | -                  |          | 19.50           | 6.41           |        | 19.50                 | 6.41           |            |
| ii) Sept 14, 1                      |                        | -         |         | -             | -         |                    | 15.42           | 5 67               |          | 169.32          | 6.38           |        | 184.74                | 6.32           |            |
| iii) Sept 21, 1                     |                        | •         |         | 59.45         | 9.92      |                    | 71.00           | 8.54               |          | 15.00           | 6.58           |        | 145.45                | 8.90           |            |
| iv) Sept 30, 1                      |                        | 10.13     |         | 10.00         |           |                    | 25.00           | 9.67               |          | 10.00           | 8.00           |        | 107.03                | 9.87           |            |
| v) Oct 5, 199                       |                        | 10.30     |         | 12.35         | 10.06     |                    |                 | 0 6 1              |          | 2.00            | 8.73           |        |                       | 10.13          |            |
| vi) Oct 12, 19                      |                        | 10.26     |         | 6.00          | 9.97      |                    | 11.00           | 8.51               |          | 4.00            | 8.48           |        | 15.00                 | 8.50<br>10.19  |            |
| vii) Nov 16, 19<br>viii) Nov 30, 19 |                        | 10.20     |         |               | 10.03     |                    | 55.62           | 10.03              |          | 200.51          | 10.01          |        | 262.63                |                |            |
| 1x) Dec 7, 199                      |                        | -         |         | 0.50          | .0.03     |                    | 143.86          | 10.11              |          | -               | -              |        | 143 86                |                |            |
| x) Dec 14, 19                       |                        | 10.27     |         | 82.00         | 10 17     |                    | -               |                    |          |                 |                |        | 82.48                 |                |            |
| xi) Dec 21, 19                      |                        | 10.28     |         | -             | -         |                    | -               | -                  |          | •               | -              |        | 46.60                 | 10.28          |            |
| Sub-total                           | 148 36                 | 10 22     |         | 176.30        | 10.09     |                    | 321.89          | 9.45               |          | 420.33          | 8.19           |        | 1066.89               | 9.17           |            |
| B 364-Day Bills                     | S                      |           |         |               |           |                    |                 |                    |          |                 |                |        |                       |                |            |
| i) Oct 11, 19                       |                        | 10.47     |         | -             | -         |                    | -               | -                  |          | •               | -              |        |                       | 10 47          |            |
| ii) Oct 25, 19                      |                        | 10 47     |         | -             | -         |                    | •               | •                  |          | •               | -              |        |                       | 10 47          |            |
| iii) Jan 3, 199                     |                        | 10.26     |         |               |           |                    | -               | -                  |          | -               | -              |        |                       | 10.26          |            |
| iv) Jan 17, 19                      |                        | -         |         |               | 11.57     |                    | -               | •                  |          | -               | •              |        |                       | 11.57          |            |
| v) Jan 31, 19<br>vi) Apr 14, 19     |                        | 11.72     |         | 3 00          | 11.62     |                    | -               | •                  |          | •               | •              |        |                       | 11.72          |            |
| vii) Jul 4, 199                     |                        | 12 62     |         | -             | -         |                    | 2.93            | 12.62              |          | 18.00           | 12.56          |        |                       | 12.57          |            |
| viii) Jul 18, 19                    |                        | 12 02     |         | -             | -         |                    | 5.00            | 12.62              |          | 53.00           | 12.59          |        |                       | 12.59          |            |
| ix) Aug 29, 1                       |                        | 12.66     |         | 5.00          | 12.86     |                    | 14.00           | 12.86              |          | 25.00           | 12.67          |        |                       | 12.74          |            |
| x) Sept 12, 1                       |                        | 12.82     |         | 26.50         |           |                    | 94.75           | 12.77              |          |                 | -              |        |                       | 12.80          | •          |
| xi) Sept 26, 1                      |                        | 12.83     |         | -             | -         |                    |                 |                    |          | -               | -              |        | 76 00                 | 12.83          |            |
| Sub-total*                          | 180.88                 | 12.57     |         | 41.50         | 12 58     |                    | 116.68          | 12.77              |          | 96.00           | 12.61          |        | 435.06                | 12.63          |            |
| 2 GOI Dated Secur                   | ities                  |           |         |               |           |                    |                 |                    |          |                 |                |        |                       |                |            |
| A Converted (P                      |                        |           |         |               |           |                    |                 |                    |          |                 |                |        |                       |                |            |
| i) 13.50, 199                       |                        | 12 40     | 13.33   |               | 12.48     |                    | 35.05           | 12 53              | 13.32    | 109.00          | 12.64          | 13 34  |                       | 12.54          |            |
| ii) 12.00, 199                      |                        | 13.18     | 12.31   |               | 13.24     |                    | 15.00           | 13.23              | 12.32    | 25.06           | 13.26          | 12.34  |                       | 13.23          |            |
| iii) 11 75, 200                     |                        | •         | -       | 1.00          | 13.87     | 12.09              | 7.70            | 13.69              | 13.23    | 5.30            | 13.68          | 13 22  |                       | 13 87<br>13 69 |            |
| iv) 12 50, 200<br>Sub-total         | 83 00                  | 12 57     | 13.11   | 41 00         | 12 97     | 12.60              |                 | 12.86              | 13.25    | 139.36          | 12.79          | 13.16  |                       | 1277           |            |
| B Regular (Per                      |                        | 12 //     | 1.7.11  | 41 00         | 12 71     | 12.07              | 37 7.3          | 12.00              | 13.03    | 137.30          | 12.77          | 13.10  | ,_, ,,                | 12//           | 1., 0      |
| i) 6.25, 1996                       |                        | 11 38     | 6.31    | 0.01          | 11.94     | 6.33               | 0.01            | 13.58              | 6.35     | -               | -              | _      | 0.04                  | 12.11          | 6.32       |
| ii) 13.25, 19                       |                        | -         | -       |               | 12.32     |                    |                 |                    |          | -               | -              | -      |                       | 12.32          |            |
| in) 13 50, 19                       |                        | 12.81     | 13 42   | 85 00         | 12.97     | 13.44              | 47.00           | 13.02              | 13.44    | 201 00          | 12 99          | 13.44  | 485.00                | 12.94          | 13 44      |
| iv) 13.50, 199                      | 98 15.00               | 13.31     | 13 44   | -             | -         | -                  | 6.00            | 12.41              | 13.30    | -               | -              | -      |                       | 13.05          | 13.40      |
| v) 13.62, 199                       |                        | 13.20     | 13.53   | 43.56         | 13 31     | 13.56              | 20.00           | 13.31              | 13 56    | 192.60          | 13 39          | 13.55  |                       | 13 33          |            |
| vi) 13.65, 19                       |                        |           |         | -             |           |                    |                 |                    |          | 10.00           | 13.55          | 13 63  |                       | 13.55          |            |
| vii) 13 70, 199                     |                        | 13.31     | 13.59   | 14.00         | 13.34     | 13.60              |                 | 13 37              | 13 60    | 6.11            | 13 35          | 13 60  |                       | 13 34          |            |
| viii) 14.26, 19                     |                        | -         | •       | 5.00          | 12.57     | 12 74              | 15.00           | 13.41              | 13 97    | 15.00           | 13.47          | 13 99  |                       | 13.44          |            |
| ix) 13.85, 200<br>x) 5.75, 200      |                        | ~         | -       | 3 00          | 13 57     | 13.74              |                 | -                  | •        | 0.55            | 13.64          | 7 90   |                       | 13 57          | 7 90       |
| xi) 12.75, 200                      |                        | _         | _       | 0.05          | 14 03     | 13 43              | -               | -                  |          | 0.55            | 1.7.0-         | , ,,   |                       | 14.03          |            |
| xii) 13.82, 20                      |                        | 11.96     | 15 15   | 501.99        |           |                    |                 |                    | _        | _               | _              |        |                       | 13.47          |            |
| xiii) 14.00, 20                     |                        | 13.66     |         | 4 00          |           |                    | 0.90            | ₹7.99 <sup>t</sup> | 14.00    | -               |                | _      |                       | 13.71          |            |
| xiv) 14 00, 200                     |                        |           | _       |               | 13 81     |                    |                 |                    | -        | -               | -              | -      |                       | 13.81          |            |
| xv) 13.85, 20                       | 06 0.03                | 13.75     | 13.78   | 12.75         | 13 89     | 13.88              | 44.55           | 13.89              | 13.88    | 20.95           | 13.89          | 13.88  | 78 28                 | 13.89          | 13.88      |
| xvi) 11.50, 20                      |                        | -         | -       |               | 14.48     |                    |                 |                    | 13 26    | •               | -              | -      |                       | 13.94          |            |
| Sub-total                           | 385.14                 | 12.77     | 13.88   | 676.95        | 13.60     | 13.76              | 173.79          | 13.39              | 13.64    | 446.21          | 13.24          | 13.53  | 1682 09               | 13.29          | 13.7       |
|                                     | (Per Cent Year)        |           |         | 22.50         | 1405      | 0.44               |                 |                    | 0.45     |                 | 12.00          |        | 050.40                | 1400           |            |
| (i) 0 00, 199                       |                        |           |         | 27.50         | 14.07     |                    | 123.82          |                    | 9.47     | 61.00           | 13.98          |        | 279 48                |                |            |
| (ii) 0.00, 200<br>Sub-total         | 0(111) 53 00<br>120.16 |           |         | 27.50         | 14.07     |                    | 26.00<br>149.82 |                    | 13.60    | 96.00<br>157.00 | 14.06<br>14.03 |        | 454.48<br>454.48      |                |            |
| (A+B+C)*                            | 588.30                 |           |         |               |           |                    | 381.36          |                    |          | 742.57          | 13.32          |        | 2457.68               |                |            |
| D RBI's Open                        |                        | 1.5.01    | 12.63   | r = q.r. **** | 1.7.30    | a .7 <del>74</del> | 201.20          | 1.5.00             | . 2.20   | 144.31          |                | 1.7 13 | - <del>-</del> 437.00 | 1.3.37         | . ,, 1 .   |
| Operations (                        |                        |           | -       |               |           | _                  |                 | -                  | _        | _               | _              |        |                       |                |            |
| (A+B+C+D)                           |                        | 13.01     | 13.23   | 745 45        | 13.58     | 13.54              | 381.36          | 13.60              | 12.20    | 742.57          | 13.32          | 13.13  | 2457.68               | 13.37          | 13.13      |
| 3 REPO                              |                        |           | <b></b> |               |           |                    |                 |                    |          |                 |                |        |                       |                |            |
| (i) 91-Day T                        | Bill 55 00             | -         | •       | -             | -         |                    | 11.00           | •                  | -        |                 | -              | -      | 66.00                 | 1              |            |
| (ii) 364-Day                        |                        |           | -       | -             | -         | -                  | 20.00           | •                  | -        | -               | -              | -      | 89.00                 | )              |            |
| (ni) Govt Sec                       |                        |           | -       | 604.05        | -         | -                  | 659.50          |                    | -        | 429.50          | -              | -      | 2127.05               |                |            |
| Sub-total                           | 558.00                 |           |         | 604 05        |           |                    | 690.50          |                    |          | 429.50          |                |        | 2282.05               |                |            |
| 4 State Govt Secur<br>Grand total   |                        |           | 13.63   |               | 13.73     | 13.83              |                 | -                  | -        | 11.00           | 13.77          | 13.85  |                       |                |            |
|                                     | 1475 57                |           |         | 1572,34       |           |                    | 1511.94         |                    |          | 1699.40         |                |        | 6259.26               |                |            |

<sup>(-)</sup> means no trading YTM = Yield to maturity in percentage per annum CY = Current yield in per cent per annum \* Yield rates of these sub-groups of t-bills and dated securities have been used for the graphs.

Notes:

1) Yields are weighted yields, weighted by the amounts of each transaction.

2) Current yield has not been worked out for treasury bills.

houses for defaulting in ICD repayment. This confounded the nervousness of the market. The outstanding volume as a result of this has fallen from the peak of Rs 4,511 crore in August 1994 when this market was in full bloom to Rs 234 crore in July 1996; it had touched the lowest level of Rs 71 crore in April.

# III Call Money and Foreign Exchange Markets

Call Market

The call market ruled firm during September except for the customary drops in the rates on reporting Fridays (Graph A). The rates inched up from the 3-5 per cent range of the past couple of months to reach only slightly below the 11 per cent barrier by the middle of the month where they remained for the rest of the month (Table 3).

The indications of firming up of rates were visible in the first fortnight of the month when the rates moved up to 5-6 per cent levels in anticipation of the tightness in the following fortnight. As against an inflow of Rs 4,000 crore by way of coupon payments and treasury bills redemption, the outflow was sizeable at around 11,000 crore towards advance tax payments (Rs 6,300 crore), government loans (Rs 2,250 ctore), and treasury bills subscription (Rs 2,400 crore) One holiday (September 16) also influenced the expectations. All these factors took the rates up to 10.25/75 per cent levels. The 11 per cent export refinance barrier, however, was not breached as the robust deposit growth matched the outflows Towards the last week of the month, rumours of a hefty cut in the cash reserve ratio of banks prompted them to arbitrage between the calls and the giltedged market. The rates nevertheless kept steady at 10.25/75 per cent levels. Overall, the volatility in call rates was the least during September (Table 4).

# Foreign Exchange Market

The spot market largely remained stable during September as demand was more or less met by supply. The rupee moved in the narrow range of Rs 35.67/87 a US dollar. The Reserve Bank supported the rupee at these levels with frequent buying of small amounts. With a view to shoring up official reserves to service the bunching of obligations towards the end of the year. Interestingly, though the demands were large as some repayments on account of IMF obligations, maturing FCNR (A) deposits and forward liabilities undertaken by the Reserve Bank during the volatile phase in February this year were due, the rates did not see much volatility as supplies matched the demand and did not allow pressure to build up on the currency. During September, inflows of foreign exchange had increased on account of higher FII investments flow, GDR issues and FDIs.

The forward market, however, reflected much volatility especially at the short end (Graph C). This was largely on account of interest rate uncertainty. In fact, rumours of a likely CRR cut dampened the one-month forward premia in two weeks during the month. The benchmark six month premia have remained stable at around 10 per cent.

## IV Secondary Markets in Debt Instruments

Government Paper

The firming up of call rates and rumours of further CRR cut gave a boost to trading volumes in government paper during September. Interest in the secondary market for dated paper continued to be in papers at the shorter end. The 13.50 per cent 1997 paper and 13.62 per cent 1998 paper were by far the most popular. Due to higher interest in this paper, the price of short maturity papers fell by at least 12 to 15 paise raising the yields by 15 to 20 basis points. With a possibility of a fall in interest rates, trading in zero coupon bonds also picked up. The price of zero coupon 1999 had already appreciated by 56 paise and that of zero coupon 2000 by 37 paise. Softening of interest rates would result in further appreciation in these papers. An important factor was the commission sharing system after the auction of 13.82 per cent government stock, 2002 on September 17. The total trading volume on this security alone was considerably large at Rs 711.64 crore during the week ending September 20. Thirdly, the clarification of CBDT regarding zero coupon bonds that such bonds if sold before maturity would attract only capital gains tax, gave a big push to the secondary market trading in zero coupon bonds. Consequently, the total traded value in such gilts stood at a very high level of Rs 454 crore during September. Trading volumes in long-dated papers have been low and the yield range has been around 13.90-14 per cent.

Rumours of an inevitable CRR cut gave fresh impetus to the securities market as banks preferred to lock themselves into high yielding government paper rather than keep cash for lending at low rates in the call market; there is also some reluctance to increase commercial credit. Foreign banks were notable players in this game although their interest was restricted to short dated paper. The nationalised banking sector thus could sell some of its excess SLR securities. Foreign banks which have bought securities at lower price currently are hoping to sell them at higher prices on a later date as the security prices are expected to rise on buying interest after CRR cut.

Hardening of call rates also increased the dependence on repo market quite significantly. This was evident from the fact that on several occasions, especially on reporting Fridays, repos worth over Rs 500

crore were recorded in SGL account (see Appendix Table). The duration of the repos varied from 3 days to 14 days and the reporate ranged between 4.80 per cent for 3 days to 10.85 per cent for 14 days. Expecting high call rates to prevail in the short run, banks preferred to cover themselves with borrowings through repos as cash borrowings on reporting Fridays attract reserve requirements whereas borrowing through repo does not. Interest in TBs was across the maturity spectrum in 91-day bills and was confined to bills maturing in July-August 1997 in 364-day TBs.

Yield Curve

A distinct aspect of the yield curve behaviour during August 1996 was its flatness both in the primary market offerings and in secondary operations. This had reflected a situation of sharper increases in short-term rates with practically no increases in long-term yield-rates. Theoretically, the flatness of the yield curve also indicated that both short-term and long-term rates remained relatively high. In September, the yield curve depicting the primary offerings of government paper remained flat suggesting the persistence of the phenomenon of high yield rates offered on short-term and longterm papers. However, in the secondary markets, there has occurred some fall in short-term yield rates in September unlike in the long-term ones, as a result of which the yield curve appears upward sloping and normal (Graph D).

### **Open Market Operations**

The Reserve Bank purchased Rs 90 crore worth of zero coupon bond 1999 at its purchase price of Rs 72.50 in mid-September. Barring these trades, there was no buying or selling activity under the open market operations. Notably, the Reserve Bank included in its price list, the offer to purchase the Gold Bonds 1998 since September 14. At a price of Rs 4443.21, the purchase offer of RBI was attractive. It is, however, surprising that despite offering good returns, the Reserve Bank has not been able to purchase a single bond so far. The lure of yellow metal could well be the reason for this.

### Other instruments

The volume of trading in the secondary market in CDs and CPs was extremely limited. There was one deal of Rs 5 crore each in CDs of IFCI, ICICI and Times Bank according to the NSE data. Commercial paper of Kitply also changed hand once. Among the PSU bonds (Rs 68 crore) and debentures (Rs 25 crore), the traded amounts on the NSE were similar to the previous month (Table 5)

[The supporting review and statistical compilations for this paper were undertaken by V P Prasanth and Rafiq L Ansari]

# Protecting Plant Varieties: UPOV Should Not be Our Model

Suman Sahai

As a matter of strategy, it makes sense for India to draft a wide-bodied law for protection of plant varieties without accepting the restrictions of UPOV. In this way, when TRIPS comes up for review in 1999 and the pressure mounts to tighten our intellectual property regime further, we will have more space to negotiate.

THE agriculture ministry has just concluded a joint meeting in Delhi with UPOV officials. The purpose was to discuss the UPOV Plant Breeders Right (PBR) as a model for India's sui generis system to protect plant varieties. UPOV stands for the Union for the Protection of New Plant Varieties. It is the organisation which since 1961 has been formulating and granting PBR. UPOV is based in Europe and its members are industrial countries. The UPOV model is not the model that India should adopt as its sui generis system.

The GATT/WTO requires every member country to provide either a patent or an effective sui generis system to protect newly developed plant varieties. Nowhere doe, it state that WTO members have to follow the UPOV model. Bureaucrats concerned with TRIPS are however advising their political leaders that India must adopt UPOV and accede to the UPOV treaty of 1978. This unfortunate mesmerisation with things western will not serve us well.

We should devise our own sui generis system. It is possible to build greater flexibility into what is defined as sui generis in TRIPS than there would be in accepting a precast UPOV model. As a matter of strategy, it makes sense for us to draft a wide bodied law now without accepting the restrictions of UPOV. In this way, when the TRIPs comes up for review in 1999 and the pressure increases to tighten our intellectual property regime further, we will have more space to negotiate.

Apart from the fact that the UPOV system is based on components that are alien to us, it is far too expensive. Calculating at today's exchange rates, the costs of testing, approval and acquiring an UPOV authorised Breeders Right certificate will amount to something like Rs 2 to 3 lakh at least. This could go up to Rs 8 to 10 lakh. These rates will effectively preclude the participation of all but the largest seed companies. There certainly will be no space in such a system for small companies, farmers' co-operatives or farmer/breeders.

Another factor that goes against accepting the UPOV system is the fact that once we are in the system, we shall be forced to go in the direction that UPOV goes. If not today, then tomorrow. The writing on the wall in UPOV is clear. It is a system headed towards outright patents. Starting with its first amendment in 1978 when limited restrictions were placed on protected seed, the 1991 amendment brought in very strong protection for the plant breeder. In this version, breeders are not exempt from royalty payments for breeding work and the exemption for farmers to save seed has become provisional.

UPOV now also permits dual protection of varieties, that means in the UPOV system, the same variety can be protected by PBR and patents. It would seem obvious that UPOV is ultimately headed towards patent protection for plant varieties. It would be wise for India to stay out of a system which has plant patents as its goal since that is neither our goal nor our interest.

For the information of those not familiar with how breeding work takes place and how new varieties are released, farmers play a significant role as breeders of new varieties. They often release very successful varieties by crossing and selection from their fields. These varieties are released for use as such. In addition, in almost all cases, these varieties are taken up by agriculture universities as breeding material for producing other varieties. Such farmer/breeders would not be able to participate in an expensive system like UPOV.

Their material along with their labour and innovation would be misappropriated by those with the money to translate such valuable permplasm into money-spinning varieties registered in UPOV. Poor farmers unable to pay the costs of getting an UPOV certificate, would tend to sell their varieties for small sums to larger seed companies. This will be the ultimate irony, creating an institution that will snatch away from the farmer his material and his opportunities.

Essentially the UPOV system is wrong for us because it embodies the philosophy of the industrialised nations where it was developed and where the primary goal is to protect the interests of powerful seed companies who are the breeders. In the UPOV system, rights are granted only to the breeder, there is nothing for the farmer. In India the position is very different. We do not have big seed companies in essential seed sectors and our major seed producers are farmers and farmers' co-operatives.

Logically, our law will have to concentrate on protecting the interests of the farmer in his role as producer as well as consumer of seed. The philosophy of our seed law has to be distinctly pro-farmer and pro-rural. It must clearly reflect the fact that India is a germplasm-owning country whose farmers have contributed in an important way to the conservation and refinement of this germplasm. None of this features in the UPOV system.

UPOV laws are formulated by countries which are industrial, not agricultural economies. In these countries the farming community is by and large rich and constitutes from 2 per cent to 7 per cent of the population. These countries do not have the large numbers of small and marginal farmers like we do.

What is more, UPOV laws are framed in countries with a completely different agriculture profile from ours. These are countries where subsidy to agriculture is of a very high order unlike India. Because they produce a massive food surplus, farmers in industrialised countries get paid for leaving their fields fallow. The UPOV system does not have to protect the farming community of Europe in the way that our seed law will have to protect ours.

In Europe agriculture is a purely commercial activity. For the majority of Indian farmers however, it is a livelihood. These farmers are the very people who have nurtured and conserved genetic resources. The same genetic resources that breeders want to corner under Breeders Rights. We must protect the rights of our farmers and these rights must be stated unambiguously in our sui generis legislation.

The nature of agricultural research in India is also different from that in Europe and other industrialised countries. Almost all agricultural research and plant breeding in India is financed with the tax-payers' money It is conducted in public institutions like agricultural universities and institutions of the Indian Council of Agricultural Research (ICAR). This research belongs to the public.

The laws of UPOV on the other hand are formulated by societies where seed research is conducted more in the private domain than

in public institutions; where big money is put into breeding using recombinant DNA technology which is expensive. Because they invest in expensive breeding methods and need to secure returns on their investments, seed companies in Europe seek market control through strong IPRs. These conditions do not apply in India.

India's seed law must emphasise that it is a germplasm-owning country. Its position should be that seed companies wanting protection for plant varieties through PBR will first have to pay for the genetic material used by them. Genetic resources like other natural resources are a source of revenue and must be paid for. The economic value of genes can be assessed by case studies in order to help fix a price for their use.

India's sui generis system must recognise the Farmers' Rights, which is absolutely different from the farmers' exemption to save and sell seed under the older UPOV rules. Even now, there is confusion among officials on this score. Farmers' Rights refers to the rights of the farming community of the third world in creating and maintaining the genetic resources of the world. It is in acknowledgement of this stupendous contribution that the FAO passed the Farmers' Rights bill in 1988. This bill acknowledges that the contribution of farmers is on parwith those of the breeder and if one is to be rewarded by a Breeders' Right, the other must be rewarded by a Farmers' Right.

In June 1996, the Food and Agricultural Organisation (FAO) held a meeting in Leipzig in which the principle of Farmers' Rights was strengthened. There is also a commitment that new and additional funding will have to be found to honour Farmers' Rights. India should build on this progress by being the first country to incorporate Faremrs' Rights into its Plant Variety Act.

In addition to Farmers' Rights, our law should require use of germplasm and indigenous knowledge about that germplasm to be paid for. The farmers must continue to have complete freedom to use, reuse, sell and modify seed. Scientists and breeders should have unrestricted access to germplasm for breeding new varieties.

Our law should be distinctly supportive of sustainable agriculture and conservation of genetic resources. It should encourage genetic diversity in the field by promoting release of several varieties. Instead of a few large seed companies pushing their few successful varieties, a decentralised seed industry should be established in rural areas. Such regional seed producing units will be able to produce region specific seeds far more effectively. Our sui generis system will finally have to ensure the country's food security and the livelihood of farmers.

India should seize this initiative to do some creative thinking and craft a creative and sensitive sui generis legislation to present the viewpoint of the south, emphasising the strengths of the south. If India succeeds in doing this, it will provide an alternative sui generis model for all developing countries to follow. In time, with successful lobbying,

such a legislation should succeed in ending the era of gene-exploitation by demanding the true rights of countries that have been the developers and custodians of the genetic resources of the world.

# A Rare Man

**Ashok Mitra** 

A generation ends with the going of Satya Brata Sen, a generation which believed that the focus of the nation's affairs deserves to be exclusively on expanding the welfare of the hundreds of millions of countrymen made up by the peasantry and the working classes. A scientific approach, besides, must also inform, in the view of the same generation, the analysis of problems and issues which affect the common people.

SOME six decades ago, in a couple of rooms non-formally appropriated from the Baker Laboratory in Presidency College, Calcutta, P C Mahalanobis started what later became the Indian Statistical Institute (ISI). A sparse group of young men kept him company, R C Bose, S B Sen, V G Pendharkar, B N Datar amongst them. As the years rolled on, ISI carved its own history, even as most of the young contingent went to their different destinations. S B Sen was still groping to discover his moorings. He had already a crowded, mixed-up past: a revolutionary and political activist, with two prison terms behind him and steadfast sojourn into Marxist faith. The science of statistics was young and the possibilities of its application in the country, once it extricated itself from colonial clutches, were immense. Existence as a detached academic was hardly reconcilable with Sen's persona though. Mahalanobis was however a charming authoritarian; he had, besides, an exciting parallel ideology to trap young dreamers into: statistics, applied statistics, don't you know, would transform the nation. Sen was, for a full decade, in and out of the ISI, alongside stints with the United Nations Statistical Sub-Commission and as UN staff member, part of the faculty assembled at Manila to train young statisticians for the fledgling administration in the Philippines, the archipelago declared to be independent only a while ago. The lure of lucre and international travel soon palled; other, stronger stirrings of praxis took charge of Sen's intinerary. The immediate task at that juncture was to assist Mahalanobis to develop the infrastructure of the grandiose National Sample Survey (NSS). The mystique of interpenetrating samples had not quite worn off, a spirit of adventure was abroad, admixed with patriotic ardour of an intense sort. A nation, on the threshold of embarking on co-ordinated social and economic planning, was in quest of basic data, basic data not just on consumption and

expenditure patterns, but on the structure of landholdings, on other types of assets at the disposal of humdrum households, on demographic, ethnic and linguistic profiles of people inhabiting the different regions of the country, and so on. The NSS has now been rendered into a bureaucratic commonplace. In that particular phase, it was both a beacon and a promise. Organising the NSS called for meticulous work. including design, stratification and testing of samples, \*locating and training the field staff, and analysing and interpreting the data and assessing their statistical significances. PC Mahalanobis was a drumbeater; perhaps planning needed drumbeaters of his stature at that moment. There was however an equal need of one or two quiet individuals wno would contribute to the spadework and knit the organisation together. As one of the principal functionaries in the ISI after Mahalanobis, S B Sen filled that crucial space. The NSS excited Jawaharlal Nehru no end, there were, for days on end, rapturous reports about its scope and potential in the newspapers. The latter had, reasonably enough, no occasion to mention Sen: he did not provide them with any opportunity to mention him. Sen and self-effacement fitted snugly into each other.

That was still a temporary situation, activism in the cause of the communist party was always the priority. The links with the ISI loosened in due course. Party work beckoned. Here too, Satya Brata Sen preferred the niche of the quiet corner to the limetight. The cause of the people was coterminous with the cause of the party; writing pamphlets and holding party classes were part of the daily drill, combined with forays into trade union work and on the peasant front as well. Soon, a succession of other responsibilities was loaded on him. He was summoned to be economic adviser to the first democratically elected communist regime in the country, the short-lived administration in Kerala headed by E M S Namboodiripad. That government was dismissed in no time, but Sen's agenda remained full. It was increasingly activities calling for the highest commitment, but his functioning was always from behind the demure curtains: chalking out the party's programmes and strategies, writing tracts and preparing educational material for the party's young cadres, drafting blueprints for effective land reforms, contributing his bit as a member of the editorial boards of party journals. The scientific approach to things and events was however never missing: analyse the data before you formulate your premises, and plan your action in the light of hypotheses that have firm roots in facts and logic. Sen would not hustle others, but he would not allow himself to be hustled either. And his politeness, even when dealing with ideological adversaries, was a legend.

The best was yet to be. Few people, whether inside or outside the movement, know even as late as today the details of the hard work that went into the creation of the edifice of the three-tier panchayat system in West Bengal, the resounding success of which largely explains the durability of the Left Front administration, without interruption, over the past two decades. It was, jubric by rubric, mostly S B Sen's

construction. As planning adviser and, subsequently, vice-chairman of the State Planning Board, he slaved away and produced the practical grammar for a vibrant grass roots democracy come to full bloom in rural West Bengal. A popular democratic revolution engulfing the entire land will have to wait; meanwhile, though within its limited contours, West Bengal has provided the illustration, how to mobilise and deploy people's power in the cause of the people themselves. Sen demonstrated for his party comrades how a simple proposition could fetch huge dividends: land reforms facilitated the acceleration of the pace of decentralised rural administration and, vice versa, you got even richer dividends if you decentralised the educational system and integrated it with the decentralised administrative framework.

There were other comrades around, but it was essentially Sen's miracle. Not that flaws and inadequacies have been weeded out wholesale; that is a somewhat improbable target to reach in a national milieu which reeks of both insensitivity and self-seeking. The outcome of S B Sen's theism would still appear to be winning the day, at least in some parts of the country.

Which is perhaps why the present Left Democratic Front administration in Kerala, soon after assumption of office, sought his advice on the mechanics of meaningful rural decentralisation it should lean on. He accepted the invitation with alacrity; the contents of the task were near-identical with what they were in the case of West Bengal, the cause of the people was invariant; the ambience was however different, and therein lay the challenge. That work-in-progress, alas, was left unfinished when it was time for him to go.

A generation ends with his going, a generation which believed that the focus of the nation's affairs deserves to be exclusively on expanding the welfare of the hundreds of millions of countrymen made up by the peasantry and the working classes; the rest of the agenda is dross. A scientific approach, besides, must also inform, in the view of the same generation, the analysis of problems and issues which affect the common people. These men and women equally firmly believed that insensate profit-seeking does not further, but actually ruins, the prospects of a nation. Sen, one of the earliest Indian entrants into any of the United Nations agencies, could have accumulated on a world scale and led a life of indolence and luxury; instead, he chose to be a humble functionary of the communist party, and he would not accept even the minimal wages the party could spare for a wholetimer. A rare man has gone gentle into the night.

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# **Rural Credit: New Role for AFC**

H B Shivamaggi

The finance minister's proposal to set up state agricultural finance corporations provides an opportunity to revive the Agricultural Finance Corporation, an all-India public sector institution which has the necessary expertise, currently under-utilised, in rural sector consultancy for financial services.

SINCE the co-operative and commercial banks have their inherent limitations in rendering techno-financial assistance in a big way to the development of hi-tech exportoriented agricultural activities which have been expanding on an unprecedented scale in Karnataka, the state government felt the need for a separate state-level lending institution like the Karnataka Agricultural Finance Corporation (KAFC), on the lines of the Karnataka State Finance Corporation (KSFC) meant to look after the industrial sector, to give a further thrust to hi-tech agriculture. Accordingly, the state government availed of the consultancy services of Agricultural Finance Corporation (AFC) to advise it on the feasibility and viability of this proposal. The AFC has recommended the establishment of KADFC.

Now that the union finance minister has opted to establish such institutions in different states with NABARD as the chief promoter, this becomes an all-India programme. In this changed context, it is essential to remember that there are two public sector institutions at the apex level for agricultural finance - NABARD and AFC. We have to examine in what manner and to what extent this new work can be shared by these two institutions. It is in this regard that the role of AFC has to be re-examined and redefined.

# BACKGROUND

Established in 1968 following social control over banks, the main objective of AFC was to finance agricultural projects and to assist commercial banks to participate extensively in agricultural development. The objects of the corporation were defined comprehensively so that it could finance or help in financing all activities relating to agricultural production, marketing, transport and storage of farm produce, farm mechanisation, animal husbandry, activities relating to inputs for agriculture, forestry and all other activities connected with agriculture.

In the first year or two of its functioning, AFC had the dual role of directly financing agriculture and indirectly promoting agricultural credit operations of its member banks. However, the nationalisation of 14 major commercial banks in 1969 changed the whole situation. Direct financing of agriculture by AFC was short-lived because the banks started to build up their own organisational set-up to take up direct lending in the rural sector. Realising that the banks were no longer keen to finance agriculture

through AFC, the latter decided in 1971 that it would not normally undertake direct lending but instead would help the banks in their agricultural lending activities. This change in the role of AFC was spelt out by the then chairman of AFC, M L Dantwala, in his annual address to the shareholders in 1972:

Agricultural Finance Corporation is some what like a research and development wing servicing the commercial banks, rather than an independent financial institution. It seeks to do collectively for the member banks what each of them would have been required to do individually the AFC tries to explore and identify fresh avenues of financing agricultural development, test the technical and financial viability of new ventures, remove the procedural road blocks and legal hurdles, provide encouragement and assistance to new entrepreneurs, acquaint the bank personnel with complexities of new proposals and even make its services available to the member banks to supervise implementation and check performance. The approach and the technical expertise which an organisation like this builds up is somewhat different from the one required by an apex financial institution.

# FROM FINANCE TO CONSULTANCY

This change in perception meant that AFC henceforward would specialise in (1) surveying potential for agricultural project lending in different parts of India, (2) formulation of viable schemes for ready use of the banks, (3) bringing newly identified rural sector entrepreneurs in touch with banks, (4) undertaking monitoring of schemes, and (5) performance evaluation of completed schemes.

Many doubts and questions did arise in this respect. Was it a tall order for AFC and beyond its organisational and expertise capabilities? Would AFC be able to obtain and retain expert staff required for the multipronged job? Would member banks agree to draw a line as to how far they will build up their own rural credit set-up and encourage AFC to build up expertise as envisaged? How far would NABARD encourage and promote such institutional development?

Subsequent events belied most of the hopes of Dantwala and brought AFC to the crossroads once again. The end-users of services of AFC are ultimately the banks and NABARD. While AFC has shown commendable initiative and zeal for expending and diversifying its activities as can be seen from the data given below, banks and NABARD have tended to become self-

reliant in all their project work. Since they are now less interested in AFC, the latter has reached a dead end. The recent developments need to be reviewed in this changing context.

Since its establishment in 1968, AFC has handled over a thousand multi-disciplinary assignments. A look at the list of recent assignments given below brings out the diverse nature of its consultancy work both in India and abroad which has surpassed all expectations.

Agro-industries (8)

Area development (12)
Bio-technology (1)
Command area development (7)
Dryland agriculture (1)
Fishery (2)
Forestry and wastelands (2)
Hi-tech agriculture (10)
Horticulture and plantations (6)
Irrigation (4)
Livestock, diary, poultry (3)
Market development (3)
Monitoring and evaluation (10)
Rural credit (7)
Others (4)

Rehabilitation (5)

Besides providing services to government bodies, AFC has recently completed assignments for private corporations and voluntary organisations. As regards foreign consultancy work, AFC has done work in nearly 25 countries. The information available from the annual report for the year 1994-95 broadly indicates that out of about 129 domestic assignments completed or on hand. eight were from NABARD whereas only five schemes were from banks. The rest of them were mainly from the government sector. This implies that barring five banks including three co-op banks which have availed of AFC services to some extent, other banks have remained away from AFC though nine among them are on the board of AFC and in that sense are involved in building up AFC. To goad banks and NABARD to make greater use of the services of AFC. a meeting of a senior-level operational coordination committee was called in AFC in 1989-90 with a view to tinding out what type of assignments NABARD and banks could give to AFC Each member bank was expected to identify the projects/studies which could be taken up by AFC in the next

It appears that while the concerned bodies do not feel the necessity of approaching AFC for specific work, AFC is keen to get work from them to justify its existence and to remain viable. This struggle to get assignments for justifying its existence is not healthy. Instead of the present ad hoc role of AFC, its role vis-a-vis NABARD and banks should be redefined so that it can plan its work on a long-term basis. In the present context of increasing work-load at the apex level, this is an appropriate time to re-examine the role of AFC.

As stated above, the diversification of AFC's activities has surpassed all expectations. In the earlier period, besides land

development, irrigation and other agri-based schemes, it also handled schemes such as forest development, infrastructure development, rural industries, gobar gas plants, financing flood and cyclone affected areas. More recently, it has taken up hi-tech agricultural projects, bio-techonology, wasteland development, integrated district credit plans, etc. AFC has also taken up many international assignments. It goes to the credit of AFC that faced as it was with decreasing demand for its services, it continued to maintain its consultancy role by its readiness to go to difficult areas and accept difficult projects both in India and abroad. Though all this is commendable, the question arises: what is the role for AFC in the long run?

Expressing this worry, the Annual Report for 1994-95 says, "the corporation has earned a profit of Rs 6.72 lakh for the year 1994-95 as against Rs 58 lakh for the year 1993-94. The fall in profits during the year was mainly on account of the decline in business from the government sector...". While the number of new consultancy assignments (19 in 1992-93, 11 in 1993-94 and 15 in 1994-95) is not going up as much as is desired, overall earning from this work is not able to take care of increasing salary and other overhead expenses as can be seen from the approximate data given below:

(Rv crove)

|                         | 1992-93 | 1993-94 | 1994-95 |
|-------------------------|---------|---------|---------|
| Total income from       |         |         |         |
| consultancy             | 5 63    | 6.83    | 6 01    |
| Total expenses of which | 6 48    | 7.68    | 7 33    |
| (i) Project expenses    | 3.95    | 4.93    | 4.38    |
| (ii) Salaries, etc      | 1.56    | 170     | 1 88    |
| (iii) Other overheads   | 0 97    | 1 05    | 1.07    |

Note: Figures are rounded off

It appears that but mainly for the interest income, AFC finds it difficult to remain viable purely on the basis of consultancy earnings. Some of its branches like those in Bhubaneshwar, Ahmedabad, Trivandrum and Calcutta spend much more than they earn primarily because neither the state governments nor the banks with dominant presence in these states show interest in availing of services of AFC. It is surprising that the directors' annual reports of AFC do not give adequate attention to this upcoming predicament.

# CRAFICARD'S VIEW

It is important to remember that earlier in 197!, the National Commission on Agriculture in its interim report on 'Credit Services for Small and Marginal Farmers and Agricultural Labourers' had held the view that

it might be ultimately necessary to set up an ADBI on the lines of the IDBI to consolidate the expertise and experience of various agencies such as the ACD of RBI, the ARC and the AFC into a single national organisation.

In 1972, the Banking Commission also pleaded for the merger of ARC and AFC into one new institution. This new institution "will be in a better position to help promote development financing to a much greater extent by both co-operative and commercial banks".

Craficard which was appointed in 1979 to review the working of rural credit system in India was specifically asked "to study the consultancy services provided by the AFC," and suggest improvements for achieving satisfactory co-ordination between it and financing institutions". After examining the various viewpoints, the committee stressed the need for AFC to remain as an independent all-India body. To quote its words,

Taking into account the nature and magnitude of rural development work in which banks have to play a catalytic role and keeping in mind the efforts needed to nurturing and bringing up a rural development consultancy organisation, our view is that not only is there need for an independent all-India body like AFC but also for regional or specialised consultancy bodies to cater to specific problems of specific areas.

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Apart from an expanded role of AFC through its services to government and development organisations, Craficard has stressed the need for linkage between AFC and NABARD. This is expected to ensure that the work undertaken by the AFC is by and large acceptable to the latter. Unless such a link is forged, AFC's efforts may not yield the maximum benefits. For this purpose, Craficard suggested as follows:

NABARD should lay down (i) the basic criteria for programmes that have been developed widely so far and (ii) in new cases, fix in advance, after discussion with the AFC, the criteria that will satisfy them.

NABARD was also expected to assign to the AFC jobs in areas covered by RRBs who on their own cannot afford to employ AFC. Besides, NABARD was also expected to utilise AFC for developing innovative projects. Craficard also emphasised the need to redefine the specific role which AFC has to play in respect of certain areas and for certain purposes, and particularly in pockets of poverty. AFC has also to help the cooperative sector. All this as envisaged has not materialised.

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#### STAFF MOTIVATION

A consultancy organisation like AFC faces a dilemma in regard to staff. Though its diversified assignments required innovative approaches and experts in different fields, it will not be feasible to keep all the expertise required as regular staff. It has therefore to depend on outside consultants. While this arrangement works out satisfactorily insofar as work is concerned, the regular staff tends to get disenchanted in the absence of adequate number of officers to carry out the work efficiently and because of lack of promotion avenues on the lines found in sister institutions like NABARD and banks. There are only about 72 officers as against a sanctioned strength of 222. Another aspect to be kept in mind is that mobility of staff is important for better motivation of staff to shoulder the varied assignments entrusted to AFC. This is an issue which needs urgent attention. One practical solution lies in making AFC part of a bigger set-up without compromising on its independent status so that staff development becomes more flexible.

#### BIGGER ROLE FOR AFC

Crafficard, after emphasising that the linkage between AFC and NABARD is important for the maximum use of AFC, did not provide for any built-in link but only hoped that things will work out as desired. However, the position at present is that even the chairmen of banks who are on the board of directors of AFC have not availed of AFC's services for their own banks. AFC has to go from door to door to canvass for its business. While there is no doubt that AFC has pursued vigorously its efforts in expanding and diversifying its activities, much of what Craficard envisaged as a part of the future role of AFC has not materialised particularly in its relationship with NABARD, Whereas some banks give some work if only to oblige AFC, NABARD, on the other hand, has not shown much interest in AFC. But for the efforts of AFC itself to canvass for work and willingness of the government of India and state governments to avail of AFC's services, this organisation would have stagnated. In the circumstances, AFC is not able to plan its work on a longterm basis. The choice now therefore is either to allow AFC to drift as at present or to link it effectively with NABARD so that not only will banks no longer be reluctant to avail of AFC services but also NABARD itself will have the obagation to ensure maximum use of AFC. This kind of link can be operationally meaningful only if AFC is made a subsidiary of NABARD. The specific advantage of this arrangement is that AFC continues to be an autonomous entity but it will also be assured of a steady flow of work. Further, NABARD can have a regular flow of innovative projects covering complex purposes and backward areas. In this connection, a suggestion may be made. As it is with large-scale lending and refinancing work, the proposal to take up direct lending and inspection of co-operative banks. NABARD is already overburdened with work. It is hence appropriate to raise the question whether the additional work of launching state-level Agricultural Finance Corporation can be entrusted to AFC which is also a public sector apex institution, under the overall guidance of NABARD. AFC has all the expertise and experience to shoulder such responsibility and even at this point of time it has the ability to complete this work as a time-bound programme. The financial arrangement for this purpose and for converting AFC into a subsidiary of NABARD is an administrative issue and can be worked out between NABARD, AFC and the 37 banks who presently are shareholders in AFC under the overall guidance of government of India and the Reserve Bank.

The broad changes may be as below:
(1) After AFC becomes a subsidiary of NABARD, there has to be a common board of directors for NABARD and AFC.
(2) The present board of NABARD has to

be reconstituted keeping in mind the fact that AFC is now a NABARD-subsidiary and this board will be common to both apex bodies.

(3) The managing directors of NABARD and AFC will be on the common board.

(4) The board may constitute a sub-commuttee of its own to oversee the sharing and co-

ordination of work between NABARD and AFC on the one hand and between AFC and banks on the other so that duplication of efforts noticed at present is avoided and the role of AFC vis-a-vi: NABARD and banks is properly spelt out.

(5) It is logical to transfer the evaluation and monitoring department of NABARD to AFC.
(6) The staff of AFC will be fully absorbed in NABARD in due course so that complete mobility of staff and entry of new blood in AFC on a continuing basis are taken care of Under this arrangement the career prospects and motivation of AFC staff will improve.

By way of conclusion, it needs to be emphasised that AFC, an all-India public sector institution, which has built up expertise and an international reputation in rural sector consultancy for financial services, should not be allowed to function in an uncertain and ad hoc manner and should be fitted into the whole institutional system for lending for agricultural and rural development. Now is the opportunity and it should not be missed by GOI, RBI, NABARD and AFC itself. The extra work of launching new agricultural institutions at the state level should be shared by NABARD and AFC. Through this measure, not only will NABARD not be over-burdened but AFC's services will be fully utilised.

**POWER** 

# **Expanding Systems, Poor Management**

S N Roy

Changes in the pattern of demand and weak distribution systems are contributing to increasing transmission and distribution losses. A decreasing proportion of bulk and high tension users and financial constraints which reduce system losses, and financial stringency which have forced state electricity boards to extend provide poor service and extend the system without adequate services are the two main factors.

THE transmission and distribution (T and D) losses in India, at about 21 per cent, has remained a subject of debate for the last several years. There is no doubt that these losses are quite high when compared to only 5-8 per cent losses in developed countries What should be the reasonable level of T and D losses in a vast country like India and the scope to bring down these losses is a matter which has been deliberated upon at length by Rajadhyaksha Committee constituted by the government of India in 1978. This committee recommended that T and D loss should not exceed 15 per cent, keeping in view the vast network of distribution system in rural electrification and multiple transformations. The committee also recommended the strengthening and augmentation of the transmission and distribution systems to bring down the losses and adopting counter measures against pilferage and theft of electricity.

The T and D losses have reportedly declined from 23-28 per cent to 21-8 per cent during the last five years. But analysis indicates that SEBs are making talse claims and in fact the losses are rapidly increasing as they have failed to strengthen and augment the sub-transmission and distribution system adequately to cope with the increasing availability of power.

The growth rate of power has been quite high in the recent past and as the area to be served is large stress has been given to achieve the maximum with the limited resources, it has resulted in a weak T and D network with an overloaded system involving longer lengths of distribution lines. Apart from the high technical losses, the energy theft in distribution system covering even industries is a cause of great concern.

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Transmission losses hardly contribute to less than 20 per cent of the total losses which means that 80 per cent of the losses are in the distribution mains. It has been felt that accurate estimation of unmetered supply may reveal quite a good percentage of theft. Utilities abroad have the T and D losses within about 8 per cent. The scenario in India however cannot and should not be compared with those prevalent in Europe and America. Their loss figures are not due to pilferage and theft and have been contained to a low figure due to strongly meshed network.

The T and D losses were contained at a level of about 15 per cent till the end of Third Five-Year Plan. The percentage losses during the Fifth Five-Year Plan increased from 15 per cent to 18 per cent when a massive rural electrification programme was undertaken. From the Fifth Plan onwards the T and D losses has been varying between 20 to 23 per cent. This is the period when a substantial percentage of the T and D losses and pilferage of electricity have been transferred and shown as agricultural consumption to hide excessive T and D loss and heavy pilferage.

The changes in the pattern of demand and extremely weak distribution system have contributed to the ever increasing T and Dlosses in this country. It is well known that the bulk and HT consumers reduce the losses as no LT lines are involved for power supply to them. The percentage of HT connections however is gradually declining and in a short time frame of 1979-93 its consumption has declined from 52 per cent to 32 per cent and is continuing to decline at a faster rate. The connected load of HT consumers has also declined from 25 per cent to 18 per cent in the same period. Most of the bulk consumers are setting up their own captive power plants due to uncertainties of grid power and therefore their percentage in the total demand will further go down,

The allocation to T and D during the last 15 years is merely 30 per cent against the standard norm of 50 per cent of the total plan outlay. Due to inadequate allocation, the SEBs have been forced to extend the distribution system in most of the cases to provide new connections. The length of the distribution system has therefore abnormally increased from 9.4 lakh circuit km in 1970-71 to 43.00 lakh circuit km in 1992-93, giving a five-fold increase. On the other hand the increase in sub-transmission system comprising of 132 and 33 KV lines to provide new step down sub-stations has only doubled. The longer length in the distribution system has not only resulted in overloading and poor voltage supply to consumers but has immensely added to losses. The distribution system in our country involves 100 km of LT lines for each MW of demand which is four to five times higher as compared to Japan, where the losses have been contained at only 5.8 per cent. This is the main technical reason of high T and D losses.

The SEBs have neither suitably augmented the distribution system nor changed their policy to provide more HT connections leading to considerable increase in the losses. In order to hide their inefficiencies they have resorted to large-scale manipulations of agricultural consumption to transfer the excessive T and D losses as also pilferage to agricultural consumption where the energy is not metered but only estimated. The agricultural sector happens to be a politically sensitive area and therefore, the policy-makers have preferred to keep mum on the large inflated consumption in agriculture and thus SEBs have been saved from criticism for their inefficient working. Not only that, the boards are strangely putting claims for large subsidies to the state government for

the excessive T and D losses and pilferage of electricity. The claims on this account exceed Rs 5,000 crore per year.

The extent of manipulation in the agricultural consumption can be gauged from

the following analysis:

(i) The agricultural consumption per KW of the connected load has increased from 755 units in 1970-71 to 1,846 units in 1993-94 and at its present high growth rate of over 12 per cent, it may even exceed 2,400 units in 1996-97. This gives a three-fold increase in agriculture consumption, although the duration of supply is gradually reducing due to shortage of power. During the period

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TABLE: DECLINING PERCENTAGE OF REVENUE EARNING ENERGY SALES (Generation and Consumption in MUs)

| SEBs           | Gross<br>Generation | Total<br>Sales | Agricultural | Others   | Per Cent of Sales of<br>Others wrt<br>Gross Generation |
|----------------|---------------------|----------------|--------------|----------|--------------------------------------------------------|
| Haryana        | 11,237              | 7,923          | 3,959        | 3,964    | 35.28                                                  |
| Punjab         | 20,066              | 14,084         | 6,345        | 7,739    | 38.70                                                  |
| Uttar Pradesh  | 33,960              | 23,229         | 8,924        | 14,305   | 42.12                                                  |
| Gujarat        | 28,698              | 19,070         | 8,652        | 10,418   | 36 30                                                  |
| Maharashtra    | 44,877              | 27,950         | 8,703        | 19,247   | 42.90                                                  |
| Andhra Pradesh | 28,570              | 20,678         | 9,068        | 11,610   | 40 64                                                  |
| Karnataka      | 18,185              | 13,996         | 6.077        | 7.919    | 43,55                                                  |
| All India      | 3,24,050            | 2,38,670       | 70,700       | 1,67,970 | 51.84                                                  |

1971-94, the average consumption per KW of all sectors have remained constant at about 1,500 units. The manipulations are so large that the agricultural consumption per KW may even overtake HT consumption during the next year.

(ii) In the first three years of the current plan, about five lakhs pumping sets per year have been energised which should give a growth rate of only 5.5 per cent on a base of 9.2 million pumping sets at the commencement of the plan. The actual growth rate however is about 12 per cent, i.e., more that, double the projected growth. It establishes therefore, that 50 per cent of the energy growth accounts for excessive T and D loss and pilferage of electricity for which there does not appear to be any logical explanation.

The Planning Commission in the Eighth Plan document has set a growth rate of 7.28 per cent and a ceiling of agricultural consumption at 76 billion units in 1996-97. It may be interesting to note that this ceiling has already been exceeded in the first three years when the agricultural consumption has reached about 80 billion units. The power planners therefore, should deliberate on this massive manipulation of agricultural consumption to find out a viable solution to tackle this malady. In view of the unmetered supply to the agricultural sector and other social electrification programmes in many states, the extent of accuracy of the T and D loss figures are not predictable and their authenticity could be questioned.

In order to evaluate the percentage of excessive T and D losses and pilferage we may consider the actual figures of consumption in Tamil Nadu, where the energy is mostly metered. In their case the average consumption per KW in 1992-93 was only 1,129 units. This is very close to the manipulated consumption figures of 1,212 units for the country during 1986-87. It appears reasonable to put the agricultural consumption at an even higher level of 1,200 units per KW compared to 755 units in 1970-71. The consumption in 1996-97 may exceed 2,400 units per KW or over 40 per cent of the total energy sales of the SEBs. The actual consumption during 1992-93 stood at 33 per cent and will certainly exceed 40 per cent during the terminal year of the plan. It thus implies, that 50 per cent of the energy in the agricultural sector is merely overestimated to hide excessive T and D losses and pilferage. As the consumption for agriculture may exceed 40 per cent during 1996-97, on a conservative basis, 50 per cent of this consumption or 20 per cent of the total energy sales reflect the overestimates made by the SEBs. At least half of the inflated energy may account for excessive T and D losses and the balance towards pilferage. Thus, the actual T and D loss may exceed 32 per cent as against 22 per cent being reported by the SEBs.

The government had introduced incentive schemes and awards for reduction of T and D losses. Instead of introducing technical remedies for high T and D losses, it becomes easier for the SEBs to carry out greater manipulations to win the awards. The guidelines of using modern computer aided technique for planning, design and control of distribution systems have merely remained on paper and cannot be made effective unless the root causes are tackled with a firm hand.

T and D losses and consumption in agricultural sector exceed 60 per cent of the

energy sales in the states of Haryana, Punjab, UP, Gujarat. AP and Karnataka and other states are fast approaching this figure. At the present growth rate of 12 per cent in agriculture the above percentage is likely to go up. Certainly the SEBs cannot manage their affairs by earning revenues only from 40 per cent of the energy generated and as such they are on the way to bankruptcy in the Ninth Plan (refer table).

The high system losses are neutralising growth. To bring down the losses would mean a massive drive to plug the leakages improve and refurbish the distribution system through sufficient investment and the adoption of state-of-the-art techniques in optimising the distribution system, shunt compensation and proper metering to establish energy accounting.

The country is witnessing a sharp increase in domestic demand due to change in lifestyles and the addition of a large number of new connections. This trend may continue for the next 2/3 decades as so far only about 40 per cent of the population is deriving the benefits of electricity. The evening peak demand on the system is thus rising fast. An analysis carried out indicates that the peak time losses are about 50 per cent higher than the average T and D losses since the entire LT distribution system comes into operation for meeting domestic demands. On this basis the peak time T and D losses are estimated at 48 per cent which means that the country requires a large installed capacity to meet the peak demands.

The high level of pilterage of electricity and excessive T and D losses are of great concern to policy-makers and unless the pilferage is curbed and T and D losses controlled, all the SEBs may be headed for a financial disaster.

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# **Quebec Separatism**

# October Referendum and Beyond

Sudha Pai

Since the 1960s Quebec has experienced the most powerful separatist movement in the west. The referendum held in October 1995 failed to garner a majority of votes for sovereignty, but the campaigns have led to a hardening of attitudes between Francophones and Anglophones.

QUEBEC has experienced since the 1960s the most powerful separatist movement in the west, followed probably by Flemist nationalism in Belgium. In the early 1980s it was considered 'dead', but following the failure of the Meech Lake and Charlottetown Accords in the late 1980s, there has been a dramatic resurgence of francophone separatist nationalism. This has been particularly marked since the victory of the separatist Parti Quebecois (PQ) in the provincial elections of 1994.

In the referendum on sovereignty held on October 31, 1995 by the ruling PQ which attracted worldwide attention, Quebeckers were asked to vote 'yes' or 'no' on the referendum question put before them by the Quebec government. There was a record turnout of over 90 per cent, and out of a total of 4,756,229 voters who cast votes, 48.5 per cent voted yes while 49.7 per cent voted against leaving Canada in order to form a separate country. More than 87,000 spoiled ballots - 2 per cent of the votes cast - may have made the difference because they accounted for many more votes than the spread between the yes and no votes ('No by a Whisker', Globe and Mail (G and M), October 31, 1995). The Parti Quebecois which has been the main separatist party in Quebec since its formation by the late Rene Levesque in 1968 - failed to convince a majority of Quebeckers that their future lay in leaving Canada to form a separate country under its aegis. This is because since its inception the party has oscillated uneasily between supporting the secessionist cause and providing 'good government', and also between the idea of total separation from Canada or sovereignty-association with it. Even today it suffers from internal factions, divided leadership and lack of clarity of ideology and goals, and therefore the inability to convey a clear message to the public in the recent referendum. Corresponding to this has been the uncertain position adopted by Quebeckers on the subject. Studies show that in the 1970s and 1980s, a group of between 7 to 10 per cent of Francophones voted for the PQ while having serious doubts about independence (G and M. September 13, 1995). Many of them today remain unsatisfied with confederation as it exists

and Quebec's position within it, but are not sure if they want the separatist alternative offered by the PQ. Thus in periods of constitutional crisis, nationalist feelings and support for sovereignty run high, but when the same is linked to a clear vote for imminent secession then there is a sharp drop. These problems – of doubt, uncertainty and lack of clarity about the future – have been faced by separatist movements everywhere, Yugoslavia providing a good example.

Many of these problems were visible in the October referendum, and underlie the defeat of the sovereignists led by the PQ: (1) The term sovereignty was never clearly defined and its meaning and implication shifted during the campaign from total separation to the 'softer' option of sovereignty-association. While Parizeau and his supporters in the PO felt that separation was necessary, his allies - the Bloc Quebecois (BQ) and the Action Democratique (ADQ) - supported the idea of association. Hence the new separatist alliance formed before the referendum lacked a clear platform and failed to hold together in a convincing manner. (2) The separatist parties were also divided over the tactics to be adopted. As a consequence, the 'yes' side had to work very hard in order to gain even 48.5 per cent of the popular vote, and reaching 50 per cent did not seem feasible at any point during the campaign. Except for a short period in mid-October, the support for the 'yes' side remained low. (3) The referendum question itself was not very clear, and the general public's understanding of it remained confused. These factors are elaborated in the description of the referendum campaign given below.

# RUN UP TO REFERENDUM

In the 1994 provincial elections – held just a little over a year before the referendum – the PQ had performed well, getting 77 seats and 46.8 per cent of the vote, its second best score since its formation ('The Quebec General Elections', September 12, 1994', Regional and Federal Studies, Vol 5, No 1, Spring 1995, pp 94-102). However, it failed to cross the important psychological barrier of 50 per cent, which was due to the general perception that since the leadership was in the hands of the separatist faction under

• Jacques Parizeau, a victory for the PQ would lead to either a Unilateral Declaration of Independence (UDI) or a referendum. Hence the results were an indication that while Quebeckers were prepared to accept the PQ as a ruling party because of its earlier record in the 1970s and 1980s, a majority were not prepared for separation. It also became clear that the PLQ had more support than had been expected, the sovereignty referendum would witness a tough fight, and the PQ could not expect an easy victory.

Once in power, the PO leadership declared that unlike in 1980, the referendum would be held within the next 10 months. In February 1995, the PQ began public hearings by a national commission on the question of independence. By this it hoped to build up emotional support for the issue and to form ideas for the referendum question. Spread over four weeks in February and March 1995, it was a vast exercise undertaken by 17 regional sub-commissions, made up of important public figures, which visited all parts of the province and held a total of 304 sessions in 223 communities, at an enormous cost. Contrary to the expectations of the PQ and especially Parizeau, media reports show that except in areas of staunch PQ support, the commissions did not turn out to be platforms for spreading the separatist message, nor was there any groundswell or support for the cause. Outside Montreal and Quebec city, where most of the Francophone clite reside, in smaller towns, especially in the 'Bois France' area where many 'soft' nationalists live, the commission made little headway (Macleans, February 20, 1995). The findings of the commission led Parizeau to postpone the referendum to the last part of the year, and were also instrumental in the PO moving closer to the BO, and as explained below, the latter's more soft definition of sovereignty.

The PQ and the BQ at the federal level under Luchien Bouchard merged their organisations in September 1994 after the provincial elections, in order to fight the referendum together against the 'federalists' led by the provincial liberals (PLO) under the leadership of Daniel Johnson, who had the support of the prime minister, Jean Chretien. Three documents on sovereignty were tabled in the national assembly of Quebec by Parizeau in 1995 prior to the referendum, which show a dilution in the meaning of sovereignty from that of total separation during the 1994 campaign, to economic association with Canada. The first was the partnership agreement (PA) of June 12, signed between the PQ, BQ and the newly formed ADQ, to fight the referendum together and execute thereafter jointly a two-fold 'common project' which would enable Ouebeckers to become 'masters in their own house'. Following a victory in the



relevelled the transported brocketti the sovereignty of Quebec and would be bound to propose to Canada a treaty on a new economic and political partnership so as to "consolidate the existing economic space" (text printed in G and M, October 31, 1995). Under it Quebec would keep the Canadian dollar, assets would be divided, there would be common management of the debt, mutual trade agreements, a customs union, free movement of goods, services and capital would be allowed, a common monetary policy and citizenship. It also provided for joint political institutions to settle differences. In fact the document proposes a movement towards a loose confederal arrangement rather than a new nation-state. Its real role was to convince Quebeckers that they could have 'independence without tears' and thereby win over the 'soft nationalists' Opinion polls by CROP since the 1994 elections had consistently shown that a promise of a partnership would help the 'yes' side.

The second document was the proposed text of Quebec's declaration of sovereignty released on September 6. Compared to the PA which states the official position of the PO and its allies, it is an emotional document which refers to historical memories of the conquest, English domination, the need to preserve the 'distinct' Francophone identity, a common glorious future, and calls upon the people to "reap the fields of history". Based upon the notion of communitarian rights on which Francophone intellectuals and leaders have always based their arguments, the declaration nowhere uses the term Quebecker and obviously held little appeal for Anglophones, Allophones or first nations people. Under it, 'others' who have made Quebec their home are invited to share in this project and guaranteed equality, justice and democracy (printed in G and M, September 7, 1995). The third document was the referendum question described later.

# REFERENDUM CAMPAIGN

Although the campaign began officially on October 2, 1995, in fact the issue of sovereignty had been inscussed extensively during the 1994 elections, and particularly from June 1995 onwards. Various opinion polls widely reported in the media allow us to trace opinion formation and the swings in thinking on the part of the public. Apart from a very brief period in early September, and again early October, up to almost mid-October the 'no' side had a clear lead (G and M, October 31, 1994). A CBC poll showed on October 6, that 55 per cent were against while 45 per cent were for sovereignty, though 13 per cent remained undecided and 20 per cent admitted when pressed that they might change their minds prior to the polls (G and M, October 6, 1994). The poll analysis suggested in early October that the sovereignist side had not gained ground since the formal launch of the referendum campaign.

The appointment of Lucien Bouchard by the sovereignist side as the chief negotiator and leader of the campaign, in the first week of October, to counter this trend introduced a slight upward surge which took the sovereignist side to 49.2 per cent and the opposition to 50.8 per cent (Leger and Leger Poll, October 8-14, 1995, reported in G and M. October 19, 1994). In fact, by October 19 the two were neck to neck and it did look for the first time like the 'yes' side would surge ahead and win. The 'no' side continued to experience a downward slide, and the 19th a Leger, Journal de Montreal, and G and M joint poll put the 'yes' side at 50.2 per cent and the 'no' at 49.8 per cent. There was also a clear division between the Francophone and non-Francophone vote, the former supporting sovereignty and the latter being firmly opposed to it (G and M, October 21, 1995).

However, by October 27, the boost received by the sovereignist side from a highly charged emotional campaign by Bouchard came to a halt without gathering enough momentum to carry them to a final victory. The last three polls conducted between October 25 and 27 show a peak before a downward slide (G and M, October 27, 1995). In retrospect an analysis of the various polls conducted after the referendum shows that public opinion in Quebec was not as volatile as the emotional upheaval during the campaign may suggest. The ebb and flow of support for the two sides, over the seven weeks during which most of the polls were undertaken, rarely varied much more than the margin of error for most of the polls - which was plus or minus 3 points. The pattern thus was a slow start for the yes, a surge forward by this side forming a peak in mid-October which continued up to almost the end of October, and then a downward plunge. The level of undecided and refusals did not change in the CROP poll, for example, for the whole period. Thus if one ignores the anecdotal evidence and looks at only the raw data, the two sides could have been tied for the whole period. No side was able to command at any point 50 per cent of the support in the raw figures. Both sides used populist methods throughout the campaign, which was dominated by two issues. The first was the emphasis by the PQ on emotional and social issues, while the opposite side tried to highlight the economic issues involved in separation. The PQ leaders, including Bouchard, were convinced that unless Quebeckers were persuaded to see the referendum as the culmination of more than 30 years of nationalist struggle, they had no chance of winning.1 Hence they ran a highly charged emotional campaign which harped upon the themes of conquest, language, cultural domination, failure of Meech and other constitutional reforms, and argued that both the federal authorities and the provincial liberals had 'no alternative' to offer.

The second and more central issue was the meaning of the term 'sovereignty', about which there was considerable ambiguity duirng the campaign. The hardliners' faction in the PO under Jacques Parizeau had in the early 1990s, and particularly during the 1994 elections, emphasised sovereignty as complete independence; in fact this had long been the point of difference between them and Levesque. As a result, in the initial phase of the campaign the idea of economic association with Canada was not emphasised. However the poor response by electors visible in opinion polls and the low attendance at PO meetings necessitated a shift in strategy. The 'yes' side decided to bring in Lucien Bouchard - who had always stressed that sovereignty meant economic and political partnership and association with Canada on the lines of the Maastricht treaty - and the idea of complete separation was played down during the rest of the campaign. In a bid to increase support Parizeau also announced on October 6 a five-member committee of prominent Quebeckers, including important businessmen and entrepreneurs, who would carry out the negotiations on behalf of Quebec after the successful referendum. He argued that a 'yes' vote and pressure from the international community would force Canada to negotiate. Empowered by sovereignty Quebec would move on to a partnership agreement, but partnership, he pointed out, was not a condition for gaining sovereignty (G and M, October 13, 1995). However, even this stand was tempered by Bouchard who insisted that before proclaiming sovereignty, Parizeau would have to fulfil his legal obligation to negotiate a partnership deal. In fact it almost appeared as if the mandate being asked for was to merely begin negotiations with the federalists. The surge in support for the 'yes' side did lead to a hardening of the position of the PQ. Parizeau declared that if the federalist refused to negotiate the debt and other problems within weeks of a victory, or if negotiations broke down, Quebec would declare sovereignty (G and M, October 21, 1995).

These shifts on the part of the sovereignists created considerable confusion in the minds of the public. Polls show that a number of those planning to vote 'yes' believed that even after independence was achieved, they would send deputies to Ottawa, maintain economic ties with Canada, enjoy dual citizenship, use the Canadan dollar and passport, etc. Ambiguity over the meaning of the vote thus became part of the referendum campaign, and was in fact a tactic used by the 'yes' side to win over reluctant voters.

This ambiguity is reflected in the

referendum question.<sup>2</sup> It was long with 43 words, leaving much room for vagueness. It did not mention the word 'country' and chose the softer euphemism 'sovereignty' rather than separation.3 It offered the voters first a separation from Canada and then negotiations for political and economic partnership, which leads one to question the intentions of its drafters. The question thus was a convoluted paragraph meant to appeal to voters who remained unsure about what independence meant. As Johnson said, "It certainly gives the impression that sovereignty and separation are conditional upon the attainment of some new order, a new partnership, a new association, and a union with Canada as a foreign country, when in effect it does not" (G and M, October 10, 1995).

An analysis of the federalists' campaign shows that in the first few weeks they seized the initiative and were united, aggressive, and over-confident. Led by the PM and the PLQ, they tried to bring hard economic issues into the forefront of the debate: the debt, the deficit which could rise to \$15 billion, cuts in welfare, loss of equalisation payments, jobs, citizenship, and the high costs of separation. Second, they warned that sovereignty meant total separation and no negotiations would be held on any issue (G and M, October 9, 1995). These issues played an important role in early October and underlie the upsurge for the 'no' side, as polls show that a large number of those who intended to vote 'yes' were unclear on its implications. They were also aware that Ouebec had a fiscal deficit which it would have to deal with alone after independence. However, after October 15, when the 'yes' side began to gain, a conciliatory tone was adopted, and after the 20th panic even led to promises of giving more powers to Ouebec within the federation.4 The rising support for the 'yes' side exposed the differences within the federalist camp, which the sovereignists underlined to their advantage. For example, on October 21, the PM dismissed a suggestion from Johnson that Quebec be recognised as a 'distinct society' (G and M, October 23, 1995).

A number of factors helped the federalists. The Allophones, who constitute about 18 per cent in Quebec, largely voted against separation. There had been a backlash against them after the 1980 referendum, but they did cast their votes. A second factor was the psychological impact of an exodus by investors from Quebec - particularly from Montreal and Hull. A large number of people also shifted their savings or bought foreign stocks and bonds (G and M, October 26, 1996). The mood in the rest of Canada (ROC) too was not inclined favourably towards the sovereignist side, just as during the Meech lake and Charlottetown period. Many surveys showed that the ROC had little interest or patience with Quebec. For example, 33 per cent in Alberta believed that Canada would be better off without Quebec, and 88 per cent felt that a sovereign Quebec should not be allowed to use Canadian currency (G and M, September 8, 1995). Political elites in western Canada too were in a confrontational mood with the rise of the Reform party, and felt that negotiation and compromise with Quebec was now difficult if not impossible.5 Another factor was the stand taken by the native peoples in the northern part of the province. The Inuit and the Cree held a referendum of their own - the former on October 26, 1994 and the latter just days before the October referendum - and a majority voted to stay with Canada. In fact the Cree held that they would form their own state, which would mean a partition of Quebec. These factors prevented many Quebeckers - Francophones and others - from voting for sovereignty as they were apprehensive that independence would introduce insurmountable problems and that negotiations for economic association would be opposed by the rest of Canada.

#### CONCLUSION

Where does Canada go from here? The implications of the failure of the referendum may be briefly summed up. In the 1990s, and more particularly following the failure of the referendum, there has been a hardening of attitudes between Francophones and Anglophones in Quebec. The prolonged referendum campaign, which stressed divisive issues, also contributed to this. In the 1970s and 1980s, Anglophones in Quebec accommodated and in some cases were supportive of the demand for recognition as a 'distinct society', but this has been replaced by a strong anti-independence stand. The partition of Ouebec, a subject rarely discussed earlier, is now done so openly, and the referendum led to a large-scale exodus of Anglophones and Allophones from Quebec. Corresponding to this, many Francophones no longer subscribe to the concept of a 'plural society' in Quebec and moderate nationalism, but expect integration of non-Francophones in an independent Quebec.<sup>7</sup> Moreover, the 'middle ground', which was once crowded territory both in Canada and Quebec, is now very thinly populated and occupied mainly by intellectuals (Canada Reclaiming the Middle Ground edited by D GLenihan, Gordon Robertson, Roger Tasse, IRPP, 1994). Earlier much more room existed for bargaining, negotiations, and compromise; this has been replaced by distrust and lack of accommodation, which is not conducive to the functioning of a federal state. The ROC is no longer interested in the 'Quebec problem', something which is reflected even in academic writings on the subject (English Canada Speaks Out edited by J L Granatstein, Doubleday Publishers, 1991).

• The failure of the referendum left the separatist parties in disarray, although both Parizeau and Bouchard immediately said they would definitely try again. Leaders on both sides have stressed the need for change and reconciliation. In the first week of November, Parizeau resigned as premier and was replaced by Bouchard who is perceived as being easier to negotiate with. The PM Jean Chretien in December placed three proposals before Quebec: a parliamentary motion to recognise Quebec as a 'distinct society'; a bill that would give Quebec a veto on constitutional change; and a promise that the federal government will get out of manpower training, something Ouebeckers feel strongly about. The proposals have been rejected by Ouebec as coming too late and giving too little. Thus the situation seems to have reached an impasse and no easy solution is in sight.

## **Notes**

[The data for this paper were collected during a visit to Canada in May/June 1996 on a Faculty Research Fellowship from the Shastri Indo-Canadian Institute, Calgary, Canada, and is part of a larger research project on Quebec nationalism.]

- 1 They were probably right because in a survey 77.3 per centsaid the biggest factor determining their choice was their 'pride in being Quebeckers', others came afterwards. G and M, October 24, 1995.
- 2 The Question "Do you agree that Quebec should become Sovereign after having made a formal offer to Canada for a new Economic and Political partnership within the scope of the Bill respecting the future of Quebec and the Agreement signed on June 12, 1995"
- 3 The term 'sovereignty' has in all poll questions yielded a higher proportion of support in favour of independence than the term 'separation'. This is because some voters equate the former with provincial autonomy rather than formation of a new state. In the first study on separation carried out in 1963, it was found that while only 13 per cent were in favour of separation, as many as 26 per cent considered the independence of Quebec as both 'desirable' and 'workable'. For a discussion, see Maurice Pinard, 'The Independence Issue and the Polarisation of the Electorate: The 1973 Quebec 'Election', Canadian Journal of Political Science, Vol 10, No 2, June 1977, pp 215-60.
- 4 These were contained in the Ottawa document of the federal government which went into the question of secession. It he'd it to be unconstitutional and suggested ways to stop it, G and M, October 21, 1995.
- 5 B C premier Michael Harcourt told Quebeckers in spring 1995, that if they voted for sovereignty they would be transformed from the 'best of friends' to 'the worst of enemies'. So did R Romanov of Saskatechewan and R Klein of Alberta. 'Westerners in no Mood to Accommodate to Quebec', G and M, September 8, 1995.
- 6 'Cree Wave Referendum Flat at Separatists'.

  Ottawa Citizen, September 22, 1995.
- 7 These aspects of the post-referendum situation were mentioned by James Tully, McGill University, Montrael, in an extended discussion with him in June 1996

# **US Authorised Kurdish Massacre**

Vijay Prashad

The Americans eat turkey to celebrate their massacre of the Amerindians; Turkey, the nation, runs amok conducting our own contemporary massacres, first the Armenians and now, the Kurds.

BURIED in the inside pages of the first section in the Sunday New York Times (September 8) comes a short note that the Turkish army last week was busy attacking the Kurds. On page 14, the Times offers an Associated Press report that the US secretary of state, Warren Christopher, "gave Turkey a green light today [7th] to send troops into northern Iraq to create a buffer zone against attacks on Turkish territory by Kurdish guerrillas". Can Turkey play the trustworthy role of peacekeeper which is so often left to the beleaguered UN troops? Do the Kurdish factions trust the Turks? Which 'Kurdish guerrillas' have attacked Turkish territory?

The story offers one detail which itself demonstrates the lack of trust felt by the Kurds for the Turkish regime a couple of weeks ago: the Turkish air force attacked position held by the Workers' Party of Kurdistan (PKK) in south-eastern Turkey. The Turkish government, since the 1920s, has conducted a fierce counter-insurgency and military campaign against the Kurds and, from the 1970s, their principal Turkish party, the PKK as well as against the various Iraqi Kurdish factions which work along the border (both the Kurdish Democratic Party of Iraq (KDP) and the Patriotic Union of Kurdistan (PUK)). Simultaneously, Kemafism and its organs have ruthlessly attempted to undermine the cultural life of the Kurds - it is de facto illegal, for instance, to speak any Kurdish dialect in the confines of Turkey. Given this history, why has the US allowed the Turks to enter Iraq and participate in the most recent carnage?

Al-Hayat, from Damascus in Syna, reports that the KDP(-I) did not only sign 'points of understanding' with Saddam Hussein (which enabled them to obliterate the PUK from Arbil and Sulaimaniya (from the southern Kurdish districts), but also forced an agreement with the Turkish government of Suleyman Demirel The Ankara-Kurd agreement, Al-Hayat notes, authorised the Turkish government to "undertake to expel the PKK forces from northern Iraq". Further, the "Turkish army and intelligence would be allowed to pursue this party's elements into Iraqi Kurdistan, and that Barzani would protect the Iraq-Turkey oil pipeline" Two points need to be made from this report.

First, KDP(I)'s deal with Baghdad and Ankara has sealed the fate of the Kurdish liberation movement, since it has enabled the Iraqis and the Turks to justify (on the pretext of an invitation from the beleaguered 'representatives' of the Kurds) its military activities to those guardians of the New World Order, the US and the UN. Kurdish resistance in Turkey has a glorious history: it begins with the Shaikh Said revolt in February 1925 which was crushed by the Kemalist regime's mobilisation of 10,000 men and 23 aircraft. The Mount Ararat revolt followed in 1930 and the Turks sent in 65,000 men in June to exterminate the Kurds. The Turkish regime promulgated an ordinance (July 29, 1931) which declared that the killing of Kurds in the Ararat region "will not be considered crimes." Deportations followed the killings. Then, the Dersim revolt of 1936-38 involved the Turkish army in a war with devastating results: the Kurdish resistance was effectively ended until the late 1950s. The Menderes coup in 1960 was inaugurated by the arrest of 485 Kurdish leaders. The net result was that the Turkish Workers' Party, a Marxist formation, orgamised among the Kurds and introduced Marxist Leninist notions; the TWP's second leader. Mehmet Alı Aslan was a Kurdish lawyer. This convergence brought the heavy hand of the Turkish government on both the Kurds and the TWP. Radical Kurds formed the Socialist Party of Turkish Kurdistan (SPTK) in 1971 (after another coup in Turkey) which was demolished by the government in the 1980 coup. The PKK, formed in 1975, is the current Marxist party which leads the Kurds. The anti-Marxist and anti-Communist flavour of Euro-America enabled the Turks to continue a genocidal campaign to liquidate the Kurdish people. A glance at two Amnesty reports, EUR 44/24/95 and EUR 44/01/95, is illustrative as is the document by Terres Des Femmes (Depeschen aus der Turkei und Kurdistan, published from Bochum in Germany in 1995). Now, we hear, the US gives Turkey the right to further its aggression into the domains controlled by the PKK.

Second, the oil-flow from Iraq (despite the US embargo) will continue, but now through the aegis of a monopoly transporter (the KDP(I) rather than through both KDP (I) and PUK territory (previously both profited from the tariffs, which was one of the main reasons for their dispute). Saddam Hussem's victory does not just give Baghdad control over the northern regions, but it also allows for a streamlined transport of oil from Iraq to the international markets.

Footnote: The September 9 bombing of southern Iraq has immediately benefited the oil monopolies. In 1994-95, the bench-mark North Sea Brent Crude Oil sold at \$17.07; in 1995-96, the price rose to \$18.63. This rise has benefited from the effects of a gradual withdrawal of Iraqi oil from the market. Moments after the cruise missile attack, the oil price rose to \$23.50 and it soon stabilised to \$22. So much for the separation between 'politics', the 'military' and the 'economy.

Turkey, a member of the European Community, is exempt from the pathetic moralising which infects American governmental discourse. As a 'European' power, it is allowed to act independently, for it is deemed to have a moral conscience. Iraq is bombed for doing pretty much the same things as Turkey. The Americans eat turkey to celebrate their own massacre of the Amerindians; Turkey, the nation, runs amok conducting our own contemporary massacres – first the Armenians and now the Kurds. And the Americans, "give the green light..."

# WOMEN'S WRITING : TEXT AND CONTEXT

Edited by : JASBIR JAIN

This collection of twenty-nine papers focus on the theoretical issues and historical perspectives, with spatial metaphors and discourse analysis, with cultural constructs and linguistic textures, with myth and mythologising and history and dehistoricising. Rebellion, defiance, madness, fantasy, and comedy are some of the strategies used by women writiers to communicate and get their meaning across.

The contributors include Jasbir Jain, Sarla Palkar, Santosh Gupta, C. Vijayshree, Viney Kirpal, Iqbal Kaur, and Ranjana Harish.

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# Pakistan: Religion, Politics and Society

Asghar Ali Engineer

The attempts of Jinnah, Maulana Maududi and Zia to Islamise Pakistan society, instead of upholding Quranic principles, aimed to placate influential sections within the polity. In contrast, the thought of Maulana Azad and Maulana Madani, stressing universalism and composite nationalism, came nearer to Quranic injunctions.

1

WAS Pakistan created for Islam or for Muslims, is an important question. There is divided opinion on this. Some ideologues of Pakistan would like to maintain that Pakistan was primarily created for establishing an Islamic state in the Indian sub-continent. Others, who view things more analytically than ideologically, would seriously doubt this proposition. They would rather uphold the view that Pakistan was created to serve the interests of a section of Muslims in pre-independent India. The fact that Maulana Maududi, the founder of the Jamat-e-Islami, kept away from the Pakistan movement, goes to show that. The Maulana was an ideologue of an Islamic state. He had no interest in a secular Pakistan of Jinnah's dream. The Maulana's lack of interest in the Pakistan movement was on account of Jinnah's lack of interest in an Islamic state. Jinnah's main fight was for proper share in power for Muslims and he propounded the theory of two nations only when the Congress slighted him after the 1937 elections in the United Province (UP) and did not take the two Mislim League ministers in the UP cabinet, as informally agreed upon by the Congress.

Even the two nation theory as propounded by the League does not have religious overtones; it laid more emphasis on cultural rather than religious differences. Speaking about the two nation! theory, Jinnah said:

..But surely, it is flagrant disregard of the past history of the subcontinent of India as well as the fundamental Islamic conception of society vis-a vis that of Hinduism to characterise them as mere 'superstitions'. Notwithstanding thousand years of close contact, nationalities which are as divergent today as ever, cannot at any time be expected to transform themselves into one nation merely by means of subjecting them to a democratic constitution and holding them forcibly together by unnatural and artificial methods of British parliamentary statutes. What the unitary government of India for 150 years had failed to achieve cannot be realised by the imposition of a central federal government. It is inconceivable that the fiat or the writ of a government so constituted can ever command a willing and loyal obedience throughout the subcontinent by various nationalities except by means of armed force behind it (Sharif al-Mujahid, 1985:491).

Here it will be clearly seen that Jinnah is emphasising nationality, rather than religious aspect of the problem. And when he tries to make religious argument, he falters and gives examples which are hardly convincing. For example he says:

It is extremely difficult to appreciate why our Hindu triends fail to understand the real nature of Islam and Hinduism. They are no religions in the strict sense of the word, but are, in fact, different distinct social orders and it is a dream that the Hindus and Muslims can ever evolve a common nationality, and this misconception of one Indian nation has gone far beyond the limits and is the cause of most of our troubles and will lead India to destruction if we fail to revise our notions in time. The Hindus and Muslims belong to two different religious philosophies, social customs, literature. They neither intermarry. nor interdine together and, indeed they belong to two different civilisations which are based mainly on conflicting ideas and conceptions. It is quite clear that Hindus and Mussalmans derive their inspiration from different sources of history. They have different epics, different heroes and different episodes. Very often the hero of one is a foe of the other and, likewise their victories and defeats overlap. To voke together two such nations under a single state... must lead to growing discontent and final destruction of any fabric that may be so built up for the government of such a state (ibid, p 492).

All the reasons cited here for incompatibility of Hindus and Muslims to live under common nation by Jinnah are hardly convincing for a discerning mind. It is more of a rhetoric than objective reality. The problem is that Jinnah was far from being a theologian or a religious scholar. He did not know the religion he was talking about. His knowledge of Islamic theology, *Qur'an* and hadith was nearly zero. He, therefore, chose to give examples from history,

society and culture to prove the incompatibility of the two communities. He talks about Hindus and Muslims belonging to "two different religious philosophies, social customs, literature". Religious philosophies, except certain common minimum beliefs, differ from sect to sect in one religious framework also. For example, there are fundamental differences in religious philosophy of the Sunni Muslims and the Ismaili Muslims, between Wahabis and Sunnis, Shias and Sunnis and they do fight against each other, and quite violently, at times. No wonder then that we find violent conflict between these sects of Islam in Pakistan.

It is also to be noted that though religion is an important contributing factor for culture, it is not the only factor. The spiritual expression of culture owes itself to other factors, apart from religion such as language, values, local customs and traditions, food, weather, mode of dressing, dances and music and so on. Despite following the same religion, people can have different cultures. For example, the Arab Islamic culture is quite distinct from north Indian Islamic culture; and north Indian Islamic culture has its own variants from south Indian Islamic culture. North Indian culture was deeply influenced both by Hinduism and Islam and hence it was often referred to as a composite culture. Both Hindus and Muslims jointly enriched this culture in the fields of music, painting, dances, dresses, foods, behavioural mannerisms, language and religiophilosophical thoughts. Often it was difficult to distinguish between a Moghul and a Rajput prince or princess from outward appearance. Similarly, a Muslim peasant in a UP or a Bengali village could hardly be distinguished from a Hindu peasant. Their linguistic dialects were also almost similar with minor differences.

Thus, if the two nation theory was based on such factors then it had hardly any validity. In Pakistan the two nation theory received a hard blow when the Bengali Muslims seceded from it. Their Muslimness could not be accommodated with their Bengaliness. Also, the Mohajirs - essentially the north Indian Urdu and Gujarati speaking Muslims - are now embroiled in conflict with the Sindhi speaking Muslims on one hand, and Punjabi speaking Muslims, on the other Even after nearly 50 years of their existence in Pakistan, the Urdu speaking Muslims very much carry the stigma of being muhajir i e, immigrants from outside. It should also be noted that the Urdu, Sindhi and Punjab speaking Muslims are quite proud of their distinctive cultural traditions.

While Jinnah, not being a theologian emphasises differences between Hindus and

Muslims, two most eminent theologians of pre-independence India and his (Jinnah's) contemporaries, Maulana Abul Kalam Azad and Maulana Husain Ahmad Madani put all the emphasis on what is common between them. Maulana Abul Kalam Azad propounded the concepts of wahdat-e-din and rububivah (i e, unity of religion and sustenance) which emphasises commonness and unity. Thus, Maulana Azad defines the concept of rububiyat as follows: "Rububiyat is a process of tender or careful nourishment providing from moment to moment and from stage to stage all that one needs to gain the fullest possible development. And this process is always to be marked by the touch of tenderness: for, no activity which is not actuated by this can claim to be regarded as Rububiyat". The rububiyat, it should be noted, is universal and not particular in its application. Thus, Maulana Azad says, "The Qur'an often refers to the value of the good things of life and the measure of each measured out to every living object, and thus points to the fact of life that nature provides everything in a particular measure and this under a particular system of plan". This, rububiyat applies to every living being in a particular measure. No living being can be deprived of Allah's function of rububiyat. The Maulana, further emphasising this commonness, observes: "The strangest thing about this scheme of Providence, though the most patent, is its uniformity and the harmony underlying it. The method and manner of providing means of sustenance for every object of existence are the same everywhere. Thus, according to the concept of rububiyat, Allah makes no distinction between one human being and another, believer or nonbeliever. The Maulana puts great emphasis on this concept and its universality'

Maulana Azad also explicates his concept of wahdat-e-din in the first volume of his Tarjuman al-Qur'an. Azad quotes two important verses in this respect: "And they say, 'None but Jews or Christians shall enter Paradise', This is their wish. Say: Give your proofs if you speak the truth. But they who set their face with resignation God-ward, and do what is right, - their reward is with their Lord; no fear shall come on them, neither shall they grieve" (2:106). Then he quotes the verse (2:59), "Verily, they who believe (Muslims) and they who follow the Jewish religion, and the Christians, and the Sabaeans - whosoever believes in God and the last day, and doeth that which is right, shall have their reward with their Lord: fear shall not come upon them, neither shall they grieve". Then Maulana Azad comments: "Din or the real religion was thus devotion to God and righteous living. It was not a name for any group formation. Whatever the race or community or country one belonged to, if only he believed in God and did

righteous deeds, he was a follower of the Din of God, and salvation was his reward".

Azad maintains that this is essence of Din which leads to wahdat (unity). Real Din does not divide, it unites. But the followers of every religion drew a circle around their religion to distinguish it from others and considered the others as on wrong path. Maulana observes, "The concept of faith and righteous living was thus relegated to the background. One might be an ardent devotee of God and practice intensely righteous living, but if he happened to be outside the circle of Judaism or of Christianity, no Jew or Christian would regard him as the 'rightly guided'...". Then he goes on to say, "The Qur'an discountenances this attitude. It proclaims that divine quidance or Hidayat cannot be confined within such man-made limits. Whatever one's race or community or affiliation, he who offers sincere devotion to God and lives a righteous life, he has attained salvation and no tear shall come upon him."

Maulana Azad thus never accepted manmade distinctions as against clear divine injunctions for unity of humankind. He also thought that the very name Pakistan is un-Islamic as entire universe, let alone the earth, has been created by God and no one part of it could be holy (Pakistan). He also repeatedly advised Muslims not to be misled by the propaganda of the Muslim League.

Similarly, another eminent theologian, Maulana Husain Ahmed Madani, the rector of Darul-'Ulum, Deoband, rejected Jinnah's two nation theory and justified the concept of composite nation on the basis of Qur'an and the Prophet's sunnah. He wrote a book Muttahida Qaumiyat Aur Islam (Islam and Composite Nationalism) in reply to Iqbal's rejection of the concept of nationalism. Discussing various aspects, Madani argues that in the Our'an the gaumiyat (1 c. nationhood) of the prophets and unbelievers is the same. Thus, the kuffar (unbelievers) and mushrikm (1 e, polytheists) share their nationality with the prophet. Also, the prophet speaks same language as the unbelievers and polytheists. Thus, the Qur'an repeatedly uses the words like qaum-c-Nuh, quam-e-Ibrahim, gaum-c-Musa, etc., which clearly indicate that the prophets shared qaumiyat with unbelievers and polytheists.

Madani proceeds to say that people living in India have language, residence, race in common, and the foreign government, to realise its goals, has crushed these commonalities. Indians are being decimated by the foreign power. Therefore, Indians should unite to throw away this yoke of foreign rule. This can be realised only through composite nationalism and unity of entire country. For this purpose, to unite with non-Muslims is part of the Prophet's sunnah. Madani gives the example of the Prophet's

attempt at building a united community (Quum or Ummat) in Madina with Jews, Muslims, etc. by drawing up a detailed pact between them giving each religious group full freedom to practice their own religion. The Maulana quotes several clauses from this pact in Madina to prove the need for the Muslims to form united nationalist front with Hindus and others in India.

Madani considers Islam is a flexible religion. A Muslim, according to him, can live with non-Muslims in the same country, can enter into treaty with them, can live in peace with them and can enter into contracts of sale and purchase, can take and give loan, can trust them. He can share sorrows and joys, can participate in marriage and funeral with them, can eat and drink with them. A Muslim can enter into the country of unbelievers, can live there permanently, can marry their daughters (daughters of Christians and Jews). There are many such laws and rules in Islamic shari'ah which are tolerant and open, Islam gives full freedom to others to preach and practice then religion and practice their own personal law and protect their own culture

The Maulana compares this with the declaration of the Congress in 1885 whose main purpose was to unite (politically) all different communities into one nation. Yet, it repeatedly assured that all Indians will be free in matters of religion, culture, personal law, etc. The All-India Congress session of 1931 also made similar declaration and promised to give fundamental rights to the citizens of India.

Thus, Maulana Azad and Maulana Husain Ahmed Madani, unlike Jinnah, take very different view of Islam and reconcile it successfully to the needs of modern composite nationalism. Jinnah, however, who was never initiated into theological discipline, advocates separatism on the basis of religion.

Jinnah argued for cultural differences between Hindus and Muslims, so radical that one cannot reconcile them. But, significantly, cultural differences by themselves do not cause conflict; the real cause of conflict is power and sharing of resources. The Sindhis in Pakistan feel that the Muhajirs usurped their lagitimate share in job, and political offices 'reducing them to secondary citizens in their own homeland. The Punjabil too felt that they being in majority, the Mahajirs have no right to monopolise the top jobs in bureaucracy and army and politica offices. After the formation of Pakistan, the Muhajirs held the top jobs, specially in bureau cracy and politics. G M Syed, who stood with Jinnah at the time of formation o Pakistan, soon realised his mistake and begai to demand an independent Sindhu Desh.

Thus, in ultimate analysis, it is not cultura or religious differences, but power-sharin; arrangements between different religious

linguistic or cultural communities which really matter. Jinnah was a highly westernised person, quite indifferent to religious beliefs and practices. Yet, when slighted by the Congress leaders, he fought for the Muslim elite and their share in power with great verve and ultimately succeeded in creating Pakistan. Jinnah was votary of Hindu-Mulsim unity up to 1928 and pleaded with the Congress leaders to accept certain demands of Muslims so as to save Indian unity. The most important demand of the Muslim elites led by Jinnah was to give one-third share in power to Muslims in the central legislature. As pointed out by Azad, in his India Wins Freedom, the Congress leaders made a vital mistake by refusing to share power with the Muslim League after 1937 elections in the UP. The two nation theory was thus founded, not on religious but political differences. It was not a religious réquirement but a political exigency.

Yet, as noted above, prominent 'Ulama of the subcontinent like Maulana Husain Ahmed Madani, Maulana Hifzur Rehman and several others vehemently opposed Jinnah and his two nation theory. In fact, the Qur'an throws a challenge to the believers to coexist with others. It says: "For every one of you We appointed a law and a way. And if Allah had pleased He would have made you a single people, but that He might try you in what He gave you. So vie one with another in virtuous deeds" (5:48). Thus, Allah's intention is that people of different religious persuasions and different communities should coexist and live in peace and harmony. Madani knew better than Jinnah that there is no justification for the two nation theory in the holy scripture of Islam.

Maulana Maududi, the founder of Jamate-Islami, did not support Jinnah's movement for Pakistan as it was 'un-Islamic' in character. Jinnah's concept of Pakistan was essentially secular. He never thought of establishing an Islamic state. Thus, the chief justice of Pakistan, Muhammad Munir says in his book From Jinnah to Zia, "There can be no doubt that Jinnah was a secularist and against theocracy In his speech to the Constituent Assembly on 11th August 1947 he had given a picture of Pakistan which was nothing short of a secular state in which Muslims and non-Muslims could live together and be its citizens, with equal rights of citizenship, and that religion would be a private affair of the individual, having nothing to do with the administration of the state" (p xv).

The objective resolution declaring Pakistan an Islamic state could be passed only after six months of Jinnah's death. It was introduced by the prime minister Liaqut Ali Khan. According to Justice Munir, it was "quite contrary to the Quaid-i-Azam's conception of the state". "The non-Muslims".

he writes, "complained against it saying that in the state envisaged by that resolution their position would be that of Zimmis, contrary to what the Quaid-i-Azam had declared. But since they were in a minority and Liaqat Ali Khan would not change his stand, they walked out of the Assembly and the Resolution was passed" (Ibid).

#### II

Even after passing the objective resolution, the process of Islamisation of Pakistan did not begin. Islam was declared the state religion, but by and large, Pakistani state and social structure continued to be secular. Ayub Khan who captured power in 1956, in spite being a military dictator, was a broad-minded person. But, as pointed out by Justice Munir, he had no party of his own. "If he had party of his own", observes Justice Munir, "the history of Pakistan would have been different... He had omitted the word 'Islamic' from the name of the state" (p xvii).

Ayub resorted to the concept of basic democracy and the basic democrats approved his constitution of 1962 which omitted the concept of fundamental rights. In the preamble to that constitution he had referred to Islamic principles of equality, justice and tolerance. Ayub in fact took on the conservative and orthodox forces in Pakistan society though he could not always have his way. But in certain respects he stood firm. He fully supported the demand for change in Muslim personal law and issued the Family Laws Ordinance in 1962. Ayub appointed a commission headed by Sir Abdur Rashid, chief justice of the Supreme Court to re-examine the matters relating to the inheritance of grandson's. right to inherit his pre-deceased father's property, question of triple divorce and polygamy.

The commission recommended that the law on all three points was being wrongly interpreted by the traditionists and gave their opinion against all the three points. They held that the grandson in the circumstances could not be excluded by his uncles from his grandfather's property; the restriction on the wife remarrying her husband and consummating the marriage, on being divorced by him was wrong; the right of the husband taking another wife in the presence of his first wife without assigning any reason, though was lawful, it made him liable to fine if done without the permission of the arbitration council.

Later, the Ayub government issued an ordinance on these lines. The traditional 'ulama protested against it and wanted the ordinance to be repealed while women were for its retention. The Ayub regime stood firm and the ordinance was not withdrawn. No subsequent regime, including that of Muhammad Zia-ul-Haq, could repeal it. This ordinance benefited the women in Pakistan. According to it, marriage and divorce need to be registered with the arbitration council.

The Jamat-e-Islami headed by Maulana Abul A'ala Maududi in Pakistan was a conservative force. The Jamat considered itself *Hizbullah*, i.e., party of Allah, and the Maulana theorised that in an Islamic regime, only one party, i.e., the Party of Allah could exist. Maududi stood for a theocratic state which he described in Islam as a theodemocratic state. But interestingly, while Maududi talks of only one party, the 'ulama in Pakistan are divided into several parties and have fundamental differences with each other. They do not hesitate to issue fatwas of *Kufr* against the other. No two Ulama, as pointed out by Justice Munir in his report,

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**EXPORTERS** 

agreed on the definition of Muslim and yet were practically unanimous that all who disagreed should be put to death (vide Munir Commission Report, Labore, 1954:218-19). It is also interesting that while Maududi's Jamat-e-Islami believes that a woman cannot be a head of an Islamic state, the Maulana supported, in 1962, the candidature of Fatima Jinnah (Jinnah's sister) for presidentship of Pakistan. It was sheer political opportunism.

According to Maududi, rule of God will prevail in an Islamic state. If Muslims are sincere to their religion and faith, they must then struggle to impose Shari'ah, the law of God. For Maududi, anyone who opposes imposition of God's rule as advocated by him, is an enemy. Maududi maintains that cordial relations with the non-Muslims is not the real aim of an Islamic society; on the contrary, its real aim is to impose God's rule over the society even if it means confrontation with the non-Muslims. Real peace, according to Maududi, can be established only if all submit to the law of God, i e, only when the non-Muslims reconcile themselves to the establishment of the Islamic rule [see Maududi, Islami Riyasat 1974:631.

The important question here is who will decide what constitutes rule of God. Whose view will prevail in this respect? The Maulana even maintains that even the elected parliament will have no right to legislate; it will have authority only to impose shari'ah law. According to him sovereignty belongs only to Allah, not to legislative body elected by human beings. Human beings have only to submit to the soveregnty of Allah. In fact, the concept of sovereignty of God is derived from the Qur'anic verses like 11:45 where Allah is described as Ahkum al-Hakimin which is rendered as 'ruler of the rulers'. In fact, it carries the concept of justness and it should be translated as 'justest of the just'. He has also been described as Khayrul Hakimin, i e, the Best of Judges in

For persons like Maududi sovercignty of God in fact means sovereignty of the Jamate-Islami and its interpretation of shari'ah. People will have to submit to the officebearers of the Jamat. In fact the concept of sovereignty of God has to be properly understood. Sovereignty of Allah can never mean sovereignty of jurists. The Shari'ah law cannot be static and immutable. It is the principle of justice and equality which is supreme and all laws must be just and equitable. The position that even a legislative body in an Islamic country cannot legislate is totally untenable. Even the holy Prophet had permitted Ma'adh bin Jabal to take resort to ijtihad (mental efforts to understand new situation and accordingly apply the injunctions of the Qur'an and sunnah). New situations arise and new legislations are needed, and old legislations need to be rethought. What is unalterable is basic principles and values, not their applications in given circumstances.

Entire legislation concerning women, marriage and divorce laws needs to be revised in the light of Qur'anic spirit. In fact many Shari'ah laws pertaining to women are not even in accord with the Qur'anic legislation or are based on interpretations of the Qur'anic verses which are loaded in favour of men. It is therefore necessary to take a fresh look at these Shari'ah laws. In Iran women have succeeded in getting a law passed treating household work as paid work. This obviously was an appropriate interpretation of the Islamic principles.

Pakistan went through severe crisis after Bangladesh separated from it. Zulfigar Ali Bhutto was highly ambitious and authoritarian man. He was partly responsible for partition of Pakistan in 1971. When he assumed power after separation of Bangladesh, he behaved like a despot. When a mass movement led by religious leaders started in 1977, he almost panicked and went on making concession after concession to please the 'Ulama and other fundamentalists. Earlier he declared the Qadiyanis as non-Muslims under pressure from the fundamentalist elements and started to persecute them. This was beginning of a period of religious bigotry in Pakistan. Though Bhutto was a modernist and not inclined towards religiosity like Jinnah, he used religion to appease the bigoted religious leadership of Pakistan to buy time and to stabilise his regime.

But of course, Pakistan went through its most conservative period during Zia-ul-Hag's time. Zia, both on account of his beliefs and political needs, sought to impose conservative Islam. He made Islam his main political constituency. When he declared Pakistan to be an Islamic state in the late 1970s, he did so by enforcing hudud punishments, i.e., cuting off hands of thieves, lashing the drunkards or stoning adulterers to death. To be sure, this is not the essence of an Islamic state. An Islamic state, above all, should strive to establish a just society and take care of its weaker sections. The Qur'an lays great stress on socio-economic justice and accords special place to the marginalised in the society called mustad'ifin in the Our'anic terminology. The Our'an maintains that the dynamics of social structure works on dialectical interaction between the mustakhirin and mustad'ıfin (i e, the powerful and arrogant, and the weak and the oppressed). Thus, an ideal Islamic society will tend to be just and equitable. The key Our anic terms in this respect are 'adl and ihsan (i e. justice and benevolence).

The Pakistani society since its establishment has favoured the powerful and influential feudal, bureaucratic and military

elite. The oppressed and the marginalised always remained at the receiving end of the highly exploitative system in Pakistan. Though the Prophet had prohibited absentee landlords sharing crop with cultivators (muhaliqu or mukhahira) it has been rampant in Pakistan since its formation. It is a well known fact that the feudal clite have enjoyed unprecedented power in Pakistan. An Islamic society could be anything but feudal in structure. No ruler in Pakistan has ever tried, let alone succeeded, in breaking the back of teudalism. If anything they have only reinforced it, whatever the political rhetoric.

Zulfiqar Ali Bhutto who framed the first democratic constitution of Pakistan after a long spell of military dictatorship, never pretended to establish an Islamic order, though he gradually surrendered to the conservative Islamic forces in Pakistan. In his election campaign he promised rotic kapada aur makan (bread, cloth and shelter) to the poor and needy of Pakistan, while caught the imagination of people. However, it proved to be more rhetoric. Bhutto could not even carry out proper land reforms. Thus, the rural poor had no respite in Pakistan. The lot of urban poor has been no better

The Islamisation during the Zia's period had no such pretensions. Zia immself had no deeper knowledge of Islamic theology or jurisprudence. He was solely guided by the conservative 'ulama. At the most, he sought to enforce zakat system, i.e., collecting zakat from economically well off and distributing it among the poor and needy. The collection of zakat created controversy and the Shi'as refused to pay it through bank cuts. Zia at last had to exempt the Shi'ahs from payment of zakat. The distribution of zakat also gave rise to corruption which is even otherwise rampant in Pakistan. Zia only succeeded in enforcing certain Islamic juristic provisions as far as his Islamisation was concerned. Some of the shari'ah rules he enforced, like declaring women as half witnesses, naturally created controversies. It is really doubtful whether the Qur'an really treats women as half witnesses. That is how the jurists interpreted it in their context. It is difficult to categorically show that women are half witnesses according to the Qur'an. Yet Zia could not withdraw the Muslim family law ordinance issued by Ayub.

Thus, the Islamic society of Pakistan has been like any other society, highly exploitative and unjust and was sought to be Islamised by mere implementation of certain formal juristic measures evolved by the 'Ulama under the influence of their own social context. These formalistic measures cannot be expected to bring about the desired Qui'anic transformation of society. A Qui'anic society has to be just, humane, benevolent progressive and dynamic. The Pakistani society is fai from this.

# **Law and Women**

#### S P Sathe

Subversive Sites: Feminist Engagements with Law in India by Ratna Kapur and Brenda Cossman; Sage Publications, New Delhi, 1996; pp 352, Rs 200.

THE book under review departs from the existing literature on women and law, moving away from the dichotomous description of law either as sustainer and legitimiser of oppression of women or an instrument of social change and undertakes an analysis of the complexity and the contradictory nature of law. The authors try to find out why law and legal actors produce results contrary to what women activists expect of them. The authors admit that "the terrain of law is much more complex, in both the oppression of women and in its premise for challenging that oppression". Legal discourse has constructed women as gendered subjects as wives and mothers - as subordinates, in need of protection and thereby contributed to the subordination of women. At the same time law has been a site where roles and identities of women as subordinates are being challenged. It is a site used by social reformers and women activists for subverting the existing roles and identities of women and reconstructing their roles and identities as persons, human beings entitled to equal rights. This is a very positive view of law.

The main thrust of the book is to reveal how legal regulation of women is informed by an ideology, which the authors call familial ideology. By familial ideology the authors mean the set of norms, values and assumptions about the way in which family life is and should be organised, a set of ideas that have been so naturalised and universalised that they have come to dominate common sease thinking about the family. The authors feel that it is important to interrogate the ideological role that law plays in constituting and sustaining the subordination of women. They make an important point that while resisting and deconstructing the familial ideology, "the importance of familial relationships and the roles that women play in their families neither be denied nor devalued". Usually, feminism is often derided by the defenders of patriarchy as being western or unIndian. The above caution of the authors, we hope, would prevent such distortion.

The authors' discussion is around two aspects of familial ideology: (a) moral regulation which lays down the parameters of a 'loyal wife' or a self-sacrificing woman, and (b) economic regulation which sustains

and reinforces woman's economic dependence on man.

While surveying the feminist literature the authors tell us that the journey of feminist engagement with law has passed through three stages, protectionism, equality and challenge to patriarchy. These however do not fall in chronologically exclusive compartments because even today the protectionist approach is not totally forsaken. The first generation of social reformers were doubtless motivated by altruistic considerations, but barring a few exceptions. they had no feminist convictions [Kosambi 1995]. Women became in most cases the mere sites for those controversies which acquired nationalist overtones because of the resistance to colonial legal intervention. After nearly 200 years we witness a similar story being repeated in the case of Muslim women who have become sites for a controversy on uniform civil code between majoritarian nationalists who invoke secularism in support of the homogenisation of the family law and the Muslim fundamentalists who resist any legal intervention on the ground that their personal law is not open to legal regulation.

The social scientists writing on the age of consent controversy often seem to mistake it for age of marriage. Age of consent pertained to the age of a girl below which her consent did not offer any defence to the person accused of rape under Section 375 of the Indian Penal Code. The controversy was regarding the raising of such age from 10 to 12 years. The authors of this book also use the expression 'age of consent' in describing the provisions of the Child Marriage Restraint Act. There is a clear distinction between these two expressions and they ought not to be used interchangeably because the age of consent made an act of sexual intercourse with a girl below the age of 12 an offence of rape even if such sexual intercourse was committed by the husband on his wife There was a furore against this since child marriages took place with girls as young as less than 12 years of age, but it had nothing to do with child marriage because it did not prescribe any minimum age of marriage.

The second phase was of insistence on women's rights and particularly on assertion of equality. The authors have given

inadequate attention to the Gandhian phase of the national movement in which women's participation significantly increased. Gandhi spoke traditional idiom but in a very subtle way liberated women from the stranglehold of patriarchal tradition. Subtle feminisation of politics by the Mahatma with its emphasis on non-violence, sacrifice and suffering, thereby universalising what were supposed to be women's virtues, indirectly catalysed women participation in politics paving the way for a women's movement for equality. The authors rightly observe that "by the 1930s, this equal rights discourse, and its emphasis on achieving equality for women within economic, political and familial spheres, had displaced the discourse of women's uplift which had dominated the eartier movement". The equality paradigm, however, suffers from a dilemma. While the protectionists treated wemen as weak and in need of protection, the equal rights protagonists assumed that women were equal to men in all respects and therefore demanded formal equality. The third approach of patriarchy took for granted that law was essentially patriarchal and merely blamed it for being so. The authors address themselves to the following questions: Is law a discursive site? They argue in favour of revisioning the role of law. They state that law can be seen as a discursive struggle where reformers and activists seek to challenge and displace dominant understanding of gender, tradition and culture. Feminist legal scholarship must explore the question of role of law from a multiplicity of perspectives. Law facilitates change and also obstructs it. It reinforces woman subordination and also provides an important source of resistance and change.

The authors survey the judicial decisions on various subjects including matrimonial disputes and constitutional rights. They conclude that the judicial approach to the cases is dominated by the influence of familial ideology on the judges. In this connection, the authors should have referred to a controversy on the censorship of a film called 'Pati Parmeshwar'. The film showed how a woman through her sacrifice and suffering changes the heart of her husband who had taken fancy for another woman. When objection was taken to its exhibition on the ground that it glorified servility in a woman, and the matter went in appeal to the high court, all the judges except Justice Lentin, who heard the matter successively found nothing wrong in that kind of depiction of a woman. It is remarkable that all the judges who applauded the film were Hindus and the only dissenter. Justice Lentin was a Christian. That shows that familial ideology

is not the same with all the sections of the Indian community [Jaising 1988].

Besides familial ideology, the pro-accused bias of the criminal justice system, which is a product of legal liberalism, is also responsible for judicial decisions which tend to frustrate reforms in the law of rape as well as regarding violence against women. In fact, the influence of familial ideology should have made the judges less kind towards the accused in child rape cases. Why are child rape victims subjected to further victimisation during trials in courts? Although we agree with the authors that familial ideology does influence and bring about gendered perceptions of facts as well as persons involved, the authors should also undertake a critical analysis of the legal professional culture that prevails in the entire Anglo-Saxon legal systems including India which is not less responsible for such bias.

The authors rightly say that "the judicial approach to sex discrimination is overwhelmingly influenced by a formal approach to equality, and often a protectionist approach to gender difference, which has operated to preclude any entitlement to equality". With the help of the cases the authors have established this point very convincingly. In the Air India case, the judges upheld a provision of the Air India Regulations which forbade the air hostesses to get married before completion of four years of service. Two considerations seem to have weighed upon the minds of the judges. First that such a provision would support the population policy of the state and would help limit the birth rate. Another that in the absence of such a provision, the air hostesses getting married might ask for maternity leave and that would increase the financial liability of the Air India. The population policy consideration is a typical higher middle class obsession. There are people who are willing to consider even authoritarian measures for achieving it. The second was a purely capitalist concern. Another provision of the same regulations which compelled an air hostess to resign on first pregnancy was held invalid by the judges. But Nariman arguing on behalf of the Air India had submitted to the court that he could persuade the Air India to change that rule to apply on the third pregnancy. This had obviously reference to the "not more than two children" campaign of the family planning programme. It is another thing that the judges did not uphold the provision because no concrete proposal had emerged, but the judges had welcomed that suggestion [Sathe 1981]. Now was this due to familial ideology alone or did male chauvinism, patriotic authoritarianism (birth control) or class ideology also influence them? Soumitra (the adultery case) reflected the patronising attitude of the judge towards women. In saying that women are often seduced but are rarely the seducers, was he complimenting women or praising the present limitations on women's liberty which compel them to be virtuous? [Sathe 1993]

The authors observe that "feminism should not advocate an approach that unreflectively recognises gender difference, nor one that unequivocally denies its relevance". The case of the bar waitresses needs to be considered from this point of view. Should they be allowed freedom to work at late night hours even though they are most likely to be sexually exploited? Or should the state prohibit them from working at night in order to protect them? The third alternative is for the state to protect them against sexual exploitation. The second alternative is often preferred because it gives protection at the cost of liberty and indirectly subserves the patriarchal ideology. If bar waitresses are to be allowed their right to work without the sacrifice of their dignity, the state will have to intervene decisively with an affirmative action such as providing escort for the waitresses while going home at night.

The authors did not have the benefit of the recent decisions of the courts in which a significant change in judicial attitude is visible. The Supreme Court has been increasingly using Article 21 of the Constitution (which guarantees that a person shall not be deprived of her life and personal liberty without the procedure established by law) for integrating women's rights into the fundamental rights in order to overcome the limitations of the formal equality provided by the reasonable classification theory under Article 14 of the Constitution. This strategy of mainstreaming gender does not only include women's rights within the fold of the fundamental rights but also reconceptualises the fundamental rights by engendering them. In a case, the court took objection to the interrogations of a woman applicant for iob regarding her menstrual cycles and pregnancies on the ground that they invaded her right to privacy (Neera Mathur vs LIC). In another case, the court declared that rape was not a mere offence under the Indian Penal Code but was violation of woman's right to live with dignity. The Supreme Court held that an act of living with a woman by making her feel that she was wedded to him when in fact she was not amounted to rape (Bodhi Sattwa Gautam vs Subhira Chakraborty). The court in a maintenance case discouraged roving enquiries into the patrimony of a child born in wedlock and thereby demolished the presumption that woman had to prove her chastity whenever man demanded (Gautam Kunda vs West Bengal) [see Sathe forthcoming]. What do these decisions indicate? Do they indicate that familial ideology has been subverted? We do not think so. But we can certainly say that influence of familial ideology is weakening. The change is taking place slowly but that such a change is taking place cannot be denied. It is taking place not only because of the pressure of women's movement but also because generally a climate more favourable to human rights is emerging. The Supreme Court asking the trial court to take up prosecution against a high police official like K P S Gill is not an accident (Rupal Bajaj vs K P S Gill).

It does not mean that all women will be as fortunate as Bajaj. The class distinctions, the access and resources would doubtless still make a great difference. But the judicial activism unleashed due to institutional reasons and the politics of change cannot now refuse to develop women's rights to their logical end. Familial ideology will doubtless change but not wholly disappear. Familial ideology needs to be reconstructed, not banished. Marriage must be a voluntary union of two persons of the opposite sex. (It may in course of time also be a marriage of two persons of the same sex.) Marriage must be based on equality and therefore subversion of familial ideology must be desired insofar as it sustains and legitimises woman's subordination. There are some good elements in familial ideology. It fosters respect for women [Kishwar 1995].

The authors' analysis of Hindu rights discourse and the role model of a woman is interesting. All religio-nationalistic forces tend to be male chauvinistic. The Hindu rights paradigm glorifies the mother/ loyal wife role model in the same way as the Nazis glorified it. All patriotic/nationalistic formations rely on physical power for the liberation of the motherland or rejuvenation of a racial/ethnic superiority and masculinity is considered as a great asset. The peculiar characteristic of the Hindutva paradigm is that it combines male chauvinism with antiwest sentiments and camouflages it with anti-colonialism. It caricatures women's movement as being anti-traditional and unnatural. But the Hindu rights people are not alone in this. Even die-hard Gandhians like Rajendra Prasad opposed reforms in Hindu law and several persons appeared before the B N Rau Committee on Hindu Law Reform to oppose abolition of polygamy and inheritance rights to daughters. It was said that such reforms in Hindu law would bring about the disintegration of family, which was an important social institution. Familial ideology is not confined to the Hindutva forces alone. The Hindutva lobby which includes BJP, RSS, Shiv Sena, VHP and Bajrang Dal have appropriated the women's cause without sharing the ideology of feminism. They would grant a special status to woman and place her on very high pedestal as long as she functions within the limits of patriarchy. There are, however, quite a few in the secular parties who are equally chauvinistic. The recent fiasco of the constitutional amendment bill providing for reserved seats for women in legislatures amply demonstrate this.

The debate on uniform civil code, as the authors rightly point out must be taken out of the syndrome of secularism and formal equality. Uniform civil code for the majoritarian forces is a means of homogenisation of the personal laws but for feminists it should be a means of engendering the family laws. National integration is not going to be reopardised if people continue to have multiple personal laws. What is necessary is that these personal laws must by critiqued from the perspective of substantive equality between man and woman and also between women irrespective of their religion. The statement in the government of India's affidavit filed before the Supreme Court in response to the order of Justice Kuldip Singh in Sarla Mudgal that a uniform civil code would restrict the freedom of religion of the minorities is dangerous because personal law was never considered as part of the freedom of religion. The debates on the uniform civil code and freedom of religion in the constituent assembly of India clearly show that the makers of the Constitution did their best to meticulously draw the scope of that freedom so that it should not come in the way of social reform [Dhagamwar 1989]. Freedom of religion, unless circumscribed, could threaten the progress of social reform including reform in support of feminism. While it is necessary to refute unmistakably the arguments advanced by the Hindutva brigade on uniform civil code, care must be taken not to be with those who are opposing uniform civil code on fundamentalist assumptions.

The authors take a dynamic view of law, not merely as a set of norms but as a process and one of the processes used in feminist struggle. Through engagement with law, women's movement has doubtless increased women's participation in decision-making. We have witnessed such engagements through litigation, law reform and legal literacy.

On the whole, this is a very good effort to study law as one of the inputs of the process of social change. It provides a very valuable critical literature on feminist study of law.

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# Nehruvian Nostalgia

# Maithreyi Krishnaraj

Structural Adjustment: Economy, Environment and Social Concerns edited by Shoba Raghuram, Heiko Sievers and Vinod Vyasulu; Macmillan India, 1995; pp 324, price not stated.

THIS collection of papers serves an important need of the general reader to understand the basic issues that are implicated in the reform process called structural adjustment. Many of the contributors are well known economists who have done much to promote our understanding of the Indian economy. The volume's readability and straightforward expositions of points of view are refreshing. At the time of publication of the book, SAP had already been in place for four years and there was no point in asking was it necessary or could it have been otherwise and in that sense the editors' remark that "debate notwithstanding, several economists have implicitly accepted the need for stabilisation measures and the irreversibility of the structural adjustment process" is valid. Nontheless the tone of inevitability as if we were victims of a blind fate is to discount the past misdemeanours of our policy-makers.

The focus of the book is on how the reform process will affect industry, agriculture, social security and environment. In reviewing and assessing the components of the package of reforms, the papers draw out the implicit and fallacious assumptions underlying the expectations that these reforms will unleash the forces of growth. They suggest what options lay before us if we are seriously concerned with the welfare of the people and especially the vulnerable and disadvantaged among us. If development is about eradicating poverty, the long-term as well as short-term consequences of the present policy trends bode ill. This is the main message that comes through from most of the papers. Secondly, while SAP has been introduced uniformly in many countries, the relative success or failure will depend a great deal on the preconditions that exist, the specific context and content of economic development in each case and hence there can be no one lesson be it from east Asia or China. If at all such lessons are there, they emphasise the need for a prior strengthening of the economy through adequate social development, infrastructure building, creating appropriate institutions including non-fragmented, well functioning markets and above all, selective state support.

The book is non-polemical, taking no extreme positions but arguing for a realistic understanding of the structural rigidities in our economy whose loosening is unlikely to take place by a misplaced rolling back of the state on the basis of a blind faith in the market's miraculous powers. The editorial note states that they have tried to bring in a plurality of views but actually barring two or three dissenting notes, the majority of the contributions agree on the basic question which is, not whether SAP is necessary or not but is it compatible with the real goals of development and whether it can impart the degree of dynamism to turn a low technology economy such as ours into an internationally competitive and highly productive economy. The merit of the book hes in emphasising what structural changes are necessary before this can happen.

There are four sections - the first section dealing with general issues and some references to other Asian countries who have been held up as models for our emulation. The second one goes into details about the specific problems of agriculture and why SAP as implemented will fail to solve the basic problems of Indian agriculture. The third focuses on food and social security requirements and analyses the existing programmes, their inadequacy and how their winding up will make matters worse. The last section is on environment issues. The best sections are the first and second. The 30-page introduction gives a competent summary of each paper as well as laying out the genesis of the crisis from the lost decades of the 1980s to the brink situation in the 1990s. The World Bank itself had in the meantime modified its carlier more rigid stand on privatisation and liberalisation to make allowances for safety nets. While supporting de-bureaucratisation, the editors argue for allocation to more research to develop technology, frown on unselective entry of multinationals, stress the building up of substantial support system to manage the transition period when labour is likely to be retrenched and redistributive measures to shore up the entitlements of the poor to guarantee their basic needs.

Arun Ghosh's opening piece gives a good overview of the important elements of economic reforms and their implications. Normally a distinction is made between stabilisation, a short-term measure to manage the fiscal deficit (devaluation of the rupee, curtailment of budgetary support for public investment, sale of part equity of public sector units and high interest rates) and structural adjustment, which is long term and is concerned with liberalisation of the economy by removing controls and licensing on industry and agriculture, trade liberalisation, domestic and foreign, reduction of tariffs, freer imports and exports and doing away of subsidies, etc. Ghosh makes an important observation that the two are not distinct but shade off into each other and that the means adopted for stabilisation such as high interest rates, has profound effects on the long-term adjustment process. With the abolition of priority sectors, banks can use profit criteria and no longer worry about social need. With less importance given to branch expansion in rural areas rural development will be inhibited and largescale distress will ensue among the smallscale units and artisans. In terms of actual performance, he shows that industry has stagnated after the reform and recovery thereafter is slow and nowhere near the 1980s. As for trends in agriculture before the reform period, the already low public investment in agriculture which was only one-fifth of plan outlay till the Third Plan, has further got reduced to one-eighth of plan outlay. Tracing events between 1950 to 1990, he points to wide discrepancies in foodgrain production as between states, how consumption levels are below national levels in several states including the highly industrialised state of Maharashtra, decline in labour absorbtion in agriculture because there was no increase in cropping intensity; size of landholdings which are already below one hectare and are declining further, increasing number of marginal farmers, inadequate institutional credit as problems that require urgent attention if agriculture has to become capable of responding to new opportunities.

Most of the authors worry about lack of concern in the new policy for food security and employment generation. Ghosh also points out that public sector enterprises are not all of the same category and there are efficient ones as well as inefficient ones. As many other commentators in recent times have remarked wryly, the haste with which PSUs have been divested is akin to selling the family silver for a five-star dinner.

Mohan Rao pleads for an active but the right quality of state intervntion by showing how much advance India had made in

building a diversified industrial base and how ironic it is that liberalisation has come in the wake of a decade of high economic growth. The crisis is not due to insufficient liberalisation (which began in the 1980s) but that one set of constraints were relaxed but simultaneously another set came into operation. "Judging what liberalisation can do for economic growth must depend on what factors are understood to have constrained growth in India, past and present and how liberalisation may be expected to act on those constraints" (p 70). The durable foundations of underdevelopment are severely deficient infrastructure, low levels of education, agricultural backwardness, structural dualism, large inequalities, persistent technical lag in industry and a weak home market. These are unlikely to be uprooted by a liberal regime.

Most of the authors also stress the political precondition for growth in the form of participatory and decentralised institutions. In this section, Patki Reddy gives an account of China's example in rural industrialisation - the TNVs. He does not however elaborate on the strategies followed by China to prevent urban migration - the labour contract system by which a worker is recruited through state agencies on a six-month permit only; the formation of collectives and later the household responsibility system and most importantly land reform and public investment in education and health as well as a powerful nationalistic fervour to make China strong.

Hans Christoph Reiger is a lone protagonist of liberalisation in the volume. He argues with data from east and south-east Asia that growth and equity are not incompatible and that growth in these countries has not increased inequality or increased poverty. What he has failed to note is that these countries had more egalitarian societies than ours to begin with. His data purports to show that inequality has lessened but the interesting thing is, first, the figures of reduction in inequality when compared with the GDP size and growth in those countries, are not impressive; secondly, one would like to know what proportion of national product does the upper 20 per cent consume? His own comparison of India's performance through anti-poverty measures in reducing poverty with the wealthier Asian countries shows that despite poor economic growth we did not do too badly in reducing poverty when compared with the fast growing east Asia. His thesis that growth reduces inequality is not really substantiated by his ambiguous data. At the most what it amounts to saying is growth need not increase inequality. But even this depends on the initial conditions. On the environment question he admits that rapid growth has severely worsened the environment in Indonesia, Thailand but contends that lack of growth and poverty would have led to the same condition or even a worse plight. This is manifestly false. The rapidity with which Indonesia is plundering its rain forests is quantitatively and qualitatively different from the exploitation of natural resources by the poor. S L Shetty draws attention to the initial conditions these countries achieved before they liberalised. Giving appropriate data, he shows that reforms in India has not achieved any of its own declared objectives - inflation control, agricultural and industrial growth or even any significant increase in exports. The scenario is pessimistic with development expenditure of the government going down and domestic savings reaching lower levels.

In the section on agriculture, many of the observations made above are reiterated and there is some amount of overlap. Krishnaswamy sounds a warning note against the hope placed on exports of agricultural products and the trend towards agribusiness. These may be fiscally attractive but the costs in terms of equity and social stability will be high. Modernisation accompanying concentration of land and commercialisation of agriculture through shifts to cash crops will jeopardise food security; the assumption that surplus labour from rural areas can be absorbed by growth of industry is unlikely given the low labour absorption of industry. China even after decades of high growth has been unable to solve this problem. Vyas's paper is actually more about environment. He contends that the poor are not responsible for depletion of natural resources. On the contrary, because they depend on them for survival, they tend to take better care of the resources. He advocates the promotion of systems that will increase the access of the poor to natural resources and the creation of institutions that will facilitate and regulate the effective use of resources. Winfried von Urff on the other hand harps on the need to shift from non-tradables to tradables and accepts the world bank line of reform for agriculture - abolish subsidies, free markets, encourage exports. He swears by the 'getting prices right' approach that ignores the structural impediments.

In the section on social security the papers give new conceptual approaches. Guhantalks of three categories – promotional, preventive and protective security. Reforms in design and implementation of existing schemes can be of great help for example scrapping IRDP and instead introduce an easy, broad-based credit scheme. Alternatives to EGS must be found where at present out of every hundred rupees the beneficiary actually gets only Rs 22! PDS too needs much reform. Many are now advocating food stamps as a better way of targeting the poor. Old age pension, maternity benefits, disability assistance and survivor compensation are a must. Joy

Deshmukh demonstrates the role of the household as a buffer and how gender relations within the household make the impact of reforms particularly negative for women. Her dissection of the household as a producing, consuming and distributive unit is a conceptual advance over conventional notions of the household as an undifferentiated collective. The paper by Pushpa Pathak gives empirical support to the negative effects on women's employment. The effect on women and workers are predictable from what we know of globalisation in most countries. The following features have accompanied globalisation, which is nothing more than capitalism coming to fruition. (i) degradation of labour, where workers are separated from control over work and even in the first world, labour is managed by stress, (ii) feminisation of labour with more female participation in the workforce but at unequal and discriminatory terms, (iii) housewifisation where not merely the workforce but work itself takes on the characterisation of housewifery - low skill, low status and low paid, (iv) informalisation throughout working and subcontracting and (v) casualisation with part time, short-term contracts. More than 80 per cent of the new jobs are 'bad' jobs in the advanced countries.

The last section on environment is treated very generally and does not really go into the debates on sustainability. Michael Redclift whose writings in this area are familiar to many of us concludes by stating categorically that the environment problems are the structural consequences of development process and present trends will severely strain the capacity of the environment as source, sink and service. In this context recent reports about India importing toxic waste from the US are alarming. This is liberalisation gone crazy. Ramaswamy Iyer's is a lone voice in the book in questioning the growth model itself whether with or without social justice. He argues for a limit to growth and moderation of humanity's draft on and abuse of natural resources by opting for a Gandhian approach. Amiya Bagchi's paper included here is on the unequal power relations, economic and political between the North and the South. He sees SAP clearly as an imperialist design of the North continued from colonial times. He sees no possibility of redirection until North-South relations become more equal.

To conclude, the book, in the main, stands by a Nehruvian model with some necessary corrections. To that extent it underestimates the political impasse of the present. It is interesting that the voices of big business who yesterday were singing paens of praise for liberalisation, now faced with the prospect of losing protection are not so keen on TNCs coming in. Operating in a protected domestic market meant that its size and profitability

had to depend on the volume of state expenditures. The market, not being a mass market was limited by the unwillingness of the state to push through going agrarian reforms which alone would have increased the purchasing power of the rural masses. Instead the state opted for subsidies and tax concessions to the rich, turned a blind eye to tax evasion. Big business looked forward to reforms in the hope that in return for a share in the domestic consumer goods market. they would get a share in the international market. Indian industry had failed to use the protection to create competitive capacities and was content to make profits from imported technologies. TNCs under the invitation for free entry did not choose to enter into partnership with Indian big business that would give the latter a share in the international market. The TNCs hiked their equity shares in firms they already controlled; other new investors purchased domestic market shares from Indian operators like Coca Cola buying up Parle's. Where Indian big business tried to haggle over shares, TNCs dropped them in favour of smaller partners. Since the reforms began, 78 per cent of foreign investment has been to buy shares in Indian companies or buying up Indian companies. The most severe indictment of the reforms is that now in

1995, 96, the twin goals of the programme. fiscal prudence and growth are nowhere in sight. The index of agricultural production in the reform period is 2.0 per cent on the average as compared to 4.5 per cent in the period 1986-87 to 1990-91; industrial production has picked up as between the two periods but only marginally - from 8.4 per cent to 8.9 per cent: GDP growth at 1980-81 prices, hovers around a low of 4.7 per cent for the period 1991-91 to 1995-96 (the latest CSO estimate according to press reports is 6.6 per cent for 1995-96 and investment is reported as 25 per cent but one has to see whether this is going to be sustained). The most dismal performance of course is in employment where the average annual rate of growth in the organised sector is just 1 per cent. While the consumption levels of the bottom 30 per cent of the people have fallen the expenditure on consumer durables of the top 10 per cent has risen sharply. The rich have benefited with growing business opportunities and the middle class with well paying job opportunities.

What awaits us under the new coalition government is unlikely to be anything spectacular either in terms of economic recovery or poverty reduction going by the contradictory policy measures announced in the common minimum programme.

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# 'Memories of Underdevelopment'

# Language and Its Identities in Contemporary Karnataka

#### Janaki Nair

Kannada nationalism, like all nationalisms, attempts to produce a solidarity between all Kannada speakers in order to efface the specificities of caste and class, and pits itself against other dominated minorities rather than addressing the hierarchical division of labour that has ensured Kannada's dominated status. As long as it continues to privilege the identity of Kannada over other democratic aspirations, the movement will tend increasingly towards alignment with strident communal or anti-minority forces. The movement encompasses a range of moderate and progressive intellectual positions, which have of late been overshadowed by the more strident voices. There is the danger that in the context of the structural changes already under way, benefiting a few at the expense of the rest, the ideology of the movement while expressing genuine anxieties may tend towards undemocratic resolutions of its identity crisis.

THERE is a familiar ring to the way in which Kannada nationalism, currently in the making, is crowded with memorics of historic lacks, of opportunities missed, of inadequacies past and present. After all, the founding moment of Indian nationalism too was a necessary confrontation of the reasons for subcontinent's subjugation by an alien, exploitative power.2 Where Kannada nationalism struck a different chord, right from its start during the days of colonial rule. was in measuring itself and its madequacies not against the overarching triumphs of the imperial power but against the more modest successes of other linguistic nationalisms within India itself. Alur Venkat Rao's anguished response in 1920 to the nationalist imperative that "We don't have a history! We must have a history!" recognised that it was only through a recast history of the Kannada people that the Indian nation could be imagined, but more importantly deplored the fact that his effort came a full 40 or 50 years after his Bengali, Marathi and Hindi counterparts had made their heroes and historic triumphs part of the Indian common sense.4 Just after the demand for a linguistic Kannada province was conceded by the Indian National Congress in 1920, there was explicitly expressed envy for the "the rich modern literature of modern (stc) vernaculars like Bengali, Marathi and Telugu." The absence, until as recently as 1956, of a unified administration under which the Kannada peoples could develop continues to haunt even contemporary historical accounts." If the 'real Congress struggle' got off to a late and timid start in (Bombay) Karnataka (heralded by the 1930 salt satyagraha), it was ironically because of an administrative identity on which nationalist politics could build was unavailable.7 More recently, even 'tolerance' widely regarded as a virtue, has been recast as yet another obstacle to the full-blooded citizenship of Kannada speakers: thus L S Seshagiri Rao

said during the Cauvery riots of 1991, "The Kannadigas have been tolerant always but they have awakened to their rights now" (*The Tunes of India*, December 2, 1991).

Since the narrativisation of Kannada's modern identity has been somewhat overwhelmed by the sense that it is unoriginal, weak, even imitative, the significance of a massive and indisputable presence has been marginalised, understated or overlooked. Of the various political administrations under which the Kannada speakers lived, the princely state of Mysore, nominally independent, was best poised to articulate the cultural aspirations of the Kannada people within the framework of the nation state. Yet the impetus for shaping Kannada's identity came not from Mysore but the Bombay Karnataka region where a Marathi national identity was fairly well developed by the end of the 19th century. Mysore instead was noted throughout the colonial period and by its historians for its other achievements. Tipu Sultan himself has been acknowledged as the earliest mobiliser of state resources in the struggle against the British,\* but by the late 19th century, the bureaucracy of the princely state forged a paradigm of development which, while unmistakeably nationalist, strove to usher in a legal and economic modernity by relying entirely on the instrumentalities of the state. State-sponsored industrialisation is the most well known of Mysore's achievements, but equally significant was the legislative agenda that set the pace for improved rights of Hindu women under law in 1930, 'and accepted the principle of reservations for non-brahmins in 1921.10 The state thus absorbed the nationalist agenda restricting severely the conditions of possibility for a public sphere to develop. "tenuing to suffocate non-state institutions of civil society by theoretically equating the principle of public good with the institutional form of state control".11 There were for instance, caste associations that came up in the early years of the 20th century but they too remained somewhat limited in their scope and reach at least until the 1930s.<sup>12</sup>

Many historians of Mysore have been content to attribute this absence of civil associations to the idiosyncrasies of individual dewans or to the generally autocratic nature of the princely bureaucracy.13 in what has become a characteristic refusal to acknowledge the significance of the displacement of the agenda of cultural nationalism by an agenda of state-sponsored economic and legal modernisation.14 Yet we know that the state, not the people, loomed large even in the imagination of cultural nationalists searching for patrons and sponsors of a rejuvenated Kannada: thus, B M Srikantia made the plea in 1915 at the Mysore Economic Conference that

governments concerned with Kannada areas will, as they have been doing already, encourage writers systematically and on settled principles, and may even see the way to establish a soit of academy with power to lay down general principles to map out a course of production and to reward any work that is done in an excellent manner and to print and distribute it if necessary among the people at large <sup>15</sup>

It need not surprise us that when the 'academy' was established as the Kannada Sanitya Parishat in 1915, it was as part of Dewan Visvesvaraya's overall vision of Mysore's material progress and welfare. This pre-independence envisioning of the state as the prime mover in building a sense of nationhood may be distinguished from the latter day demands for control over the apparatuses of the nation-state, as we shall see below, but the continuities cannot be ignored. The state of the state as the prime mover in building a sense of nationhood may be distinguished from the latter day demands for control over the apparatuses of the nation-state, as we shall see below, but the continuities cannot be ignored.

The displacement of cultural nationalism by economic nationalism in the colonial period is critical to any discussion of the predicament of the Kannada movement today, which rather than being a latecomer to linguistic and communal identities, has tashioned a different path to modernity.

fraught with unexpected anxieties that have violently manifested themselves in the past two decades. For there is another register on which contemporary Kannada's muted (until recently) political identity appears as a distinct advantage vis-a-vis other states. Favourably endowed with an impressive technological personnel base, a scientific establishment and a state that has long favoured industrial development, Karnataka, and more properly Bangalore, have been actively promoted as exceptionally wellpoised for integration into the new world economic order.18 On this register, the growth of the state's economy appears to have a momentum of its own, on which the recent assertions of Kannada identity have served as a frustrating ideological drag.

Yet it is clear that the very features that made Bangalore/Karnataka an attractive location for the realisation of global ambitions are destined to be transfigured by the force and violence that accompanies the economic shifts that are being envisaged. The past two decades in Karnataka, which have been punctuated by movements against some policies of the state on the one hand and against some minorities on the other, testify to a violent renegotiation of the terrain of development between those who are poised to benefit most from Karnataka's globalising trends, and those who seek a stake in it.19 Broadly, these two sides may be characterised by their respective linguistic markers, i.e. the users of English and Kannada respectively a diglossia in crisis, where a nationalist elite which was thoroughly bilingual (knowing English as well as the regional language) has yielded space to two, or more, resolutely unilingual groups.24 Kannada nationalism today is thus a beleagured nationalism, since it functions within a severely segmented linguistic market.21 It possesses neither the will nor the resources to combat the hegemonic presence of English as the language of science, technology and indeed global capitalism. It cannot, in other words, challenge the dominated position to which it has been relegated. Instead, it displaces its demands onto the politico-cultural sphere, through what has long been perceived as the prime mover, the state, which is also a far from insignificant distributor of resources.

At this conjuncture, the milder forms of Kannada nationalism have been eclipsed by the far more strident versions. Given that it does not yet harness the democratic political energies of those who are critical of current social transformations, this nationalism ranges itself against the languages of subaltern groups, such as Tamil and Urdu speakers in Karnataka, and seeks its allies from among communal groups, overshadowing the milder variants that range from a benign linguistic pride to passionate cultural a truly unified linguistic market nor a democratic transformative vision. Kannada nationalism is content to remain within the parameters of a segmented linguistic market. largely abandoning the field of economic and technological dominance to English while striving for politically legitimate authority through the agency of the state and against other minorities. The Kannada movement thus retains the split between dominant economic and technological languages and the legitimate sphere of politico-cultural languages. From within this narrowly defined sphere of legitimate political and cultural authority, this regionalist discourse aspires to become a "performative discourse which aims to impose as legitimate a new definition of the frontiers and to get people to know and recognise the region that is thus delimited in opposition to the dominant definition".22 It is critical therefore to identify the elements that this regionalist nationalism assembles in the course of its self-definition.73

But first, a word about the spatial dimensions of Kannada identity, which is symptomatic of the contemporary Kannada movement's primary anxieties. Karnataka is unusually rich in the number of languages spoken by its inhabitants, which includes Telugu, Urdu, Tamil and Marathi, as well as Tulu, Konkani and Kodagu, apart from the 65 percent who owe allegiance to Kannada alone.<sup>24</sup> Yet of the three significant moments in the language politics of the past 15 years, ie, the Gokak agitation of 1982, the Cauvery agitation of 1991 and the agitation against the Urdu telecast in 1994 what was an impressive all-Karnataka affair in 1982 (Gokak), with an organising nucleus based in Hubli-Dharwar, was restricted, during the Cauvery agitation, to a struggle over jobs. land and water in southern Karnataka.25 The anti-Urdu agitation, which revolved around the question of the visibility of Kannada as the official language, was more or less confined to the state capital. It is no coincidence that the Karnataka intelligentsia, which had shown a remarkable degree of unity in the first two agitations,26 were much less unanimous on the third, more, symbolic issue, although the protagonists were in turn able to forge new solidarities with Hindu communal forces. In other words, securing the identity of Kannada through attacks on linguistic minorities is restricted to those areas where, for historical reasons, there are substantial and visible minorities subsisting in regions of high economic growth, namely in southern Karnataka and particularly in urban areas such as Bangalore and Mysore, rather than Bellary, Bijapur or Belgaum.

The development of Bangalore as a city, as well as the role it is assigned to play in the refigured global order, have made it a

nationalists. With neither the possibility of • site of such differ contention that it has come to speak for the predicament of Kannada and Kannadigas throughout Karnataka. Historically, the division of the city between the colonial cantonment (east) and the old city (west)<sup>27</sup> produced on the one hand areas with a polyglot legacy and on the other areas that were relatively monolingual. One aspect of this cultural uniqueness is that Kannada speakers account for about 34 per cent of the city - although contrary to the widespread belief, Kannada speakers constitute the single largest group of people, followed by Tamil (25 per cent) Urdu (19 per cent) and Telugu (17 per cent).28 The other, and equally important fact is that some parts of the city have large segments of minority religious populations, Christian and Muslim, identified with languages other than Kannada, whereas more recent migrants to the city are both primarily Kannada-speaking and Hindu. The most violent manifestations of Kannada identity have occurred where demographic change and economic realignments are sharpest, that is, in the western and north west parts of the city (The Hindu, December 14, Deccan Herald, December 14, The Hindu December 17, 1991.) It was in Bangalore, rather than in the deindustrialised KGF area that physical attacks on Tamil speakers were most acute during the Cauvery riots, and within Bangalore itself, the older eastern parts of the city, such as Ulsoor, where equations between old and new migrants are more stable, were comparatively free of violence compared with areas flush with new migrants.

Not surprisingly, some of the strongest memories of Kannada's underdevelopment are associated with the historic demographic and economic profile of this city<sup>29</sup> even when they concern issues that do not pertain specifically to Bangalore. Testifying before the Venkatesh Commission that enquired into the anti-Tamil riots during the Cauvery agitation, the president of Kannada Shakti Kendra Chidananand Murthy said that Bangalore's Kannada speakers were on the decline, and that there should be a check on the migrant influx. 30 Bangalore after all, is not only the administrative capital of the state but is also the location of several public sector industries as well as large private ones, and is preparing to take its place as a major site for information technology. To an extent, Bangalore exemplifies and even exaggerates the hierarchical division of labour between languages that has come to stay, whether in the realms of work, culture, governance or religion, and linguistic politics reiterates the violence of the structural changes which are under way today.

## LANGUAGE OF WORK

The 'tolerance' of Kannadigas to which many testified during the Cauvery Riots of 1991 (The Times of India, December 22,

1991) is an interesting instance of reinterpreting the existence of substantial linguistic and ethnic minorities in Karnataka although the large-scale mobilisation of labour in the gold mines (KGF), textile mills, plantations and after the 1940s, the public sector, was determined by considerations in which the Kannada people played little or no part Generally, we may say that the broad-based agrarian structure of Old Mysore practically climinated the need for migration until at least the 1950s; on the other hand, the inhospitability of the continguous droughtprone tracts of Tamil Nadu drove landed and landless labourers off the land and into cities such as KGF and Bangalore. 11 Memories of the underdevelopment of Kannada speakers nevertheless persist among Tamil workers. who attribute their own presence in Karnataka to their natural propensities for 'hard work' or 'industrial work' compared with Kannadigas in the past,32 while Kannada speakers who are forced to provide explanations for the preponderance of non-Kannadigas in the labour force of KGF, Bangalore and Bhadravathi speak of historic injustices. The high proportion of Kannadigas who comprise the working population of the industrial town of Hosur, 40 miles from Bangalore but in Tamil Nadu, does not appear to challenge the dominance of these views, any more than the presence of large numbers of agricultural landlords and workers in Gudalur and Ooty does

The push from the Karnataka agrarian hinterland into the cities became pronounced from the mid-1950s, a trend that has been attested by studies of slum populations. While 67 per cent of Kannada slum dwellers came to Bangalore after 1954, roughly the same percentage (63 per cent) of Tamils had migrated before that year, after which there was a sharp drop, and numbers continue to decline although Tamils continue to account for sizeable proportion of lower end immigrants.<sup>43</sup>

Yet even in 1983, Prakasa Rao claimed that "more migrants born outside [Karnataka] came in search of employment than migrants born in Karnataka" Despite this apparent "lack of interest" in industrial work, which has been ideologically cathected as an aversion to 'hard work', by the 1960s, active efforts were made to mobilise resentment against patterns of recruitment to eminently desirable public sector jobs. In what was conveniently aligned with a management offensive against an influential communist (AITUC) union at BEL, for instance, the Karmika Sangha (or the Workers' Unity Forum) was encouraged, beginning in 1967, to unionise Kannada speakers on a linguistic basis. This incitement to union-breaking happily coincided with a period of massive public sector expansion, when Kannada recruitment increased by leaps and bounds

even as Tamil/Malayali recruitment dropped off as a result of new personnel policies, aided in part by the fact that ITIs within Karnataka itself provided a ready recruiting ground. Nevertheless at the start of the Gokak agitation, Subrahmanya, the general secretary of the Vimana Kharkhana Karnataka Sangha claimed that of the 23,000 HAL employees, "only 5-7000 (sic) are Kannadigas" (Deccan Herald, April 11, 1982)

The significance of the mid-1960s recruitment drive to public sector industries extends beyond the mere replacement of one linguistic group with another. The caste/ class origins of the new entrants differed substantially from previous migrants as well. Many of the new workers at BEL were members of the agrarian landowning vokkaliga caste, from rural and non-working class backgrounds. Tamil workers, for example, had been primarily from the lower castes and very often from working class and even urban backgrounds, coming from towns such as Vellore and Coimbatore (interview with M S Rao). At the same time, Bangalore has long been characterised as a middle class city on the basis of low slum population (10 per cent compared with 25 per cent in cities like Madras in the mid-1970s), and the preponderance of middle income earners. "This was true even in that decade of pheno-menal growth, 1971-81, when Bangalore's population swelled by more than 70 per cent. 46

The middle-classness of the city is only likely to be further accentuated given the economic changes that are being envisaged for the city, with the planned generation of more white collar and service oriented jobs 37 Unlike KGF city, which is overwhelmingly Tamil, and is rapidly deindustrialised and deurbanised, despite protests, Bangalore's relatively weak working class profile means that there are fewer jobs for the rural migrants arriving in the city. Given the structural shifts in the industrial landscape, namely away from public sector to private, and from heavy capital goods industries to light consumer industries, service industries, or to highly skilled CNC operations, the Sarojini Mahishi Commission's recommendation that at least 80 per cent of the jobs at the lowest scale in the public sector be reserved for the "sons of the soil" will not yield tangible results and may soon be irrelevant. In fact, this will greatly exacerbate the struggle over the limited resources and jobs that the state controls. The new economic policy, from which Karnataka, especially Bangalore, is slated to benefit, will bypass the majority of subaltern classes, whatever languages they may speak, and control of the political machine itself is seen as an alternative for large sections of the people who are poorly endowed with the desirable economic or cultural capital.

# LANGUAGE OF CULTURE

There was, right from the start, no contest between the 'prestigious enchantress' (English) and the 'sobbing mother' (Kannada). 14 Kannada High schools preparing students for the upper secondary examination at the turn of the century 'did not flourish in competition with English schools' and were therefore abolished in 1935 although Kannada was made the medium of instruction in that year.40 An internationally hegemonic language like English became desirable cultural capital for the Karnataka, indeed the Indian, elite, especially in the absence of a common language in the incipient nation-state. The field of culture was however easter to mark off, to set aside as the domain over which Kannada would preside. The existence of a rich literary tradition, and the output of hitherto suppressed groups such as Dalits and women, have ensured Kannada a secure place as a literary language. Yet this domain too has long borne the marks of hierarchy, given the extremely unequal terms of distribution of linguistic capital between the various segments of the cultural community. Language thus continued to be the bearer of caste and gender markers. In the very first school started at Melkote for brahmin girls, the emphasis was on teaching the literary and fine arts through the medium of Kannada,41 with little or no input on the exact, natural or physical sciences. Indeed, only Kannada was taught because English, far from being merely a medium, was intrinsically bound up with "information offensive to native tradition".42 Only in 1919 were girls' schools reluctantly made bilingual from the middle grade, and this only after an appeal came from the women's movement, though Kannada continued to be the medium of instruction.43 The debate about what should be the language of instruction continued well into the 1940s although the hegemony of English was never breached

B M Srikantia's was among the stray voices that urged the development of a Kannada adequate to the tasks of modern industrial and scientific advance.44 Yet he too made the point feebly, acknowledging instead the sphere within which Kannada was condemned to circulate, envisaging a division of labour where English 'our cultural and political language', Sanskrit 'our spiritual and classical language' and Kannada 'our native and speaking language', could happily co-exist.49 This has been an important legacy for the present since Kannada's alliance with the world of culture has over the years been more firmly established through the efforts of private and state bodies such as the Kannada and culture department. Despite this, there has been, neither in the past nor today, a widespread movement to spreac

literacy or encourage reading, as happened in the library movement of Kerala in the colonial period. The obvious limits of promoting the growth of a language only through the genre of literature has been recognised by several Kannada intellectuals. In this may be a difficult link to challenge even by the current chairman of the Kannada Development Authority, H Narasimhaiah, a scientist.

Yet even the field of 'culture' such as it is, is not uncontestably the domain of Kannada. A national culture is today purveyed throughout the country via the medium of Hindi, which in Karnataka enjoys a dominance that has rarely been questioned:48 Mahadev Banakar even cites the Tamil objection to 'Akashvani' as a symptom of its anti-national stance, a position from which he is anxious to distinguish Kannada.49 Instead, even when there was protest against programmes made in Hindi, such as Sanjay Khan's The Sword of Tippu Sultan (Deccan Herald, December 12, 1991) and Ramanand Sagar's Ramayana (Deccan Herald, August 30, 1994), it was because they were being dubbed for telecast in Kannada rather than being remade in Kannada. There has been recurrent tension between the 'remake lobby' and the dubbers of non-Kannada films. The issue is how best the development of the Kannada language is served: by dubbing non-Kannada films, by 'remaking' non-Kannada films (and providing an impetus for the film industry), or by striving to make Kannada films that can stand up to the competition of other language films. While the 'remake lobby' has complained about the 'lack of story lines, and even directors, the purists see 'remakes' as a kiss of death for the Kannada film industry.50

Despite a measure of pride in the fact that 'films in six languages are shown in the state' the insistence, particularly during moments of crisis, that only Kannada films be seen in theatres in Bangalore and that only Kannada programmes be shown on the channels DDI and DD951 may be seen as an instance of the coercive, rather than persuasive quality of Kannada's limited reign over the culture of Karnataka. The entry of the Rajkuniar Fans' Association into the fray during both the Gokak and the anti-Tamil riots were critical to the scale and intensity of the disturbances, while rallying the entire film industry behind it during the Kannada agitation. "Even when the demand for Kannada telecasts was made, it was in order to monopolise the official channels, since the protagonists of Kannada are acutely aware of the impossibility of voicing opposition to the innumerable private channels that beam programmes in English, Hindi and even Tamil throughout the day. Kannada therefore aspires to monopolise the field of official culture, which is part of a wider aspiration to make Kannada the sole language of governance.

#### LANGUAGE OF GOVERNANCE

Given that the division of labour between different languages has been well established with English at the top of the hierarchy followed by Hindi, it need come as no surprise that the leaders of the Kannada movement aspire to seize and occupy, coercively if necessary, the realm of governance. The state in the Indian case is not merely an administrative structure but an active interventionary force in development of all kinds. In the refigured economy of the state, where, as already mentioned, the thrust is towards a dismantling of the public and encouragement of the private sector, the government, or at least the political class, attempts an active mediation of the economic agendas, to compensate for the domain of jobs and power that have been lost with the decline of the state sector.33 While this can do nothing by way of altering the direction of the change, and indeed may not want to, it can at least secure a substantial part of the benefits that accrue to the initiators of such change.

Of course, there are also instances of sections of the Kannada movement offering serious and even violent critiques of the new economic policy. The KRRS attack on Cargill seeds and Kentucky Fried Chicken, the opposition to the Japanese township and the growing unease about the Cogentrix deal are cases in point, but they remain symbolic, and external to the central concern of the Kannada movement.

The official language is necessarily aligned with the nation-state in its origins and in its social uses, so that Kannada must not only be the official language of the state, but the sole official language in a linguistically plural society. After having secured official language status in 1963,44 Kannada clearly did not make the headway that was envisaged, and the nearly 280 GOs that have been issued in the past 30 years include several that testify to the continued insecurity of Kannada. Despite certain misgivings, and even doubts, the imposition of Kannada, whether as the sole first language in high schools or as the official language, appears as the only viable route of establishing hegemony. The Kannada Development Authority, whose mandate is broader than its predecessors, the Kannada Official Language Committee, the Kannada Official Language Watchdog Committee, and the Kannada Watchdog and Border Advisory Committee, is still struggling with the same issues. Indeed, it is a recognition of the impossibility of even legitimate authority in making language hegemonic that G Narayana, tormer president of the Kannada Development Authority, knowing full well that Kannada will not flourish without a conducive environment' declared 1993-94 as the 'Kannada Awareness Year.'55

A crucial site for the development of any official language is the school system, where a certain degree of compulsion is coupled with the generalised changes in the economy that warrant new knowledges and a mastery of the official language. Yet even Eugen Weber's detailed documentation of the violent processes by which peasants were forced to become Frenchmen, and only as recently as during the period of the first world war, does not minimise the importance of persuasion: when French finally gained ground among the patois speaking peasants, it was "not so much through persecution as through the peasant's growing appreciation of the usefulness of a less parochial language and of the skills learned in schools". The Gokak agitation however, recognising that the generalised conditions for a widespread need for Kannada did not exist, sought to elevate Kannada to the level of the sole first language, a status that no other language has been accorded in the country, by state

Recognising the need to legitimise the official language and consecrate it as the language of the state, Kannada is placed in opposition to other dominated languages -Sanskrit, which is an ossified classical language; Tamil, which in Karnataka is primarily the language of subaltern classes; and Urdu, similarly the language of a dominated minority. The ferociousness of the attack on the Urdu news telecast was thus a protection of the official face of and space for Kannada, and the fear of even minor transgressions into that space.<sup>57</sup> Both the attack on Tamils and their property during the 1991 Cauvery riots and on Muslims during the anti-Urdu agitation in 1994 may be seen as coveting the images of Tamil and Urdu respectively. In the case of Tamil, it is the political and cultural solidarity that is enviable, a political solidarity that has recently been forged, and has enabled a certain dominance even among expatriate subaltern classes. In the case of Urdu too, it is the ability of the language to perpetuate itself and survive despite the absence of an official political structure and despite the fact that the community of speakers is clearly underprivileged. Urdu speakers' solidarity, unlike that of Tamils, springs in part from the solidarity made available by Islam, which more than amply makes up for the absence of a patron state. This excessive identity of Urdu with a religious group is both feared and envied by the Kannada protagonists, although the commonsensical association of Kannada with Hinduism is naturalised, and is therefore beyond interrogation. Briefly tracing the genealogies of the link between language and religion is therefore imperative.

## LANGUAGE OF RELIGION

Most historians of Old Mysore in the late 19th century such as Cha Vasudevayya, Chandrasekhara Sastri. M Singrayya expressed 'raja bhakti', composing court histories and vamsavalis.'\* BM Sri's Kannada Nadina Charitre also remained at the level of a history of the Mysore court. Nationalist redefinition of the Kannada speaking people's history came from outside Mysore. Here too, while there were exceptions such as Raghavendra Krishna Inamati's 1907 work that acknowledged the Muslim heritage, most nationalist histories bore the imprint of a reawakened Hinduism.

Alur Venkat Rao's 1917 conception of 'Karnatakatva' as outlined in Karnataka Gatha Vaihhava was unmistakably grounded in the language of worship, of devotion to the great men of the past. But there was a much more important sense in which the history of the Kannada nation was constructed as the history of the Hindu nation. That lay in the very choice of heroes in Karnataka's past and in the abruptness with which Karnataka's glory comes to an end in 1565 following the battle of Talikota in which the forces of Hinduism were defeated by the forces of Islam:

Having flourished for 230 years this glorious kingdom disappeared in half a minute by accident. It died That was the end of Karnataka's glory The kumkum was wiped off Karnatakadevi's forehead! The mangalsutra round her neck was cut! Karnataka's wealth was destroyed. Karnataka's intellectual wealth disappeared The sun of Karnataka's valour set. To summarise, since that day, we people of Karnataka have become an empty name in history. Oh, ye of Karnataka, has the time still not arrived for a recovery of past glories? Think about it (p. 71).

Not only were the Vijayanagar kings valiant in their defence of 'arya dharma' in the face of a formidable enemy, namely, the Bahmanis, successive dynasties until Vijayanagar, from the Gangas Kadambas, Chalukyas, Rashtrakutas Hoysalas, and Yadavas were protectors of the Kannada language (p 21).

In Alur Venkat Rao's narrative, the bondage of Karnataka began with the defeat of Vijayanagar and had not ended, which was why his account ends with the battle of Talikota. Through a series of clisions, languages acquire a religious identity especially since non-state (non-official) religions are destined to languish and die. Thus, the Bahmani and Adil Shahi court cultures in north Karnataka which in fact paralleled the court of the Wodeyars are held responsible for the decline of Karnatakatva. By such a violent act of self-imposed censorship, the classical heritage of Karnataka remained exclusively Hindu, and

Islam continued to be external to Karnataka's history. Alur's account glides over Karnataka's Jain heritage, the revolutionary doctrines of Basaveswara and completely ignores the subaltern religiosities of the Bijapur/Gulbarga Sufi traditions of the 14th-16th centuries which were often bitterly opposed to the Adil Shahi/Bahmani sultans.<sup>50</sup>

To that extent, Alur Venkat Rao's revisions were even more drastic than the efforts of writers such as Bankimchandra, because of his refusal to name, differentiate or characterise the late medieval period, not even as darkness.<sup>61</sup> If Bankimchandra, despite his analytical break with his historical forebears nevertheless evaded a critique of colonialism and was a liberal before his time, Alur Venkat Rao writing in 1920 was more than amply familiar with the critiques of colonialism that were being generated by the nationalist movement. In his decision to end the history of the glories of Karnataka in 1565, in his refusal to deal with the period that followed as history, and in the tacit gratitude he showed the Orientalist scholars who had put together a coherent account of Karnataka's ancient past, he exercised a judgment, reflecting a view that had already gained currency and resonated well into the 20th century.

In attempting to understand the communal turn taken by the Kannada movement, at least one recent document distinguishes between the pre- and post-independence language movements 62 In the colonial period, it says, the Kannada movement 'presented very democratic points of view' and retained a unity until its goal was achieved, namely, Karnataka's unification. In the post-independence period, however, the pressures of modernisation appear to have caused a split in the constituency. Yet, while appreciating the difficulties of imagining the nation outside the framework of 'devotion', there is no doubt that Alur made specific choices throughout his work in order to rally specific kinds of groups to the cause of Kannada. In that sense, although the commonsensical association of Kannada with Hinduism cannot be without long-term effects, portraying the anti-Urdu agitation as resulting from a 'misuse of the situation by communal interests' is clearly inadequate.63

Instead, we may account for the absence of 'communalism' in the colonial period in quite a different way. At least until the 1930s, the princely states were generally regarded as comparatively free of communal strife. \*\*Communal riots in several princely states such as Travancore and Hyderabad in the latter part of the 1930s forced a revision of this optimistic view. Several historians have speculated on the reasons for this early 'absence'. Ian Copeland suggests in his analysis of Hyderabad that low levels of industrial development and lower levels of

politicisation account for the absence of communal strife; even in 1938, it was British subjects and organisations, rather than Hyderabadi ones, that were responsible for the riots.65 A comparative analysis of two states, Travancore and Baroda, has led Dick Kooiman to conclude that communal leaders emphasised religious identities to more strictly regulate access to the state bureaucracy (as in Travancore); where elite interests were well served by the bureaucracy. as in Baroda, there was relatively little communal violence.<sup>™</sup> According to James Chiriyankandath, early caste or community based activity of the elites was a formative influence on the development of democratic institutions and organisations, especially within the sphere of electoral politics, with enduring consequences.67

Although none of these explanations entirely fit the Mysore case, what they all emphasise is the development of a range of pre-political organisations, whether caste, religion, or language based, and whether or not they redefined the domains of economic, political and social power. Such associations were relatively weak in Baroda<sup>68</sup> and Hyderabad69 (so that communal riots were absent in the former place and instigated by outsiders in the latter) while they were stronger in Travancore.<sup>m</sup> In most parts of Mysore, there was a conspicuous weakness of such associations; if communal riots were rare then, it has to be understood as part of the generally restricted development of the public sphere, where even progressive movements such as women's, peasant or left movements, did not flourish.71 Even the hostility between brahmins and nonbrahmins was more in the nature of elite, 'palace' intrigues, rather than popular upsurges.72

Despite the availability of colonial discourse on the misdeeds of Hyder and Tippu and their followers, then, Mysore was relatively free of communal violence. On the other hand, the avowed 'Hinduness' of the Mysore state permitted the bureaucracy to transform the domain of the social without incurring serious opposition, not even from the Congress, indeed there was a great deal of congruence between Congress and princely state agendas, especially on economic questions. What is more important is the monarchical culture that was kept alive, and the maharaja, whose figurehead status was never in doubt nevertheless stood for forms of power and authority which were distinctly monarchic. This monarchic culture was not proclaimedly secular, and yet wore its Hinduness lightly especially in its unopposed reform of the Mysore social formation.

Today, however, the identification of Kannada with Hinduism has been so thoroughly naturalised that Kannada

Rajyotsava as it is celebrated has assumed the trappings of a minor religious festival, replete with invocations to the goddess of Kannada, Bhuvaneshwari. The relationship of the community of speakers of Kannada to the language is one of devotion or faith, so that more secular celebrations of Rajyotsava, as were attempted by the BEL union, were regarded as sacrilegious.73 Portraits of Kannada Bhuvaneshwari were worshipped at the launch of the Gokak agitation, as if to suggest that respect for the language can only be guaranteed by investing it with a certain religiosity (Deccan Herald. April 3, 1982). Similarly, the Cauvery agitation too evoked images of the symbolic importance of the river for Hindus. It is almost as if the aggressively religious public sphere is developing in tandem with, and in opposition to, the expanded sphere of the secular. And it is no coincidence that such oppositions are exacerbated even as associations in civil society (trade unions and language associations within the public sector industries for example) are flourishing.

We cannot overstate the link between the religious colour of language agitations, since language solidarities in most new nation states have evoked religious motifs. But the speed with which the 1994 agitation against the introduction of Urdu news telecast was transformed into a sustained campaign against the speakers of Urdu, namely Muslims, speaks of a commonsensical association of Kannada with Hinduism and the consolidation of the agenda of Hindu communalism beyond the confines of a specifically 'communal' party. 4 In fact, the Kannada movement had no need for the members of the BJP and even refused them an opportunity to speak at the rally before Doordarshan on October 9, 1994 (The Times of India, October 10, 1994). There is certainly no perfect consonance between the agendas of Karnatakatva and Hindutva though there appears to be enough of an overlap. Thus, while Chidananda Murthy said after the anti-Urdu riots that "Hindus are no more under the control of Mutts, but the Muslims are always bound by what the Mowlvis say",75 Jagdish Karanth, the leader of the Hindu Jagran Vedike, which played a key role in the riots at Bangalore and earlier at Bhatkal, expressed similar sentiments.16

# **DEMOCRACY AND LANGUAGE**

The ideology of the Kannada movement resembles the Shiv Sena movement quite closely especially in the kinds of elements it assembles in its self-definition (Hindu, anti-minority and patriarchal) as well as in its aspirations (control of the political machine), although there are important distinctions." Kannada nationalism, like all nationalisms, attempts to produce a solidarity between all Kannada speakers in order to

efface the specificities of caste and class, and pits itself against other dominated minorities rather than addressing the hierarchical division of labour that has ensured Kannada's dominated status.78

Of the constituent groups that have expressed a more circumspect solidarity with the cause of Kannada in the contemporary political scene,79 the Karnataka Rajya Raitha Sangha alone seems to have attempted a critique of the impact of the new global order, and even produced a vocabulary adequate to such an analysis. 80 The other social movement of significance, the Dalit Sangarsh Samiti, which has often supported the pro-Kannada struggles, has not so far given up its primary identity as a forum for asserting and defending the rights of dalits."

As long as it continues to privilege the identity of Kannada over other democratic aspirations, the Kannada movement will tend increasingly towards alignment with strident communal or anti-minority forces, rather than those critical of the existing establishment and of the promised changes in the economic and political scenario, and muting the milder cultural nationalist forces within the Kannada movement. Even the justified demand for a fair share of Cauvery water in 1991 soon dissolved into an indiscriminate attack on Tamil labourers and landholders in parts of southern Karnataka. Nor does the vociferous participation of subaltern classes necessarily guarantee a more inclusive or democratic agenda. \*2 The Kannada movement encompasses a range of moderate and progressive intellectual positions, which have of late been overshadowed by the more strident voices. Combined with the structural changes that are well under way and which are guaranteed to benefit a few at the expense of the rest, the ideology of the Kannada movement, while often expressing legitimate anxieties, may increasingly tend towards undemocratic resolutions of its identity crisis. It may increasingly, as Vatal Nagaraj ominously threatened on the eve of the agitation against the interim order on Cauvery waters, "speak in a language the centre will understand".

# Notes

['Memories of Underdevelopment' was the name of a memorable Cuban film directed by Tomas Alea. This paper is exploratory, suggesting directions in which the study of contemporary Karnataka may profitably proceed, rather than providing a fully worked out analysis of the predicaments of Karnataka's development today. This paper was prepared for the seminar on 'Social Identities: Religion, Region and Language in Contemporary India, University of Hyderabad, September 14 and 15, 1995, and also presented at the Madras Institute of Development Studies, Madras. Comments from the audience at both places have greatly helped to sharpen my

arguments; I am especially grateful to the readers of the first draft, K Nagarai, MSS Pandian, and Madhava Prasad.]

- 1 As M Chidanandmurthy has said, "A survey of historiography in Kannada during the 19th century clearly shows the lack of nationalist outlook among the Kannada people, more so among the South Karnataka (Old Mysore) People "Murthy, 'Historiography in Kannada during the 19th Century' in Tarashanker Banerjee (ed), Historiography in Modern Indian Languages 1800-1947. (Calcutta: Nay Prokashan, 1987), p 168, emphasis added.
- 2 Partha Chatterjee Nationalist Thought in a Colonial World: A Derivative Discourse? (Delhi Oxford University Press, 1986).
- 3 As Bankimchandra's Bangadarshan had it, cited by Ranajit Guha, 'An Indian Historiography of India A 19th Century Agenda and its Implications', (Calcutta, K.P. Bagchi, 1988), p 47.
- 4 Alur Venkat Rao Karnataka Gatha Vaibhava (1917) Reprinted (Bangalore: Kannada Sahitya Parishat, 1982), especially pp 1-6. The Karnataka Handbook, printed and Published for the Editorial Board of the Karnataka Pradesh Congress Committee, (Bangalore: Sieenivasa lyengar, 19247), p. 10
- 5 Karnataka Handbook, p 180. Early Kannada novels were mostly translations of Marathi and Bengali ones RR Diwakar Karnataka Through the Ages: From Prehistoric Times to the Day of the Independence of India, Vol. 11, (Bangalore: Government of Mysore, 1968), 848. Also, Murthy, Historiography in Kannada during the 19th century'.
- 6 Diwakar Karnataka Through the Ages, p 889 Thus, Kannada speakers were distributed between five colonial administrative divisions, Bombay and Madras Presidency, Hyderabad, Mysore and Coorg states
- 7 G S Halappa History of Freedom Movement in Karnataka, (Bangalore Government of Mysore, 1964), p 174. Indeed, so hard pressed is the author for stirring accounts of Kannadiga participation in the early phases of the nationalist movement that he resorts to recounting Tilak's and Gandhi's entry into the national inovement for close to a hundred
- 8 Asok Sen, 'A Pre-British Economic Formation in India of the late 218th century: Tipu Sultan's Mysore' in Barun De (ed), Perspectives in Social Sciences: I. Historical Dimensions, (Calcutta, 1977)
- 9 Janaki Nair, 'Law, Modernity and Patriarchy in Mysore', unpublished manuscript, 1994. Mysore was also the first to establish statesponsored birth control clinics in 1930. GO No 614353-6-Medical 263-29-3. June 11, 1930, Proceedings, Government of Mysore.
- 10 James Manor, Political Change in an Indian State: Mysore, 1917-1955, (Delhi Manohar, 1978, pp 60, 64-65); G Thimmaiah, Power.
- Politics and Social Justice: Backward Castes in Karnataka, (Delhi: Sage Publishers, 1993), especially Chapter 3
- Sudipta Kaviraj, 'On the structure of Nationalist Discourse' in T V Satyamurthy (ed), State and Nation in the Context of Social Change, Vol I, (Delhi: Oxford University Press, 1994), p 327. Although Kaviraj here refers to the Nehruvian Moment, I believe that Mysore's development agenda clearly

- anticipated by several decades the economic vision of the independent Indian state.
- 12 Speaking of the Mysore Lingayat Educational Fund Associations (1905) and the Vokkaligara Sangha (1906) James Manor argues that these caste associations failed to become 'the new type of public organisation since they were governed according to the logic of the old private politics', Political Change in an Indian State, p 46. For a list of early 20th century caste associations in Karnataka, see Thimmaiah, Power Politics and Social Justice, pp 70-72
- 13 D F Gustafson, 'The Making of a Model State: Mysore 1881-1902', PhD Dissertation, University of Wisconsin, 1969: S Chandrasekhar, Colonialism, Conflict and Nationalism, (Delhi: Wishwa Press, 1995), pp 47-48 and 58.
- 14 Diwakar, Karnataka Through the Ages, p 889
- 15 B M Srikantia, 'The Improvement of Kannada', (1915), (reprinted, Bangalore B M Srikantia Memorial Foundation, 1969), p v
- 16 lbid, p iv
- 17 lamgrateful to Tejaswini Niranjana for urging me to clarify the distinction.
- 18 See for instance, 'Technology Development on a State Level Focused on National Goals A Concept Paper Applied to the State of Karnatak, India' prepared by Arthur D Little for the USAID, India, April 1987, p 10, 22ff. See also, Bangalore 2000, especially Michael Lee, 'Spatial Issues in Technology Development in Bangalore' and Phillipose Mathai, 'Bangalore's Medium and Small Scale Industries Future Perspectives for Development in the Intra State Regional Context'
- 19 This is in order to emphasise that the most articulate votaries of linguistic nationalism rarely include the subaltern classes, regardless of the languages they speak
- 20 Kaviraj, 'On the Construction of Nationalist Discourse', p 324
- 21 Ineed not emphasis my debt to Pierre Bourdieu for such critical concepts as 'linguistic market', 'symbolic' and 'cultural capital' Bourdieu, Language and Symbolic Power, (Cambridge, Harvard University Press, 1994)
- 22 Bourdieu, Language and Symbolic Power, p 223.
- 23 Despite the obvious ways in which what I have stated in this paragraph and in other parts of this article are relevant to several subnationalisms in the Indian subcontinent. I believe it is necessary to delineate the specificities of the Kannada case, in order to mark points of overlap and difference from its counterparts.
- 24 Here, as in many other parts of India, people are bi- and multi-lingual in ways that make specious, if not entirely false, any strict division between language speakers, especially at the lower ends of the social spectrum
- 25 A person interviewed at the height of the Cauvery agitation in Bidar, a dry district far removed from the administrative heartland and therefore remained aloof, said "Where is Cauvery? What has it to do with this backward district?" The Hindu, December 14, 1991
- 26 We cannot minimise the importance of the Rajkumar Abhimanigala Sangha and its entry into the Gokak agitation on April 16, 1982, (Deccan Herald, April 17, 1982) as it signalled the beginning of mass movement. Similarly

- with the anti-Tamil agitation; on December 12, 1991, the Rajkumar Abhimanigala Sangha had already organised a rally protesting the Thiruvalluvar statue and the dubbing of Tippu Sultan when news of the centre's interim order were received, immediately giving a readily assembled audience a fresh, more pointed focus.
- 27 See Prakasa Rao, Urbanisation in India: Spatial Dimensions, (New Delhi: Concept Publishers, 1983), p 176.
- 28 V K Tewarretul (ed), Indian Cities Ecological Perspectives. (Delhi: Concept Publishing Company 1986), 221-42 especially 223.
- 29 We may hazard the guess that it is Bangalore district's status as a vast urban agglomeration, with 14 per cent of the state's population. (Belgaum comes a poor second with 8 per cent of the population), that makes itso visibly a contentious issue Census of India, 1981, Provisional Totals p 53 Compare the spread of cities in Tamil Nadu and Andhra, K Nagaraj, 'Towns in Tamil Nadu, Karnataka and Andhra Pradesh. A Study of Population and Spatial Configurations, 1961-81', MIDS Working Paper no 54, Madras, 1985
- 30 The Hindu, January 16, 1993. Siddarah Puranik has on more than one occasion expressed anxieties about "Losing Bangalore to Outsiders" during the Cauvery agitation (The Hindu. December 14, 1993) and suggested that Bangalore should be a 'Kannadiga City' during the Gokak agitation, (Deccan Herald. April 14, 1982) Mahadev Banakar, in his discussion of linguistic minorities published during the Gokak agitation has said that Tamils occupy 342 of the 350 slums of Bangalore, "they seem to be happier in Karnataka than Tamil Nadu" Safeguards for Linguistic Minorities in India Karnataka sets a Model, (Bangalore Anubhay Publications, 1982), pp 31-32
- 31 Manor Political Change in an Indian State, p 29, Narender Pani, Reforms to Presempt Change Land Reform in Karnataka, (Delhi Concept, 1983), pp 13-17. In my research on the labour history of Mysore, I have not come across any reference to a deliberate colonial preference for Tamil labourers, although that is part of the prevalent Kannada mythology.
- 32 Janaki Nair, 'Production Regimes, Cultural Processes' Industrial Labour in Mysore', IESHR, 30 3 (1993), pp 275-278.
- 33 Prakasa Rao Urbanisation in India, p 236
- 34 I am grateful to Dilip Subramanian for sharing the relevant parts of an extended interview with MSL Rao, a BEL unionist, done in 1981, from which the information on BEL has been taken. Although, as central government undertakings, public sector units cannot legitimately favour 'sons of the soil' except in the lower categories of jobs, the personnel policies of the late 1960s, as exemplified by BEL, point to extra-legal ways in which 'sons of the soil' may be favoured. I am grateful to Padmini Swaminathan for urging me to clarify this point.
- 35 Prakasa Rao, Urbanisation in India, pp 181, 235
- 36 Narender Pani, 'A Demographic and Economic Profile of Bangalore' in Bangalore 2000, Times Research Foundation, 1988.
- 37 Lee, 'Spatial Issues in Technology Development'; Mathai, 'Bangalore's Medium and Small Scale Industries'; Mark Holmstrom,

- 'Bangalore as an Industrial District', (Pondicherry, Institut de Francais, 1994).
- 38 We may also note that the expanding electronics and garment industries tend to favour young unmarried daughters to the 'sons of the soil', the implications of which have not been examined here
- 39 The words were used by the handful of Kannada litterateurs who were opposed to the inti-minority focus of the Gokak agitation in 1982 Letter to the editor, *Deccan Herald*, April 18, 1982.
- 40 Diwakar, Karnataka Through the Ages, p 814.
- 41 CS Rangamatha Rao (ed), Mysore (The Ruling Chiefs of India series, no 11), (Madras S Krishnan and Co, 1908) p 36
- 42 Chandrasekhar, Colonialism, Conflict and Nationalism, p 47
- 43 Proceedings of the Representative Assembly of Mysore, 1919, p 151-1 may also add that despite Alur Venkat Rao's exhortation to Kannadigas to investigate Karnataka's past and make it part of the common sense, there was persistent discomfort at the idea of women being taught history. PRAM, 1908, 1911.
- 44 BM Srikantaia, 'The Improvement of Kannada' 1915, Reprinted 1987 B M Sri Memorial Foundation, pp 7 and 9
- 45 Ibid, p 18
- 46 Dilip Menon, Caste, Naturnalism and Communism in South India Malahar, 1900-1948. (Cambridge: Cambridge University Press, 1994), especially 143-151.
- 47 Nissar Ahmed in Deccan Herald, April 1982
- 48 Even the demand to replace the broadcast of Hindi news at prime time with Kannada news was voiced by the AIADMK in Bangalore. Decean Herald (July 8, 1994)
- 49 Banakar, Safeguards for Minority Languages, p. m.
- 50 In a recent recurrence of this crisis, the Karnataka Film Producers' Association and Karnataka Film Directors' Association, under the leadership of the Rajkumar Abhimanigala Sangha, demanded that Bangalore exhibitors reduce theatre rent for Kannada films and show Kannada films for at least six months a year while asking the government to impose a 12 week ban on the release of non-Kannada films Lankesh Patrike, February-March, 1996. The Hindu, February 21, 1996. Exhibitors however have claimed that it was difficult to run Kannada films for more than two to three weeks, and to get enough films for six months. During debates in the legislature, then deputy CM 1 H Patel clearly declared that it was not the job of the government to teach film artistes to suig and dance as well as their Tamil or Hindi counterparts! Deccan Herald, March 2, 1996
- 51 Interview with Chidananda Murthy, Medium for Communalism, A Report on the Anti-Urdu Communal Riots (December 1994) (Bangaloic, People's Democratic Front, 1994) p 26.
- 52 On the Rajkumar Abhimanigala Sangha's role in the anti-Tamil riots, see People's Human Rights Tribunal Report, pp 11, 12 and 15 The role of the Sangha during the anti-Urdu riots was not quite so clear-cut. See Medium for Communalism
- 53 Nevertheless, the public sector still accounts for twice as many jobs in Bangalore, as in Karnataka Pani, A Demographic and Economic Profile, Table 53.
- 54 Karnataka Act no 26 of 1963

- 55 Adalitha Kannada Anushtana Adeshagala Sankhalana, 1963-1993, (Bangalore, Kannada Development Authority, 1993), pii The point about the need for cultural hegemony has been repeated by current KDA chairman H Narasimhaiah
- 56 Eugen Weber, Peasants into Frenchmen: The Modernisation of Rural France, 1870-1914, (Stanford: Stanford University Press, 1976) p. 314.
- 57 Chidanandmurthy, who led the shock troops against the telecast, repeated the fear that there were plans to make "Urdu the second official language of the state".
- 58 Chidanandmurthy, 'Historiography in Kannada'
- 59 Rao, Karnataka Gatha Vaibhava, p 3, also 11
- 60 See however, Richard Eaton, The Sufry of Bijapur, 1300-1700: Social Role of Sufis in Medieval India. (Princeton Princeton University Press, 1978) On Tipu's links with the dervish tradition of the north see Barun De 'Some Socio-political Implications of the Cognomen 'Tipu Sultan' Occasional Paper No 135, Centre for Studies in Social Sciences, Calcutta
- 61 Partha Chatterjee, 'Claims on the Past. The Genealogy of Modern Historiography in Bengal' in David Hardiman and David Arnold (eds), Subaltern Studies VIII. (Delhi Oxford University Press, 1994), pp 1-47, esp 46
- 62 Medium for Communatism, p 62 ff
- 63 Ibid, p 65.
- 64 Report of the Indian Statutory [Simon] Commission, Vol 1, (London 1930), p 29.
- 65 Copeland, 'Communalism in Princely India The case of Hyderabad, 1930-1940', Modern Asian Studies. 22.1 (1988), pp 783-814.
- 66 Dick Kooiman, Communities and Electorates: A Comparative Discussion of Communalism in Colonial India, (Amsterdam, VU University Press, 1995)
- 67 James Chiriyankandath, 'Communities at the Polls: Electoral Politics and the Mobilisation of Communal Groups in Travancore', Modern Asian Studies. 27 3 (1993), pp 643-65
- 68 Kooiman, 'Communities and Electorates', pp 26, 37
- 69 Copeland, 'Communalism in Princely India', pp 812-13, 797
- 70 Chiriyankandath Communities at the Polls', pp. 664-65
- 71 Significantly, the legal concessions granted to women in 1930 were not the result of a campaign of the Mysoic Ladies Association
- 72 Karnataka Handbook while proudly claiming the absence of communal divisions as a major plus point for Karnataka, laments the strained relations between castes, p. 130.
- 73 Forced to respond to the mobilisation of workers on linguistic lines in the late 1960s, the AITUC devised programmes for the sale of books by Kannada writers, talks and other cultural programmes in Kannada, etc. For their part the Kannada activists began the celebration of Rajyotsavaina manneridentical to Ayudha Puja with grand pujas to the buses and machinery, which also tesulted in the stoppage of work, while all those opposed to such programmes were considered as being against Kannada. It is important to note here that today practically every public sector unit as well as large private sector units such as MICO, SKF have active Kannada cultural

- sanghas that have played a major role in all the recent language agitations.
- 74 A statement signed by a group of secular litterateurs just before the violence against Muslims broke out was later delinked from the effects of the association of language with religion by claiming that knowledge of Urdu in Karnataka was not confined to Muslims. This was clearly a naive, even disingenuous, justification since the association of Urdu with Islam has been tacitly acknowledged even by non-Urdu speaking Muslims in areas such as Kerala and Tamil Nadu
- 75 Medium of Communalism, p 30.
- 76 Ibid p 34.
- 77 One may cite the aggressively masculinist ideology of the Shiv Sena compared with Kannada nationalism. Gerard Heuze. 'Cultural Populism. The Appeal of the Shiv Sena' in Sujatha Patel and Alice Thorner (eds), Bombay: Metaphor for Modern India, (Delhi: Oxford University Press, 1995), pp 213-47, especially p 224. Also in the same volume Jayant Lele, 'The Saffronisation of Shiv Sena: The Political Economy of City, State and Nation', pp 185-212
- 78 During the Cauvery agitation, at least one newspaper report had it that Tamil women were not identified by the language they spoke but by the colour of their thalis, implying that among the subaltern classes, the luxury

- of Ignorance of Kannada simply did not exist. Deccan Herald. December 23, 1991. This information is not corroborated in the elaborate testimonies of victims that were collected by the People's Human Rights Tribunal set up to enquire into the Cauvery Riots. PHRT Repart. (Bangalore: 1992)
- 79 The KRRS was among the few groups that supported the Cauvery agitation while protecting and defending the lives and property of Tamils in the Mysore region. Report of the People's Human Rights Tribunal, 1992, p 21.
- 80 Musaffar Assadi, "Khadi Curtain', 'Weak Capitalism' and 'Operation Ryot' Some Ambiguities in Farmer's Discourse, Karnataka and Maharashtra, 1980-83', Journal of Peasant Studies, 21.3 and 4, (April/July 1994), pp 212 27; also 'Dunkelism and Peasant Protest', Social Action, 45 2 (April/June 1995), pp 191-205.
- 81 Report of the People's Human Rights Tribunal, p 27
- 82 As has been suggested in the PDF report which says that lower classes supporters of the Kannada movement "do not sow seeds of prejudice" and are not the ones "who indulge in political maneouvie" even as it considers the intellectuals as a solid bloc, and the industrialists and professional leaders as the main culprits Medium for Communalism, pp 63-64

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# Performance, Policy Issues and Prospects of India's Exports

O P Sharma

Against the backdrop of India's export performance in the last five years and the major policy issues thrown up by it, this paper discusses export prospects in the Ninth Plan and sketches essential contours of a policy-frame.

SINCE the beginning of planning in India, here has been a sustained improvement in export performance. However, it was with he foreign exchange crisis after the Second Plan, that an active export promotion programme was put in place with the specific objective of financing the increasing imports. Volume index of exports increased from fround 3 per cent in the 1950s to 3.5 per ent in the 1960s. Acceleration in real exports vas particularly significant from 4.6 per ent in the Fourth Plan (1969-74) t · 7 9 per ent in the Fifth Plan (1974-79). Due to nultiplicity of factors, like crop failures. energy crisis, etc. volume growth rate fell o 2.7 per cent in the Sixth Plan (1980-85). With the revival of the economy, the growth ate of volume index of export again picked up to 8 per cent in the Seventh Plan (1985-10). Encouraged by this, the Eighth Plan set he target growth of exports at 13 6 per cent per annum. As against this, the volume index has shown an increase by over 12 per cent per annum in the first three years (1992-95). Considering these trends in exports, the acceleration in the rate of growth of the ecoiomy during the last two years, and increasing outward orientation of the economy due o the process of liberalisation, it should be possible to step up the growth rate of exports in the Ninth Plan This would, however, require some major thrust in our export policy to widen the base of export activity.

This paper is divided in four sections. In Section I, we briefly analyse India's export performance during last five years ending with 1995-96. The analysis is based on statistical evidence on aggregate as well as sectoral export trends. Section II provides an analysis of major factors and policy issues in export performance In Section III, we separately analyse the issues concerning infrastructure and export efforts of various states. In this section, some fresh evidence is provided on inter-state differences in infrastructure and states' export orientation. Finally, in Section IV, we discuss very broadly the prospects of India's export during the period of the Ninth Plan and some essential contours of a policy-frame. As this outline suggests, this paper, by and large, concentrates on supply side factor which is consistent with the widely held view that international demand does not operate as a constraint on India's exports.

# Review of Export Performance in Eighth Plan

Table I provides trends in India's exports in terms of SDR, US dollar and Indian rupee. The purpose of providing the data on trade flows in various measures of value is to enrich our understanding of the trends in exports during the last five years characterised with sharp exchange rate variations and far-reaching changes in policies both in India and our export markets. The table also gives annual variations in value of exports, real exports in terms of volume index brought out by DGCI and S and India's share in world exports.

Analysis based on the data given in the Table I atend leads to following conclusions: (a) Except for 1991-92 and 1992-93, we have been able to gradually increase our share in world exports from 0.53 per cent to 0.59 per cent. However, further details, not reported in the table due to paucity of space, indicate that our performance was not comparable with that of Asia as our share in such exports declined from 3.98 per cent in 1990 to 3.26 per cent in 1994 before increasing to 3.4 per cent in 1995.

(b) Real growth in exports as indicated by the DGC1 and S volume index was overwhelmingly responsible for the growth in value of exports. Increase in DGC1 and S unit value index by 13.6 per cent per annum during 1989-95 was primarily due to depreciation in the nominal value of rupee by 12.3 per cent per annum.

(c) Sub-period averages indicate unequivocally that export performance has been better in the post-reform period, that is, since 1992-93 both in terms of quantum as well as value of exports. An interesting fact here is that in the post-reform period, notwithstanding the liberal regime, exchange rate was perhaps not the driving force in increasing exports. Relatively small nominal depreciation and in fact appreciation in real effective exchange rate was accompanied with sharp increase in volume of exports.

That the improvement in export performence has been induced by policy reforms is indicated not only by higher growth in GDP and industrial production on which evidence will be provided later, but also by increasing orientation of the economy towards exports. Thus exports as a percentage of GDP at current prices have shown an upward trend, as can be seen from Table 2.

Another major indicator of dynamism in export sector is the increasingly more tavourable composition of India's exports which is less vulnerable to the vicissitudes in quantum and unit value of exports. Thus manufacturing sector continued to dominate the Indian exports with 77 per cent share in total exports. Such exports have registered sustained acceleration in growth rates in dollar terms from 1.2 per cent in 1991-92 to over 24 per cent during April-December 1995. Within the manufacturing sector, chemicals and allied products, engineering goods, ready-made garments and handicrafts including gems and jewellery, in which India has comparative advantage, have recorded high growth rates as shown in Table 3. This does not, however, belittle the importance of agricultural exports which showed excellent performance in 1993-94. In fact, several important products such as rice, oil, seeds, cotton and marine products have registered sharp improvement in export/ output ratios.

# II Factors and Policy Issues in Export Performance

Export performance basically depends on the supply or exportable surpluses and demand in the international market. Supply or exportable surpluses in turn depend on capacity and production, domestic demand and relative domestic to international prices, the latter partly dependent on exchange rates. Similarly demand for exports depend upon purchasing power in export market, relative prices and market competitiveness vis-a-vis trade rivals.1 We first discuss the recent trends in the world economy influencing the demand for exports and thereafter trends in domestic factors affecting supply of exports such as the macro-ecnomic aggregate, trade policy and exchange rate movements.

# WORLD ECONOMY AND DEMAND CONDITIONS FOR EXPORTS

In a large majority of products, India's share in world export is very small. Thus being a marginal exporter, India faces an elastic demand with respect to relative prices tor its products, particularly manufacture exports.<sup>2</sup> There are exceptions like textiles where due to variable export restraints or other tariff/non-tariff barriers, competing rivals face discriminatory market access.<sup>3</sup> However, in most other products, demand for India's export depends on world income or volume of world trade and relative prices in the external market.<sup>4</sup>

Around 60 per cent of India's exports go to OECD countries, 11 per cent to OPEC, 4 per cent to eastern Europe and 24 per cent to developing countries. Thus the economic conditions in industrial countries significantly determine the demand for India's export. Since 1991, when with the exception of Japan and Germany, these countries faced stagnation or decline in GDP, there has been acceleration in growth rates. Thus real GDP of industrial countries accelerated from 0.8 per cent in 1991 to 3.1 per cent in 1994. Most notable was the acceleration in GDP of the US from -0.6 per cent to 4.1 per cent and the UK from -2.0 per cent to 3.8 per cent. Even more significant has been the recovery in world trade, which accelerated from 2.9 per cent in 1991 to 9.4 per cent in 1994 in terms of volume. Volume of import of industrial countries accelerated sharply from 2.1 per cent to 10.5 per cent.5 Thus the overall demand conditions for our exports were quite favourable during 1991-94, even though, as mentioned, international price movements did not help in export earnings.

At the same time, there have been cataclysmic changes in the world economy since 1991 which are likely to have a farreaching impact on India's exports. Foremost among these is the conclusion of the Uruguay Round in end-1993. In this Round significant progress was made in market liberalisation by all signatories. Thus import weighted average bound tariff rates were reduced from 6 per cent in pre-Uruguay Round situation to 3.6 per cent in the post-Uruguay Round by industrial countries and from 71.4 per cent to 32.4 per cent by India. This could add I per cent to world GDP and 12 per cent to world trade.6 Second, the World Trade Organisation was set up which would strengthen the dispute settlement mechanism. Third, new areas like Trade Related Intellectual Property Rights were integrated into the system hastening the process of globalisation of Indian industry. Perhaps the best outcome of Uruguay Round for India is the integration of textiles into the WTO framework even though it is heavily backloaded. Apart from the Uruguay Round, other major developments of interest to India have been the ongoing implementation of Internal Market in the European Union, particularly the elimination of Article 15 of the Treaty, implementation of South Asian Preferential Trading Arrangement and india's becoming a ruil Dialogue Partner of ASEAN.

# DOMESTIC MACRO-ECONOMIC TRENDS

There has been significant improvement in the Indian economy as the growth rate of GDP accelerated from 0.8 per cent in 1991-92 to an estimated 6.2 per cent in 1995-96, average annual growth rate being 5.7 per cent during the last four years. The implied elasticity of exports with respect to GDP comes to 2.1, somewhat lower than that postulated in the Eighth Plan. This as indicated earlier is also reflected in increasing export/GDP ratios.

The sustained performance of exports during the last two years, particularly during 1994-95, was partly due to acceleration in the growth rate of industrial production. The growth in manufacturing sector by 6.5 per cent in 1993-94, 8.6 per cent in 1994-95 and over 10 per cent during April-December, 1995 has been the main force behind growth of manufactured exports. An alround improvement in infrastructural industries such as electricity generation, petroleum and petroleum products, transport, steel, etc, helped in the acceleration of industrial production. Latest trends indicate that sharp improvement in manufacturing production has been on account of export oriented sectors like leather, chemicals, metal products and machinery.

### TRADE POLICY MEASURES

The Eighth Plan's objective has been to move our trade policy regime towards greater openness and transparency and with the ultimate objective of integrating the Indian economy with the rest of the world. The key objectives of the trade policy reforms during the Plan were (i) a further pruning of the negative list of imports-exports; and (ii) gradual reduction in both the level and

dispersion of tariff rates. It has been envisaged that by the end of the Eighth Plan the negative list of imports should contain only items to be banned on grounds of environment, health, safety, etc.

In accordance with these objectives, the government has initiated steps from June 1991 onwards for the dismantling of restrictive policy instruments through reform in trade, tariff and exchange rate policies. The import policy regime was revamped by shifting a significant number of items outside the purview of import licensing. Many of the quantitative restrictions on importsexports have also been withdrawn. Policy measures such as elimination of quantitative restrictions on intermediates and capital goods, freeing large majority of tariff lines covering raw materials, intermediates and capital goods from import licensing requirements and extending the facility of Special Import Licences to export/trading houses have helped in strengthening exportproduction linkages.

The Eighth Planenvisages that the average level of tariff should be brought down to about 25 per cent during the Plan period. The peak rate of tariff has already been

TABLE 2: EXPORTS AS PER CENT OF GDP

| Year    | Total Exports<br>(Rs Crore) | Exports as<br>Per Cent of<br>GDP at<br>Market Prices |
|---------|-----------------------------|------------------------------------------------------|
| 1989-90 | 27658                       | 61                                                   |
| 1990-91 | 32553                       | 6.1                                                  |
| 1991-92 | 44041                       | 71                                                   |
| 1992-93 | 53668                       | 7.6                                                  |
| 1993-94 | 69749                       | 8.7                                                  |
| 1994-95 | 82338                       | 87                                                   |
| 1995-96 | 99325                       | 9.2                                                  |

Source: Basic data: Economic Survey 1995-96.
Ratio for 1995-96 is projected on the basis of data for first nine months.

TABLE 1: TRENDS IN TOTAL EXPORTS, 1989-96

| Year     | To      | tal Export | s     | Annual Variations (Per Cent) |      |      | ent)            | Share in        |
|----------|---------|------------|-------|------------------------------|------|------|-----------------|-----------------|
|          | SDR mn  | \$ mn      | Rs cr | SDR                          | \$   | Rs   | Volume<br>Index | World<br>Export |
| 1989-90  | 12943   | 16612      | 27658 | 23.2                         | 18.9 | 25.1 | 15.0            | 0.53            |
| 1990-91  | 13101   | 18143      | 32553 | 1.2                          | 9.2  | 22.3 | 11.0            | 0.53            |
| 1991-92  | 13078   | 17865      | 44041 | -0.1                         | -1.5 | 10.8 | 7.5             | 0.50            |
| 1992-93  | 15296   | 18537      | 53688 | 17.0                         | 3.8  | 32.4 | 6.8             | 0.52            |
| 1993-94  | 15893   | 22238      | 69751 | 3.9                          | 20.0 | 15.3 | 15.5            | 0.57            |
| 1994-95  | 18055   | 26330      | 82674 | 13.6                         | 18.0 | 23.1 | 13.7            | 0.58            |
| 1995-96  | 14924   | 22757      | 74493 | 17.8                         | 24 2 | 34.9 | na              | 0.59            |
| Period A | verages |            |       |                              |      |      |                 |                 |
| 1989-92  | _       |            |       | 8.1                          | 8.9  | 19.4 | 11.2            | 0.52            |
| 1992-96  |         |            |       | 13.1                         | 16.5 | 26.4 | 12.0            | 0.57            |
| 1989-96  |         |            |       | 10.9                         | 13.3 | 23.4 | 11.6            | 0.55            |

Notes: 1 Data for 1995-96 up to December

- 2 Exchange rates derived from trade data. SDR values are derived from SDR/\$ conversion factor.
- 3 Share in world exports is for first two quarters of calender 1995.
- 4 Volume index averages are for period upto 1992-95.

Sources: DGCI and S, Commerce Ministry, Economic Survey 1995-96 and International Financial Statistics (IMF).

reduced to 50 per cent in the 1995-96 Central Budget and the average collection rate to 29 per cent by 1994-95. The country has also moved away from a dual exchange rate and the Rupee has been made fully convertible on Current Account.

The shift in trade and exchange rate policy, along with changes in fiscal policy, industrial policy and capital market reforms, seems to have initiated a process of transfer of resources from public sector to private sector, non-tradeables to tradeable goods sectors and from more capital intensive to less capital intensive industries.7 The restructuring of the economy is also resulting from infusion of external resources and technology consequent on the liberalisation of foreign investment. Under the changing policy environment, the economy's globalisation process has moved faster and the pull of domestic market has weakened considerably. Indeed, the statistical evidence for the period 1992-96 suggests that volume of exports has accelerated despite sharp decline in the divergence between unit value index of exports in terms of rupees and domestic price indices.

# EXCHANGE RATE MOVI MENTS

The variations in exchange rates and its impact on exports has been a subject of controversy and confusion, particularly in recent months. The confusion is particularly over the uncertain relation between exchange rate and exports in the short term as distinct from a theoretically sound and empirically verified and established relation in the long term. In the short term capacity of production is limited and therefore, where there is no slack capacity, depreciation in value of rupee is a windfall to the exporter which he tries to maximise by delaying remittances. In the long term, depreciation of rupee leads to increase in capacity production and consequently increase in exports.8

The stability of the rupee against the US\$ noticed since July 1993 at around 31.37 per US\$ continued by and large during 1994-95. However, the nominal effective exchange rate (NEER) of the rupee depreciated marginally in the year 1994-95 as the dollar depreciated against major currencies. But with inflation in India being much higher than in the major industrial countries, the real effective exchange rate (REER) of the rupee rose by 8.6 per cent in 1993-94 and 5.1 per cent in 1994-95 in terms of export weights of 36 countries as computed by RBI as indicated in Table 4.

It is difficult to establish a firm relation between export performance and variations in exchange rates in India during the last two years and more particularly in recent months. However, two observations may be made on the basis of experience during the last two years. First, analysis of the trends in exports indicate that acceleration in export earnings has been more due to increase in volume rather than unit values. Second, in real terms, rupee appreciated with respect to major currencies like US \$ and pound sterling (in which most transactions are quoted) since 1992-93. This implies that it was the real improvement in the domestic economy (led by agriculture in 1993-94 and manufacturing in 1994-95) and international economy rather than exchange rate which played a major role in export performance.

The persistence of the controversy over fluctuations in exchange rate in the short term prompted us to look into the matter a little deeper. A preliminary exercise suggests that rupee remained overvalued by about 7-8 per cent in 1994-95. This is seen by comparing as to how the real exchange rate appreciated vis-a-vis major individual currencies and then compare the weighted average with the overall change in the REER. On this basis, the picture would emerge as in Table 5 on the basis of 1991-92 weights and assuming that bilateral price ratios remained constant at 1994-95 level.

Since it is assumed that the relative prices remain constant, RER is directly determined by the nominal exchange rate. Thus a depreciation of 7-8 per cent in NEER was required to realise the RER of 1992-93. If the obverse trends in RER with yen is ignored, the depreciation required in NEER would be around 11 per cent. However, correction with respect to individual currencies would require varying extent of rupee depreciation as indicated in Table 5. Since most transactions are quoted in US\$ and pound sterling, the extent of depreciation required would be of the order of 12 per cent indicating an equilibrium exchange rate of Rs 35.2 per US\$.

In the last few months, there have been sharp fluctuations in the exchange rate of the rupee. The initial depreciation of rupee by about 10 per cent helped in attaining a realistic value of rupee as brought out in the analysis above. However, subsequent events have revealed that speculative activities in foreign exchange market, triggered partly by bunching of imports, have been primarily responsible for the sharp depreciation of rupee. This is confirmed by the more recent

recovery of rupee against US \$. It is quite plausible to argue that the realistic exchange rate is still at around Rs 35 to a dollar.

Since the trade policy reforms were undertaken in 1991, new initiatives have been taken in two major areas, that is, development of infrastructure and export efforts of the states. The emphasis on infrastructure is necessitated partly to draw the attention towards a chaotic situation in critical areas such as power, transport and telecommunications. More important, the need for larger and better infrastructure would be felt even more if the objective is to sustain a higher growth rate of export and GDP. We now turn to this major plank of our export efforts.

# III Infrastructure and Export Efforts of States

While there may be no direct relation between exports and hard infrastructure, the latter does affect the former through a positive

Table 4 Variations in REER and NEER, 1992-95 (In per cent over previous year)

|               | 1992-93 | 1993-94 | 1994 95 |
|---------------|---------|---------|---------|
| Export Based  | Weights |         |         |
| REER          | -11.3   | 86      | 5.1     |
| NEER          | -17.3   | 2.8     | -29     |
| Trade Based V | Veights |         |         |
| REER          | -111    | 7.9     | 5 2     |
| NEER          | - 17 2  | 2.8     | - 3.0   |

Source: Reserve Bank of India Bulletin, various

Table 5: Required Districtation as in 1994-95 in Exchange Rate

|                  | Change in RER<br>(1994-95/<br>1992-93) | Weight-<br>Change<br>in RER |
|------------------|----------------------------------------|-----------------------------|
| USD              | 10 45                                  | 4.1173                      |
| Pound sterling   | 16 44                                  | 2.5317                      |
| DM               | -9.28                                  | 1.5868                      |
| Yen              | +8 65                                  | +1 9298                     |
| French tranc     | -13 34                                 | 0.7337                      |
| REER             |                                        |                             |
| (five countries) | 7.95                                   | · 7 ()40                    |

Note A ( ) Sign indicates the extent of depreciation of RER of rupee to reach the REER of 1992-92

TABLE 3 SECTORAL GROWTH RATES OF EXPORTS

| Commodity/Groups        | 1989.90 | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1994.95 |
|-------------------------|---------|---------|---------|---------|---------|---------|
| I Agriculture           | 18.0    | 176     | -4 5    | 21      | 28 5    | 3.8     |
| 2 Ores and Minerals     | 24 9    | -6.1    | 38      | -20 6   | 20.3    | 12 5    |
| 3 Manufactures          | 18.3    | 8.6     | 12      | 6.5     | 190     | 21.8    |
| (i) Leather goods       | 114     | 23.7    | 12.4    | 0.7     | 17      | 198     |
| (ii) Chemicals          | 46 2    | 9.8     | 13.2    | - 170   | 20.2    | 31.2    |
| (iii) Engineering goods | 24.8    | 12.6    | . 01    | 10.1    | 22.4    | 14.4    |
| (iv) Garments           | 32 6    | 16.2    | - 1.7   | 88      | 8 1     | 26.2    |
| (v) Jewellery           | 4.9     | 81      | 6.4     | 12.2    | 30.0    | 127     |
| 4 Others                | 24.8    | 7.8     | - 29.6  | 13.7    | 0.2     | 13.5    |
| Total exports           | 18.9    | 9.2     | -1.5    | 3.8     | 20 0    | 18.0    |

Source: Basic data: GDCl and S, Monthly Foreign Trade Statistics of India, various issues.

correlation between the level or growth of infrastructure and growth in GDP or industrial production. An attempt was made to verify this kind of relationship on the basis of cross-section data reported in World Development Report (WDR) 1994 published by the World Bank. The results from simple regression equations explaining growth rates of GDP and industrial production (IP) in terms of five specific infrastructure variables, i.e., paved roads, railway tracks, telecommunication lines, electricity generated and area irrigated are reported in Table 6 for a sample of Low Income Countries (LIC), as defined in WDR 1994. The results confirm the finding that the rate of growth of specific infrastructure has positive and statistically significant impact on GDP as well as industrial production.

The following major conclusions from the exercise are worth highlighting:

- (a) In terms of size of coefficients, paved roads has the maximum impact on GDP as well as IP in LIC. This is followed by telecommunication, railways and electricity.
- (b) The impact of all infrastructure variables in terms of size of coefficients is much higher in LIC on IP than GDP. In other words, infrastructure plays much more important role in industrial sector in LIC.
- (c) Contrary to general belief, the contribution of electricity to GDP increases with the level of development. Same is the case with telecommunication. This most probably reflects the higher wastage and low productivity in LIC.

Thus apart from the level of stock of infrastructure or its rate of accretion, efficient utilisation of existing services is equally important. This to a great extent depends on the quality of infrastructure. Information given in Table 7 brings out this fact more clearly.

Thus not only the availability of infrastructure per person is low in India, the quality of infrastructure is abysinally poor. The same conclusion, it appears applies to inter-state differences in export performance in India. Two indicators have been devised in recent period which consider different sets of infrastructural variables; economic, social as well as administrative. Even though the data base on exports of the states as well as the indicators of infrastructure is poor, it is worth analysing the relations between the two on the basis of available evidence. The first of the two indicators of infrastructure brought by the Centre for Monitoring the Indian Economy (CMID) takes into account eight infrastructural sectors with varying weights: Power (20 per cent), Irrigation (20 per cent), Roads (15 per cent), Railways (20 percent), Post Offices (5 percent), Education (10 per cent), Health (4 per cent) and Banking (6 per cent). The second, estimated by Krishna Anant and Roy Chaudhary and reported in Report of the Tenth Finance Commission (1994) for 1995-2000, too considers eight variables, i.e., agriculture, banking, electricity, transport, communication, education, health and civil administration. The CMIE as well as Finance Commission indices are estimated for states with reference to an all-India average and both the indices are devised keeping in view the capital good and public good character of infrastructure. The latter utilised the index for allocating 5 per cent of its award to various states.

Table 8 provides comparative view of these indices as well as indices of Per Capita Net State Domestic Product (an indicator of development) and a broad estimate of export/ SDP ratio with reference to an All India Average. It may be noted that four states, i e, Maharashtra, Tamil Nadu, West Bengal and Delhi (with export/SDP index at 985 but not reported above as indices of infrastructure are not available) accounted for as much as 83 per cent of total export by Export/Trading Houses in India. Only Maharashtra, Tamil Nadu and West Bengal exhibit the coexistence of highly developed infrastructure, fair degree of develoment and higher export orientation. There is no wonder that these three states along with Delhi account for bulk of exports. Three states, i e, Gujarat, Haryana and Punjab fair poorly even when these are highly developed in terms of three indicators. More or less same is the case with Andhra Pradesh, Karnataka and Uttar Pradesh even though the last one is still very much undeveloped in terms of PCNSDP.

Export orientation in five states (excepting UP) should therefore be given high priority as results can be achieved in a short time without much expenditure on infrastructure.

While the limited efforts by the states in export promotion has been partly due to the provisions in the Constitution in regard to foreign trade and exchange control, this has also been due to several other factors such as reluctance of the states as they fear revenue loss from export activity, inter-state trade restrictions and lack of economic and export specific infrastructure such as information about the export potential and the export markets. For instance, DGCI and S which is the premier agency to collect and collate statistical data on trade has no system of identifying the export flow from various states. Also, the environment in various states in terms of investor friendliness differed significantly. While states like Gujarat, Maharashtra, Haryana and Punjab are considered as very export friendly, others such as Bihar. Orissa, Kerala and Madhya Pradesh lag very much behind. The states which are considered more investment friendly have good infrastructural facilities, congenial industrial relations, good availability of social infrastructure and trained and productive workforce.

A inajor reason for lack of export efforts in states has been the paucity of resources. A perusal of data on actual Plan expenditure over the period 1991-92 to 1994-95 indicates that major infrastructural sectors such as transport, irrigation, flood control have not

Table 6: Impact of Growth in Infrastructure on Growth of GDP and Industrial Production: Some Results on Cross Section Data of Low Income Countries

|     |             | Regression Coefficients of Infrastructure Variable |        |                    |        |
|-----|-------------|----------------------------------------------------|--------|--------------------|--------|
|     |             | PR                                                 | EL     | RT                 | TL     |
| LIC | N           | 11                                                 | 13     | 10                 | 1.5    |
|     | GDP         | 0.47                                               | 0.18   | 0.32               | 0.33   |
|     |             | (2.25)                                             | (2.61) | (1.09)             | (1.75) |
|     | r           | 0.60                                               | 0.62   | 0.36               | 0.47   |
|     | IP          | 0.68                                               | 0.29   | 0.59               | 0.47   |
|     |             | (1.96)                                             | (2.61) | (1.30)             | (1.48) |
|     | r           | 0.55                                               | 0.62   | 0.42               | 0.41   |
| DD  | David Doods | ··                                                 | LIC    | Low Income Country |        |

PR - Paved Roads LIC - Low Income Countries

EL - Electricity Generated TL - Telephone Lines

RT - Railway Traffic N - Number of Observations

IP - Industrial Production r - Correlation Coefficient

Source: Basic data. World Bank, World Development Report (1994).

TABLE 7: SOME INDICATORS OF QUALITY OF INFRASTRUCTURE, 1992

|                 | System Losses<br>as Per Cent of Power<br>Generated | Roads in Goods<br>Condition as Per Cent<br>of Paved Roads | Faults Per<br>100 Main<br>Telephone Lines |
|-----------------|----------------------------------------------------|-----------------------------------------------------------|-------------------------------------------|
| India           | 23                                                 | 20                                                        | 218                                       |
| Indonesia       | 17                                                 | 30                                                        | 49                                        |
| Thailand        | 10                                                 | 50                                                        | 32                                        |
| Korean Republic | 5                                                  | 70                                                        | 13                                        |
| UK              | 8                                                  | 85                                                        | 16                                        |

Source: World Bank, World Development Report 1994.

received sufficient allocations. Thus as compared to the growth rate of 18 per cent in the Central Plan during 1991-92 and 1994-95, the average growth rate in the five economic infrastructure sectors, such as agriculture and allied products, irrigation. flood control, energy, industries and minerals was only at 7.2 per cent. In irrigation, it was 3.5 per cent, transport 3.4 per cent, energy 7.1 per cent and industry and minerals about 7 per cent. The picture of Plan allocations in various states is not very different. Again considering the five sectors mentioned above, practically all the states excepting Jammu and Kashmir and Maharashtra reported growth rate in expenditure on infrastructure lower than the growth rate of the total Plan expenditure. States such as Assam, Bihar, Gujarat, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Orissa. Sikkim, Tripura and Uttar Pradesh reported very low growth rate or even negative growth rate in expenditure in the five infrastructural sectors.10

Notwithstanding, there is a need for a comprehensive survey of the infrastructure bottlenecks in the export growth areas of each state and then work out the *inter se* priorities based on the criterion of incremental industrial and agricultural production and exports. The basic issue is how we can expand private participation in infrastructure development so as to improve efficiency and reduce demand on public finances.

# IV Exports in the Ninth Plan: Concluding Remarks

In view of rapid changes in the domestic as well as world economy, large degree of uncertainty in the behaviour of economic agents, large number of export determinants, export projection even for the medium term is quite a hazardous exercise. Few things, however, indicate clearly that the improvement in export performance in last few years can be sustained if policy reforms are continued with a view to de-bottleneck the constraint on exports.

The Eighth Plan projections indicated that exports would increase by 13.6 per cent per annum. It is quite feasible to achieve this target if exports continue to grow at the current rate in 1995-96 and grow by another 14 per cent in real terms in 1996-97. In the period of the Ninth Plan, much would depend upon the growth performance of the economy. Given the trends in 1994-95 and 1995-96, it is quite feasible to achieve a GDP growth of 6 per cent per annum based on rate of growth of 10 per cent for the industrial sector and around 4 per cent for the agriculture sector. An optimistic rate could be around 8 per cent. The acceleration in GDP is going to increase the level of exports.

Another major factor would be the increasing outward orientation of the economy as has been witnessed in last two or three years when export to GDP ratio increased sharply from around 7 per cent to over 9 per cent. Looking at the experience of the economies in Asia, it is safe to assume that export/GDP ratio would rise continuously in a gradual manner during the Ninth Plan, say from around 12 per cent in 1996-97 to 16 per cent in 2001-02. Considering at constant 1996-97 dollars (asssuming inflation rate at 8 per cent in 1995-96 and 6.7 per cent in 1996-97 and exchange rate of Rs 35/\$), the four scenarios of export could be as given in Table 9.

The feasibility of the scenarios would, as indicated above, depend upon the performance of the economy and its increasing outward orientation. Several policy steps may be required if the targets set are more ambitious in terms of the performance of the economy. Considering the discussion above, these could include the following:

(a) The active involvement of state governments in export promotion is of crucial importance for dissemination of information on trade policy changes, export opportunities, etc, to the industrial and trading community

at large. In fact there should be a three-tier institutional set up for export development/ promotional activities; (i) Ministry of Commerce and Central/National Level Export Promotion Organisations; (ii) State Level Export Promotion Department and Export Promotion Organisationss; (iii) Field Level Organisations/Industries. There should be a closer inter-action between the above organisational wings in respect of export promotion activities. Some of the state governments have already set up a separate department for export promotion which has to be followed by all the state governments/ UTs.

(b) General development of infrastructural facilities in the country in the form of road and rail network, ports, shipping and air services, availability of power, reliable telecommunication network, etc, are of paramount importance for export production and export marketing. All major seaports and airports have to be linked through proper road and rail network. There should also be provision for warehousing and storage facilities at production centres as well as seaports/airports. There have been frequent complaints of non-availability of adequate air cargo space and shipping services. Besides, refrigerated container services are

TABLE 8: INDICES OF INFRASTRUCTURE, PCNSDP, AND EXPORT/SDP RATIO (All India = 100)

| SI No   | State          | CMIE | AKR <sup>;</sup> | PCNSDP | Export/SDF |
|---------|----------------|------|------------------|--------|------------|
| 1       | Andhra Pradesh | 103  | 99               | 90     | 38         |
| 2       | Gujarat        | 125  | 123              | 118    | 37         |
| 3       | Haryana        | 152  | 159              | 149    | 27         |
| 4       | Karnataka      | 97   | 101              | 98     | 63         |
| 5       | Kerala         | 140  | 205              | 79     | 75         |
| 6       | Madhya Pradesh | 75   | 66               | 73     | 11         |
| 7       | Maharashtra    | 111  | 122              | 144    | 269        |
| 8       | Punjab         | 205  | 219              | 169    | 46         |
| 9       | Rajasthan      | 80   | 74               | 78     | 10         |
| 10      | Tamil Nadu     | 138  | 150              | 96     | 121        |
| 11      | Uttar Pradesh  | 109  | 112              | 66     | 21         |
| 12      | West Bengal    | 113  | 132              | 92     | 148        |
| All Ind |                | 100  | 100              | 100    | 100        |

Notes: CMIE = Index of Centre for Monitoring Economy

AKR = Index of Anant, Krishna and Roy Chaudhary.

PCNSDP = Per Capita Net State Domestic Product.

Export/SDP = Ratio of Export by Export/Trading Houses to SDP in 1993-94. At all-India level, export by EH/TH constituted 72 per cent of DGCI and S export

Sources: CMIE, Finance Commission (1994) and CSO

TABLE 9: FOUR HYPOTHETICAL EXPORT SCENARIOS IN NINTH PLAN (In \$ Billion at 1996-97 prices)

|             | Alt I | Alt II | Alt III | Alt IV |
|-------------|-------|--------|---------|--------|
| 1996-1997   | 38.6  | 38.6   | 38.6    | 38 6   |
| 2001-2002   | 68.9  | 72.2   | 75 6    | 96.0   |
| Growth rate | 12.3  | 13.3   | 14 4    | 20.0   |

Notes: Alt I = Export/GDP:12-16; GDP Growth Rate: 6 per cent.

Alt II = 8 per cent.

Alt II = 8 per cent. Alt III = 8 per cent.

Alt IV = Export increase by 20 per cent per annum

Sources: 1995-96 estimates are projected on the basis of data up to November given in DGCI and S-Monthly Statistics. It is assumed that GDP will grow by 6 per cent in 1996-97.

highly inadequate to handle the movement of highly perishable items like food products, horticultural and floricultural products.

- (c) For penetrating new markets and sustaining the level of exports, greater attention has to be paid to the aspects of grading quality control, packaging, etc. as per the specifications/requirements of the importing countries. Quality upgradation and certification is of utmost importance in the develoment of exports. Some success has already been achieved in this direction by certain industries. This has to be extended to all commodities meant for export production. Besides, scientifically designed, efficient and low cost packaging has to be evolved for different categories of products to meet international standards/specifications. Packaging aspects have been a long neglected area in this country and we have to pay immediate attention to this aspect for development of exports.
- (d) Awareness of various Indian products in terms of quality, variety, price, etc. have to be created in the international markets through greater participation and involvement in trade fairs and exhibitions held abroad from time to time. Besides, promotion of Indian brand names and publicity through departmental stores in the foreign markets is important for increasing our exports. The exchange of trade delegations and development of close interaction between the business/trading community in India and in various other countries will also go a long way in promoting our exports.
- (e) Besides retaining the existing product mix and markets abroad, we should explore the possibilities of penetration of new markets and introduction of new products to meet the emerging demands abroad in tune with the changing lifestyles technology, tastes and preferences. For instance, countries in Africa and Latin America have been a neglected area and the volume of trade between India and these countries has been very low. We should undertake detailed market surveys in these countries and pay greater attention to product development to meet the requirements.
- (f) Agricultural and allied sector (animal husbandry, fisheries, poultry, etc) offer tremendous potentials and prospects for export development. In fact major thrust areas for export development have to be identified and greater attention has to be paid for development of exports. Some such commodities having very high potential for exports are horticultural and floricultural products, processed foods, marine products and meat preparations. Export-oriented production is relatively a new concept in the agro-based sector. It would be desirable to evolve an integrated approach to exports, i.e., from the farm-yard to dock-yard linking

the various stages like (i) production; (ii) processing; (iii) quality control; (iv) packaging; (v) storage; (vi) transport; and (vii) export. Aappropriate institutions have to be developed for this purpose and linkages established between them for an integrated export-oriented production in the agro-based sector.

- (g) There exists great potential for the export of various services in which the advanced/developed countries dominate at present. The areas having high potential for exports are; (i) electronic and computer software; (ii) technical and engineering consultancy service; (iii) banking and insurance; (iv) shipping and air services; (v) tourism and notels. In fact the potential and growth in the export of services is closely linked to the growth of merchandise exports. India has a very strong industrial base and a large highly skilled manpower in a wideranging scientific/technical and commercial activities. There exist tremendous potential for the export of different forms of services which has to be tapped.
- (h) Many of the developing countries in Asia, Africa and Latin America offer tremendous scope for the setting up of joint ventures and turnkey projects for the development of basic infrastructural facilities and industries. Some of these areas of opportunity are (i) development of transport network in the form of roads, railways, bridges, sea-ports, airports, etc; (ii) operation and maintenance of transport network in different forms; (iii) setting up of power plants; (iv) setting up of chemical and petrochemical projects; (v) setting up of cement, paper and coal-based industries; (vi) setting up of industries in the mining and metallurgical sectors.

# Notes

- 1 For a rigorous analysis of 'export competitiveness', see O P Sharma, 'Export Competitiveness: Some Conceptual Issues', Foreign Trade Review, Vol XXVII, No 2, July-September 1992.
- 2 This is supported by empirical evidence in recent period See, for instance, Arvind Virinani, 'Demand-Supply Factors in India's Trade', Economic and Political Weekly, February 9, 1991
- 3 Even in textiles and garments facing quota restraints, price enters as a significant determinant of demand for Indian products. For formal econometric evidence, see O P Sharma, 'Competitiveness of Indian Textiles in the EEC: 1974-85', PhD Thesis submitted to JNU (New Delhi, 1991) Also see his. 'Quota Restraints and MFA II: Some Empirical Evidence on India's Exports to the EEC', Economic and Political Weekly, September 29, 1984
- 4 Apart from the revival of industrial economies, elimination of trade barriers in intraregional trade in some of the areas has benefited developing countries such as India.

- See O P Sharma, 'Europe 1992: Implications for India's Exports', Foreign Trade Review, Vol 26, Nos 1 and 2, April-September 1991.
- 5 Fordetails, see IMF, World Economic Outlook, October 1995.
- 6 See IMF, International Trade Policies, The Uruguay Round and Beyond, Vol 1, Principal Issues, (Washington 1994), ch 3.
- 7 For a comprehensive assessment of the Indian Economic Reforms Programme, see Ajar Chopra and others, India: Economic Reforms and Growth, IMF, Washington, December 1995).
- 8 No doubt, even in the long term, the impact of real economy on exports is overriding. Testing on the data pertaining to volume of exports (XT), GDP and exchange rate (ER), the following two OLS log-log regression equations confirm the propositon:

XT = 8 18 - 0.7676ERT - 0.0380T(-8.135) (-0.666)

R-Bar-Sqr 0.9256 (t values) Sample: 1978-95

XT = -3.83 + 1.86GDPT - 0.1817T(6.761) (-2.091)

R-Bar-Sqr 0.9001 (t values) Sample: 1978-95

Nevertheless, taken individually, both ERT and GDPT are strong enough to even subsume the impact of the remainder expressed in terms of time.

- 9 This conclusion needs to be taken with caution as the exports from the major ports may as well be from neighbouring states DGCI and S or FIEO do not provide separate data to verify this.
- 10 For details, see Government of India, Planning Commission, Annual Plan 1995-96, Ch 2

# **ATTENTION**

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# Fascism, Socialism and the Left

# Paresh Chattopadhyay

While Aijaz Ahmad (EPW, June 1) gives a brilliant blow-by-blow account of the high parliamentary drama preceding the United Front's accession to power in the context of the rise of the communal variant of fascism in India and its striving towards gaining a parliamentary majority, he has dealt unevenly with three issues: consensus and nationalism; fascism; and bolshevism, commune and socialism. This paper focuses on these issues.

WE read with considerable interest Aijaz Ahmad's fascinating piece 'In the Eye of the Storm' (EPW, June 1). He gives a brilliant blow-by-blow account of the high parliamentary drama preceding the United Front's accession to power in the broad context of the rise of the communal variant of fascism in India and its striving towards gaining parliamentary majority. We would like to share with Ahmad and other readers of the EPW some reflections that arose from our reading of his paper. Unfortunately, never quite understanding India's electoral politics - in a sense Ahmad's main concern - we have to set it aside. We would, instead, deal with issues which at first sight might appear as incidental (to Ahmad's main theme), which of course they are in a certain sense. But here we are using the term 'incidental' in a somewhat different sense - as in 'incidental music' in the European tradition, where incidental music becomes as important as the play itself which it accompanies (like, for example, Mendelssohn's music for Shakespeare's A Midsummer Night's Dream or Gricg's music for Ibsen's Peer Gynt). In what follows we shall focus on three issues unevenly dealt with in the paper under consideration. consensus and nationalism; fascism; bolshevism, commune, socialism.1

# Consensus, Nationalism, Patriotism

The author refers to a 'consensus' among the bourgeoisie on liberalisation, as seen in the agreement between the "two major parties of this class" (p 1330). However, it seems that the 'Left' is not completely outside of this 'consensus', as he himself asserts, referring to the CPI(M)-led West Bengal government, that "industrial policy is not as sharply differentiated from that of the centre as it should be", adding, of course, the usual CPI(M) argument that the states cannot "go against the grain of the centre in a basic way" (p 1339). How about the other no less important domains of the country's life?

Indeed, in its extraordinary zeal for nationalism, nay, patriotism, CPI(M) – like most of the 'Left' – has been at least equal to the bourgeoisie, and, to paraphrase Ahmad's words, "entirely agrees with the two major parties of this class", though

under the ideological cover (Marx's 'false consciousness') of (till-defined) 'antiimperialism'. This involves the preservation of 'national unity' and 'sovereignty', with the practical (immediate) consequence of supporting the entire oppressive bureaucratic - police-military state apparatus including the nuclear and non-nuclear arms policies of the 'bourgeois-landlord government'.3 This 'consensus' also includes the CPI(M)'s supporting to the hilt the 'bourgeois-landlord' government's armed suppression of the right to self-determination of the oppressed minority nationalities in the north-west and the north-east of the country. It is with immense courage and at great risk that the human rights groups and a handful of individuals are upholding the democratic rights of these oppressed peoples. The CPI(M)'s position is unambiguous: "The Party has remained in the forefront of the struggle against separatist movements to defend the unny of the country, [and] the struggle to defend national unity must be carried forward". Similarly the party condemns "the anti-social activities of the extremists who molest women and extort money" while conceding that the security forces (only) "often" commit excesses, but, then, these forces are "deployed to combat terrorist violence" (Political Resolution of the 15th Party Congress, April 3-8, 1995, Chandigarh, p 37). During his recent visit to London, the CPI(M) leader Surject, referring to the human rights critics on Kashmir, held, like any 'bourgeois-landlord' patriot, that the Indian security forces are "faced with terrorism and a proxy war .. They are dealing with forces who have no mercy for anybody. In such a situation to say in the name of Gandhi that 'I stand for peace, attack me, kill me' - that becomes a little impossible. Human rights critics do not know in what difficult situation the armed forces are fighting these men" (India Abroad August 2, 1996, p 10). Six years ago the same leader had written that "the separatists and extremists in Jammu and Kashmir who are out to destabilise the country .. must be told that the people of Kashmir have linked their fate with the people of India and that the accession is irreversible". Citing - more than approvingly - the consultative committee attached to the external affairs ministry of the 'bourgeois-landlord government' that "Jammu and Kashmir is an integral part of India and that any interference or any claim whatsoever in the internal affairs of India would not be tolerated", the 'communist' leader emphasised that this "clearly expresses the will of the Indian people (inasmuch as) all the political parties are represented in this committee" (Save Kashmir. To Defend Secularism and National Unity, New Delhi, 1990, p.17). What else is this but a 'consensus' with the 'bourgeois-landlord' rulers "to the last comma and dot and smudge of ink", in Ahmad's parlance (p. 1330)?"

As if this blatant, rabid chauvinism were not enough for the 'Left'! For Ahmad the' 'Left' is still not sufficiently nationalist, compared to 'right-wing nationalism', that is. According to him "an ideological cement of nationalist kind is an objective necessity" for the 'Left', inasmuch as "if Left fails to provide that cement, and if ideological tradition descended from the anti-colonial movement begin to collapse, an aggressive kind of right-wing nationalism will step into that vacuum..." (p. 1337; emphasis in original). This nationalist ideology 'descended from the anti-colonial movement' is of course the ideology of the 'bourgeoislandlord classes' having sub-imperialist ambitions Even before independence. Nehru, the secular, democratic idol of much of the 'Left' had written that an independent India would not only be the centre of political and economic activity in the region of the Indian Ocean, the South-East Asia and the west Asia but also exert great influence in the Pacific Ocean, even though it had no geographical relation with the latter [Nehru 1945] As an illustration of this big power ambition we would mention just one case. The India-Nepal Treaty of Peace and Friendship of 1950 contained a secret 'mutual assistance' agreement providing for appropriate arrangements to deal with "any threat to two governments". Nehru revealed this to the Lok Sabha about a decade later. As Nehru told the Lok Sabha in 1959, 'Where the question of India's security is concerned, we consider the Himalayan Mountains as our border" (in Mihaly 1965). The saffron fundamentalists are very much an offshoot of this 'anti-colonial' nationalism - an 'optimum mix' of pre-bourgeois and bourgeois ideologies. Far from signalling a "most radical rupture with the traditional ideas", as the Communist Manifesto thought the communists would make. Ahmad's prescription would amount to the communists' abject surrender to the enslaving ideas of the 'old world'. It is remarkable that the 'Left' - particularly the 'Marxist-Leninists' of the CPI(M) type - never fought India's 'bourgeois-landlord' world outlook. soaked in religion, by a systematic and thoroughgoing materialist world outlook. by a frontal attack on religion itself (including its 'secular version' a la Vivekananda) armed with materialism. That might not help the 'Left' in elections, but that would surely gather around them the most oppressed sections in society - the majority - precisely the victims of religious mystification perpetrated by the ruling classes. (Indian philosophy remains to be liberated from religion.)

# II Fascism

### (a) Counter Examples

Regarding 'fascist takeovers' Ahmad lays down "two pre-conditions: a fully fledged crisis of the constituted state, and an insurgent working class aspiring to seize power". Here the author speaks in terms of 'universal affirmative' (in the language of Aristotelian logic), the said 'pre-conditions' being asserted as valid for "the entire history of fascism" (p 1338). In the absence of any precision on his part we do not know which regimes would qualify as 'fascist'. However, given his examples - Italy, Germany, Iran and (possibly) Chile - the term seems to have a wide range, englobing advanced capitalism, backward capitalism and even semi-feudalism. Are the said 'two preconditions' valid for each and every 'fascist takeover', taking a broad meaning of fascism within a wide range, as suggested by Ahmad's examples': Let us take one or two (counter) examples.

# Portugal

In the case of Porgtuguese fascism there were intermittent battles between the republicans and the royalists in the twenties, where the working class, a tiny fraction of the total working population in this very backward capitalist country, did not show any sign of 'insurgency' (literally, rising in active revolt), far less any indication that it was 'aspiring to seize power'. The fascist dictator – a soft-spoken university professor of economics – had no dramatic entrance on the scene like Mussolini, Hitler (or Khomeini, the 'clerical fascist'). He started as a minister of finance in 1928, being called to this position by the military ruler, restored the

country's finances without much fanfare, then, backed by the middle classes for his success in putting the chaotic Portuguese economy in order and assuring himself the support of the army (gradually organising the 'green shirts' in the process), consolidated his position rather slowly and remained the absolute master of the Estado novo—created by a plebiscite in 1933 where the poor and the unlettered had no right to vote.

# Japan

In the case of fascism in Japan, we, again, have an example where it would be difficult to validate the 'two pre-conditions'. Here, once more, there is no evidence of an 'insurgent working class aspiring to seize power'. As regards a 'full-fledged crisis of the constituted state' - this sweeping assertion is also of doubtful validity. An eminent historian has written: "Japanese fascism differed from the German form and even Mussolini's Italy...There was no sudden seizure of power, no outright break with previous constitutional democracy, no equivalent of a March on Rome...Fascism emerged much more 'naturally' in Japan; that is, it found congenial elements in Japanese institutions even more than it did in Germany. Japan had no plebeian Fuhrer or Duce. Instead the emperor served as a national symbol in much the same way" [Moore 1966].6

Iran

Let us take Iran. Ahmad writes: "In Iran clerical fascists rode to power only after mastering the largest working class uprising in the Middle East and in the midst of a crisis of the state" (p. 1338). Of the two (pre)conditions of the victory of fascism given here, while the second is true, the first is grossly exaggerated as regards the working class. The statement also passes over an unsavoury tale about the role of the so-called working class leadership in Iran in the victory of clerical fascism, to which we shall return in a moment.

There was no 'working class uprising' in Iran on the eve of the Islamic takeover in February 1979 (where 'working class' is used in the Marxian sense of industrial proletariat). There was an uprising of the non-working class masses, the overwhelmingly immense majority of the Iranian society. The popular movement, gaining increasing momentum, showed itself particularly in massive demonstrations beginning in January 1978, and at 40-day intervals, specially in Qum, Tabriz and Teheran, of which the Tabriz demonstrations of February 18-19, 1978, with more than 40,000, were the most important as they set the pattern of violent demonstrations to be

seen in early autumn (1978) when the Grand Ayatollah of Qum emerged as the only appropriate spokesperson of the country. These were all religious demonstrations. Four distinct groups participated in the mass movement: (1) the mullahs who directed and organised the movement; (2) the 'bazaar', that is, the merchants, retailers and artisans, the traditional sector of the urban economy; (3) the mass of the 'disinherited' inhabiting the shanty towns and slums around the cities - the 'lumpen proletariat' - created by rapid urbanisation and rural exodus who took Khomeini as the saviour ('mahdi'); (4) the youth unable to enter universities (in 1977, out of about 300,000 applicants only 60,000 had been accepted), awaiting conscription, joined by the mass of unemployed high school graduates of the earlier years. The latter group along with the 'lumpen proletariat' provided a massive reservoir of discontent set loose by the Islamic agitators. The industrial workers - the working class properly speaking - only later joined the upsurge through strikes in any significant way, constituting in no way a 'working class uprising'. What about the supposed -'leadership' of the working class in Iran during this period? We would ordinarily expect the communist party to be in the forefront of the struggle against fascism. During the first few months after the fascist takeover when the new regime was trying to consolidate its victory and still allowing different anti-Shah political parties to function, the self-appointed working class leadership, the Tudeh party, uncritically following Russia's 'anti-imperialist' policy of backing the new regime, allied itself with 'clerical fascism'. "The Tudeh party", writes a keen Iranian observer, "outdoing all others in servility, patiently continued to receive insults according to the degree of their opportunistic miscalculation, their thirst for humiliation, or the magnitude of their dashed hopes" [Arani 1979]. This was indeed a sad spectacle of "abject surrender to the Islamic party". After having consolidated power the regime, naturally, clamped down heavily on the parties, hitherto its unconditional supporters, and Khomeini, backed by the immense majority of the country including the 'working class', declared in August 1979 that, after having allowed the opposition six months to show their true faces, his party would now "break their poisonous pens and crush their conspiracies". This brings us to the extremely uncomfortable question: how did the communist parties situate themselves in the face of the ascendance and victory of fascism? In no way generalising, below we deal with two classic cases of fascism - one mentioned, the other unmentioned in Ahmad's paper - Germany and Spain, the degree of sordidness of the party's role increasing in that order. We shall analyse

the Spanish case at some length, compared to the German, in order to emphasise, at the same time, that what was happening in Spain 60 years ago was not simply a war between the 'republic' and 'fascism' but the beginning of a profound social revolution — a fact carefully suppressed by the dominant propagandists ('communist' as well as bourgeois) outside Spain. We hope readers will bear with us.

(b) Communist Party and Fascism: Germany, Spain

# **Germany**

The victory of fascism in Germany occurred in a period which was qualified by the Russian and the Comintern leadership(s) as the 'third period of the general crisis of capitalism', a new epoch of class struggles and civil wars favourable for the proletarian revolution. The Sixth Congress of the Comintern (1928) laid down the tasks of the communists corresponding to this new situation, epitomised in the 'class against class' formula. It affirmed the gradually "maturing revolutionary situation", the social democrats being qualified as the "principal enemy" of the working class [Borkenau 1962; Claudin 1970; Kriegel 1983]. In 1929 the tenth plenum of the Central Executive Committee of the Comintern, qualifying social democracy as "social fascism", declared that "the aims of the fascists and those of the social democrats are identical".8 On August 9, 1931, the German community party (KPD) voted together with the Nazis against the social democratic government of Prussia in a referendum and the fall of this government was hailed by Pravda on August 13 as a victory of the working class. All the actions undertaken by the Nazis against the social democratic trade unions one year before Hitler's accession to power were supported by the KPD whose general secretary, Thaclmann, spoke of "a single class front with the Nazi proletarians" [Buber-Neumann 19711.

Shortly before Hitler came to power, the KPD declared that social democracy with its view that fascism demanded a single block of the working class with the democratic fraction of the bourgeoisie constituted the principal obstacle to the passage of the working class to a revolutionary position. Even two days after Hitler became chancellor, Thaelmann wrote that the recent events signifed "a turning point in favour of the proletarian revolution", and three months later the party still declared that "the proletariat has not lost any battle, has not suffered any defeat" [Buber-Neumann 1971; Kriegel 1983]. It was only in 1935 that the Comintern fully realised its folly, but then it was too late. Any working class resistance to Hitler from within Germany - indeed any internal mass resistance - had become only an academic possibility."

Spain

In Spain, as elsewhere, the communist party (PCE) was following a most sectarian line of 'class against class' during this 'third period of the general crisis of capitalism'. After the Second Republic was established in 1931 (the first was in 1873), the party's slogan was "down with the republic" and "all power to the soviets" when none existed in Spain. As elsewhere, they qualified till 1934, the mass socialist party of Spain (PSOE) as "social fascists" and the anarchosyndicalists CNT (or CNT-AFI),10 who had profound roots in the Spanish producing classes and an immense mass following, as "anarcho-fascists". The Second Republic had opened the way for the basic demands of the working people, which the country's rulers were incapable of satisfying, around the problems of the agrarian reform, nationalities, the relation between the church and the state, the entire monarchist apparatus of bureaucracy and the army. It was really the democratic revolution that was on the agenda which only the producing classes could undertake, and their victory would pave the way for the success of the immediately following proletarian revolution. The PCE's sectarian stand of 'class against class' denouncing everybody else on the left as 'social-fascist' showed their incapacity to understand the need of maximum mobilisation of the working people for the success of the democratic revolution. A U-turn came with the Comintern's completely opposite 'line' of the 'united front', leading to a movement to organise a 'popular front' in Spain.

After two 'black years' of reaction (bienio negro) 1933-35 - the period of the rightists' rule - the recently formed Popular Front (FP) came out victorious in the general elections of February 1936, with a slim majority though It consisted of the entire non-anarchist anti-fascist forces of Spain including the PCE and the dissident (anti-Stalin) communists.11 Leaving aside the traditional anarchist policy of abstention from parliamentary elections (no votad), which had contributed to the victory of the right in 1933, the CNT, without being a part of the FP, participated in the elections voting for the Front and thus contributing to its victory. From the announcement of FP's victory the labouring people on their own organised gigantic victory parades, opened the prisons, and clashed with the police who wanted to check peoples' initiative. All over Spain strikes broke out for immediate rehiring of the workers who had been laid off, the retrospective payment of wages to the jailed workers, against labour discipline, for a rise in wages and new conditions of work. In the countryside the poor peasants' seizure of land (asentamientos) multiplied, leading to armed clashes with the civil guards. The peasants stopped paying rents, in Andalusia farm workers occupied the fields, railway workers stopped working, demanding nationalisation of railways, the Catalans reestablished the integrity of their status of autonomy.

While the reaction of the anarchosyndicalists and the left socialists to this spontaneous and tumultuous rise of the worker-peasant movement was one of enthusiasm, the opposite was the case with the PCE, switching now from the left sectarianism of the 'class against class' phase to a position of right opportunism under the cover of the 'united front' tactic. In a discourse at Saragossa the secretary of the party, J Diaz, declared "Today we are in a period where the bosses provoke and stir up the strikes for the political reasons of sabotage and where the fascist elements enter some organisations as agents provocateurs to serve the ends of reaction" [in Broue and Temme 1961]. This position was very close to that of the right wing of the socialist party led by Prieto. A Nin, the leader of POUM wrote, on the contrary, "For the democratic bourgeoisie the revolution has ended. For the working class, it is one of the stages of its development. For the first, every action in the way of impelling the revolutionary process must be suppressed resolutely. For the second, to accelerate this process, to imprint a vigorous rhythm constitutes an unavoidable duty. ... Each retreat of the reaction, each progress of the revolution has resulted directly from the initiative, from the extra-legal action of the proletariat" [Nin 1971]. On June 1, 1936, the construction workers of Madrid went on strike demanding higher wages, a 36-hour week, a month's paid holiday annually and recognition of professional illness. After some time, when the bosses would not give in and the workers were starving, the CNT called upon the workers to get their food form stores and serve themselves in the restaurants without payment. The communist paper Mundo Obrero denounced the call as "anarchist provocation".

When the fascist uprising finally took place on July 17 (1936), the republican government which contained right wing socialists initially refused to recognise the gravity of the situation and the next day declared that "a vast anti-republican movement has been nipped in the bud". (As a matter of fact the secretary of the CNT had warned two days before the general election that the "rightists are ready to provoke a military action" and that "Morocco seems to be the centre of the conspiracy.") The

councit or immisters retused again the demand of the left socialists advanced in the name of their trade unions, UGT - first made five days before the uprising - to distribute arms to the workers. Far from demanding arming the workers the PCE, continuing to play the parliamentary game, declared in a joint statement with the socialists that the "government has sufficient means at its disposal" and that "the government commands, the Popular Front obeys". On its side the CNT (supported by the UGT) called for a "revolutionary general strike" and asked its committees and militants to bring their arms to the local offices of the organisation [Broue and Temime 1961]. As a matter of fact - much to the surprise of the fascists who counted on a quick victory within three days after the uprising, people's spontaneous resistance, independently of the parties and in the face of the republican government's refusal to distribute arms, succeeded in defeating the fascist rebellion in two-thirds of the country - including Valencia, Barcelona, Madrid and Asturias, The legend of the invincibility of the army was destroyed and the fascists were faced not with a weak, hesitant republican government of the Popular Front, but with a whole people in arms. On the agenda since 1931, the Spanish revolution exploded as a spontaneous reaction to the fascist uprising. As in Paris 65 years earlier, the counter-revolution in Spain imposed revolution on the producing classes before they were fully prepared for it.

There appeared, gradually, people's new organs of power with real authority, the innumerable 'committees' (consejos, comites, juntus) at local, regional and provincial levels - the real governments in which the new power resided. This revolution, spontaneous in character like all genuine people's revolutions, was naturally multifaced in which superficial and hostile observers saw only 'anarchy' or 'disaster' without comprehending its profound significance: the working people taking charge of their own defence and, thereby, their own social existence, without any 'guide'. Trotsky, one of the architects of the Bolshevik seizure of power - second only to Lenin - closely watching the events in Spain pertinently observed that the Spainsh proletariat "showed itself, from the first day of the revolution, not interior but superior to the Russian proletariat at the beginning of 1917". Historians have remarked that one of the signs of the depth of the revolution was the massive participation of women, on a level of perfect equality with men. everywhere, in the committees as well as in the armed militias. In the days following the fascist uprising, the committees -- where workers' organisations were represented in proportion to their numerical strength-seized

an iocai poweis, tagated in then regions not only the immediate problems like maintaining order and controlling the prices of essential commodities, but also the question of socialisation or syndicalisation of industrial enterprises, expropriation of the church property and the property of the big landlords, the distribution of land among the sharecroppers or its collective exploitation, confiscation of bank accounts, municipalisation of housing, organisation of schools, of social assistance. These 'committees' were not much to the liking of the PCE whose leader J Hernandez would later write: "The committee was a kind of troubling, dark power without specific functions which, as a veritable government, exercised a merciless dictatorship." As a matter of fact, in Catalonia the PCE conjointly with the socialists even tried to persuade unsuccessfully though - the president of the 'Generalitat' (Generalidad, Catalonia's autonomous government) to form the 'Militias of the Generalitat' which they wanted to be pitted against the anarchosyndicalist - POUM militias [Benavides 1944]. "The essential point of the militiasystem was social equality between officers and men. Everyone from general to private drew the same pay, ate the same food, wore the same clothes, and mingled on terms of complete equality. Each militia was a democracy and not a hierarchy. It was understood that orders had to be obeyed, but it was also understood that when you gave an order you gave it as comrade to comrade and not as superior to inferior. There were officers and NCOs, but there was no military rank in the ordinary sense, no titles, no badges, no heel-clicking and saluting" 10rwell 19661.17

The foundations of the old society were immediately attacked by the producing classes in arms. The economic basis of the church was destroyed in a few days. The same fate befell bourgeois private (individual) property. To the workers the big landlords, the church and the bourgeoisie were the allies of the fascist generals. The objective of the working people was clear: land to the peasants, factories to the workers. To achieve this objective varieties of solutions were adopted by the working people. As regards industry, there were two types of measures - simple seizure of enterprises (incautacion), the general rule in Catalonia, or a control jointly undertaken by the worker: 'delegates and the representatives of the government (intervencion), mostly outside Catalonia. More than anywhere else Barcelona symbolised the new revolutionary situation - called by Borkenau the "Bastion of the soviet Spain" (1937) - 'soviet' in the original revolutionary sense of the term before its deformation, that is. Here the armed workers were in power (as they were in care of acare carrier). From the little days of the revolution they took charge of the public transport (trains, buses, metro), the railways (soon to be administered over the whole zone by a CNT-UGT committee), gas and electricity, telephone, press, cinema, theatre, hotels and restaurants, and then most often big industrial and transport enterprises (mostly foreign capital). Only two days after the fascist uprising, public transport began to function normally, as did gas and electricity, and, after a few days, railway services were also fully restored. In the countryside there took place a vast movement of collectivisation which was of course not always - and could not be in the situation - voluntary. However, in the beginning of September 1936, a peasant conference in Barcelona under the auspices of the CNT called on its militants to respect the small peasant private property and try persuasion and not force to convince the small peasant proprietors into joining the movement. On the whole, the collectivisation movement englobed about three-quarters of the land organised in communities mostly with CNT affiliation. An extraordinarily sharp observer of the Spanish scene opened his magisterial. work with the following remarks: "Although the outbreak of the Spanish civil war was followed by a far-reaching social revolution in the Anti-Franco camp - more profound in some respects than the Bolshevik Revolution in its early stages - millions of discerning people outside Spain were kept in ignorance not only of its depth and range, but even of its existence, by virtue of a policy of duplicity and dissimulation of which there is no parallel in history" [Bolloten 1991].13 On the Left the PCE was the most resolute opponent of this collectivisation 'from below' just as it was opposed to the worker's armed militias controlled by the workers themselves. Jose Diaz, the communist leader, observed that such measures were "absurd and amount to being an accomplice of the enemy", and denounced "the three enemies of the people: fascism, Trotskyism and the uncontrollables" [Claudin 1970].

In fact, on the Left, on the whole question of workers' spontaneous revolutionary initiative in the formation of the armed militias as well as in the measures undertaken to collectivise - 'from below' - landlord and bourgeois property, two diametrically opposed points of view clashed. The leaderships of the right wing socialists and communists warned against "revolutionary extremism" and held that the movement was not for a (social) revolution but for a democratic and parliamentary republic "with an extended social control", for the "defence of the republican order, respecting property". The point of view was also aimed at reassuring the bourgeois democratic governments of London and Paris in the hope that they would materially help the republic in its war against fascism. (This hope of course was completely belied.) "First win the war, revolution will come later". The opposite point of view - shared by the workers in arms - held that the war was being fought for the victory of the revolution and the revolution was being made to win the war. As the left socialist Claridad put it at the end of August 1936, "This war and the revolution are the same thing...the people are not fighting for the Spain of 16 July...but for a Spain from which its roots would be extirpated. It is the revolution in the rear that assures and inspires the victory in the field of battle". This point of view was shared by the POUM.

However, the 'dual-power' situation - the power of the self-constituted workers' 'committees' and their armed militias on the one hand, and the power of the republican government on the other - soon ended, which at the same time saw the triumph of the first point of view over the second. A Popular Front government was formed on September 4, 1936, consisting of bourgeois republicans, the socialists, the communists, the UGT Aid began to arrive from Russia, the only capitalist country (besides Mexico) which, to its credit, decided to intervene materially on the republican side, its arms supplies being paid with 500 tons of gold from the Spanish Central Bank The arms aid was accompanied by some two thousand nulitary, political and secret service personnel from Russia. The Russian intervention gave the PCE a position it could never otherwise have obtained. The Russian arms were supplied mainly via the PCE who of course saw to it that as few of those arms as possible got to their political opponents, which explains why there were so few arms on the fronts (like Aragon) where the fighters were mainly the anarcho-syndicalists and 'dissident' communists. The gratitude to Russia for the arms and the arrival of the International Brigades<sup>14</sup> immensely raised the communist prestige. A contributing factor undoubtedly was the heroic and crucial role played by thousands of Spanish communists independently of their leadership - in the anti-fascist resistance, winning victories against great odds. At the same time, by proclaiming a non-revolutionary policy, the PCE was able to gather all those whom the 'extremists' had scared. There was an enormous growth of party membership, the influx mainly coming from the middle classes - well-to-do orange growers of Valencia, peasants (scared well-to-do collectivisation) from Catalonia, small shopkeepers and businessmen, army officers, government officials - but not the manual workers who remained firmly fixed in their anarcho-syndicalist unions. A British historian, observing the scene closely, wrote: "One had a strange and novel situation – on the one side stood the huge compact proletariat of Barcelona with its long revolutionary tradition, and on the other the white-collar workers and petite bourgeoisie of the city, organised and armed by the communist party against it" [Brenan 1969].

In this situation of increasing strength of the PCE, backed by the Russian arms aid, and gradually accepting the PC and right socialist position of separating war from revolution, the CNT leadership, without consulting the CNT general membership and seriously compromising CNT's longheld anti-state principle, joined the republican government, and, in Catalonia, agreed to collaborate with the 'Generalidad' and dissolve the Central Committee of the Anti-Fascist Militias, which had been the real workers' power in Catalonia. The Catalonian government dissolved the workers' 'committees' and replaced them by municipalities. Simultaneously there began a steady move towards militarisation of the workers' militias by turning them into a regular army. While everybody on the republican side agreed on the need of greater discipline and co-ordination towards a coherent strategy in the ranks of the fighters, there were wide divergences on how to attain this goal. The anarcho-syndicalists wanted these transformations within the framework of worker's militia, maintaining the system of electing officers, equality of pay and no gazetted rank. The PCE and its allies, under the supervision of the Comintern's 'delegates' or 'instructors' (like Codovila, Stefanov, Togliatti under their various aliases), wanted a fully militarised hierarchically organised regular army - of course under the appellation of Peoples' Army - under a unitied single command (mando unico). The second position triumphed, though with strong initial opposition, particularly by the anarchist youth with their slogan: "Down with the army, Long Live Peoples' Militias" (Abajo el ejercito, vivan las milicias populares!). A decree on 'militarising the militias' was passed by the republican government. The very important Russian aid in arms, which PCE withheld supplying to the militias who refused to be militarised, largely contributed to the defeat of the revolutionary line of the workers' militias

A turning point came on May 3, 1937 when, following upon government order to surrender all private arms and in the circumstances that have always remained somewhat obscure, the Catalonian head of the police, a communist. brought in, reportedly on his own initiative, truckloads of 'civil guards' to take over the Barcelona central telephone exchange, operated mainly by the CNT union, and to disarm the workers. The instantaneous and spontaneous reaction

was a general strike in Barcelona for three days and armed clashes of the workers' militias with the police, resulting in hundreds of dead and wounded. Finally the government had to disown its police chief, and the police as well as the workers' militias withdrew. However, the 'May days' were immediately exploited by the PCE which presented the events as an "insurrection prepared by the Trotskyists of the POUM with the help of German and Italian police". On May 15, the communist ministers demanded complete suppression of trade unions in Catalonia and placing of the Catalonian press and police under what would in practice have amounted to communist control. They particularly insisted on the suppression of the POUM and the arrest of all its leaders and their prosecution on "the absurd charges of treason and collaboration with the enemy" (Brenan 1969]. The head of the republican government, Caballero - a left socialist refused their demand, but finally had to resign, being replaced by the right socialist Negrin. Ultimately the POUM was dissolved and its leaders were brought to trial. However, the tribunal, set up by the government itself, after courageously resisting the official pressure, dismissed the charges of 'espionage' and 'betrayal' as trumped up and talse, though it sentenced the POUM leaders to various prison terms for disobeying the authorities [Bolloten 1991]. \* The most despicable part of the episode was the tragedy of the POEM leader Andres Nin, one of the finest revolutionaries of Spain. Arrested at the same time as the other leaders of the party, he was handed over to the head of the Russian secret police in Spain, Orlov, who confined him in a private prison in Barcelona and made him undergo torture in order to extract 'confession' a la the (in)famous Moscow show trials. Unable to obtain any 'collaboration', the secret police simply assassinated him. 17 FClaudin, the exleader of the communist youth in Spain, would later write that Nin's assassination was an "outrage against communism" [Claudin 1970]. At the same time a new political police, the notorious "Servicio de Investigacion Militar' (SIM) was created, controlled by the PCE and the Russian 'technicians', outside the control of the government. On the other hand, almost half of the Barcelona state prison, 'Carcel Modelo', was filled with the members of CNT-FAI and POUM. F Challage from Paris and J McGovern from London, leading an enquiry in November 1937, were surprised. at this prison, by the sight of the hundreds of prisoners singing Internationale. When McGovern - an Independent Labour MP went to visit one of the secret prisons maintained by the PCE in Barcelona called 'priventoriums', he could not get admission even with a signed order from the director of prisons and the minister of justice. When he asked the prison official "who was his boss, he gave us an address to the Cheka headquarters". The minister of the interior had to tell him: "We have received aid from Russia and have had to permit certain actions which we did not like" [McGovern 1938]. Finally, let us note that beginning with the second half of 1937, when the Russian 'technicians' started to be recalled to Moscow, almost all those who were called 'Spaniards' in Russia began to 'disappear' shortly after they had arrived in Russia. These included notably, among others, Rosenberg, ambassador to Spain; Antonov Ovseenko, Consul General at Barcelona; Koltsov, Pravda's correspondent; and General Goriev, the veritable organiser of the defence of Madrid.

More than anywhere else, the situation in Spain in the 1930s looked like what Marx had called in 1850 "the revolution in permanence" - a democratic revolution immediately going over into a proletarian revolution The talse Comintern-PCE orientation of 'democracy vs fascism', to which the dominant anarchist leadership came to subscribe, destroyed this great opportunity The PCE thus acted as a "countercurrent to the profound dynamic of the Spanish revolution" [Claudin 1970]. Realising - shortly after the civil war - the great mistake the anarchists had committed in believing that in order to win the revolution the war had to be won first, one of their leaders wrote: "We have sacrificed the revolution itself without understanding that this sacrifice entailed the sacrifice of the aims of the war" [Santillan 1940].

# III Bolshevism, Commune, Socialism

Ahmed sees the 'Bolshevik Revolution as the "logical culmination of the Paris Commune", and then speaks of "Soviet Socialism" (pp 1329, 1330), which presumably is the type of "Socialism: for which the 'Left' stands and to which "the allies of the Lett in the Third Force are deeply hostile" (p 1343). We take up the two issues in turn.

BOLSHEVIK REVOLUTION AND THE COMMUNE<sup>18</sup>

'Bolshevik Revolution' refers to the seizure of political power by the Bolshevik Party in Russia in October 1917. Though power was seized in the name of the working class, it was not the working class that seized the power nor was the power installed a working class power. It was not the working class's own organs like the soviets and the factory committees which seized power. It was the Party Central Committee which took the decision secretly to seize power without the

knowledge of the working class's self-administered organs, even without the knowledge of the ordinary members of the Party itself. And seizing power before the Second Congress of the Soviets could meet, the Party leadership placed before the Congress a fait accompli. An undisputed authority on the soviets writes: "The October revolution was prepared and accomplished under the slogan of 'all power to the soviets'. However, an examination of the historical reality shows that only a fraction of the workers', sailors' and soldiers' deputies themselves wanted the seizure of power" [Anweiler 1958].

Lenin, equating "proletarian power" with the "Bolshevik power" (1982a:381; 1975:383),14 wrote, six months after the scizure of power: "We the party of the Bolsheviks, conquered (otvoevali) Russia from the tich for the poor... We must now govern Russia" (1982a: 596; 1975:589).<sup>20</sup> How very different was the experience of the Commune! The Paris Revolution was literally a people's revolution. "The workmen of Paris have taken the initiative of the present Revolution", wrote Marx, "it is the people acting itself for itself' [Marx 1971]. The Commune resulted from "the rise of all living Paris against the government of defence" [Marx 1971], whereas the Bolshevik seizure of power, carried out without the knowledge of the vast majority of the people of Petrograd, involved a small fraction of its 4,00,000 workers. The historians have written that "this was not a rising of the masses as the March (February) revolution and the July days had been... Most people in Petrogard did not even know that a revolution was taking place. The trains were running, the fashionable restaurants were crowded, theatre was crowded and Chaliapin was singing at the Opera" [Taylor 1977]. 'Even the members of the provisional government did not see that power had slipped from their hands and that it was now in the hands of the Bolsheviks" [Heller and Nekrich 1982]. Finally the National Guard into which "all Parisians capable of bearing arms had enrolled and where workers constituted the great majority" [Engels 1971] was, unlike the Bolshevik Party, the working class itself which, as a body, freely chose to entrust the supreme power to the Central Committee of the National Guard. This National Guard was anything but a 'vanguard party' in the sense of Lenin. It was closer to Marx's idea of "the working class constituting itself into a party".

What was the nature of the Commune? "That the Revolution is made in the name of and confessedly for the popular masses", wrote Marx, "is a feature this (commune) Revolution has in common with all its predecessors. The new feature is that the people... have taken the actual management

of their Revolution into their awn hands...(and that) workmen govern Paris" [Marx 1971; first emphasis is in text, the second is ours]. As if to contradict this Lenin told the Party's Eighth Congress: "Till now we have not reached a stage where the labouring massess could participate in government" (1982b:115; 1971:182). E H Carr cites Lenin's 1921 statement: "Can every worker know how to administer the state? Practical people know that this is a fairy tale" [Carr 1964]. Lenin had 'forgotten' that he himself had told this "fairy tale" in his pre-seizure ('impractical') days. Marx and Engels noted that the Commune had destroyed the old state machinery instead of simply taking it over. The very first decree of the Commune was the suppression of the standing army and its replacement not by another standing army but by the armed workers. Similarly the police was turned from a repressive agent of the government into a responsible and "at all time revocable agent of the Commune". The Commune not only "got rid of the standing army and the police", the Commune also filled all posts administrative, judicial, educational - by election on the basis of universal suffrage, subject to recall at any time by the same electors. Similarly all officials, high or low. were paid only the wages received by other workers. Needless to add, these measures included the Commune members themselves.

In his 'fairy tale' ('impractical') days Lenin had designated precisely these features of the Commune as the "Commune's essence" and had denounced the "Plekhanovs and the" Kautskys" of having "forgotten and perverted" it. In the post-seizure period, when the Bolsheviks became 'practical people', they, in their turn, also 'forgot and perverted' this very essence of the Commune. However, the Bolsheviks' 'forgetfulness and perversion' were infinitely more serious than those of 'Pickhanovs and Kautskys', masmuch as these no longer remained in the realm of ideas but were faithfully translated into (Bolshevik) practice. On the morrow of the seizure of power, when the old army had practically melted away, the Bolsheviks created, thanks to Trotsky's genius, a new standing army - 'Red', of course - abolishing the earlier declared principle of election of officers, clipping the rights of the soldiers' committees and employing the old Tsarist officers in the key posts in increasing numbers [Anweiler 1958]. A similar development could be seen in the rise and consolidation of a special police apparatus - 'Vecheka' or 'Cheka' - which, established just five weeks after the seizure of power, rapidly grew to over a quarter million by mid-1921 [Schapiro 1984]. Simultaneously a bureaucratic apparatus, entirely nominated from above and hierarchically organised - the officials being responsible only to their superiors in the hierarchy - increased with gigantic strides. All the important office-holders were simply party nominees through a system directly taken over from the Tsarist 'Table of Ranks' - the so-called Nomenklatura. Thus the Russian reality completely contradicted Lenin's assertion that the Soviet Republic was a "continuation" of the Paris Commune. Indeed, shortly before his death, Lenin admitted that "we effectively took over the old state apparatus from the Tsar and the bourgeoisie" (1982b:695; 1971:742).

# 'SOVIET SOCIALISM'

The soviet movement arose spontaneously in 1917 (as it did in 1905), independently of the political parties and much to their astonishment. I Starting in the capital, the movement spread to all the corners of the land, first confined to the workers and soldiers and then englobing the peasantry. The soviets were composed of deputies, elected and subject to recall by the working people and soldiers themselves. In this as well as in their spontaneous rise as a popular revolutionary movement, the soviets resembled the Paris Commune.

A minority for the first few months, the Bolsheviks had gained, by early autumn, clear majority in the soviets in the important urban areas. In the vast rural areas they remained a small minority in the peasants' soviets. "All power to the soviets" was the great mobilising slogan of the Bolsheviks. However, what Lenin really wanted was all power to his party. This is clearly seen when in the very first Congress of the Workers' and Soldiers' Deputies, there the Bolsheviks constituted less than a seventh of the delegates, Lenin declared that his party was ready to assume power (without consulting anybody in the party thus including his own enunciated principle of 'democratic centralism').22

Again, about one month before taking power, on the strength of the party's majority in the Petrograd and the Moscow soviets alone, Lenin insisted that the "Bolsheviks can and must take state power into their own hands (v svoi ruki)" and that "it would be naive to wait for a formal majority for the Bolsheviks" (1982a:325-26; 1975:328-29; the first emphasis is in the text, the second is ours). Even when it was clear that in the Second Congress of the Soviets the Bolsheviks together with their allies would have a clear majority, Lenin, unsure of the outcome of the normal democratic process, wanted the party to seize power by force even before the Congress would meet "It would be ruinous or a formality to wait for the wavering vote of October 25. The people have the right and the duty to resolve such questions not by vote, but by force" (1982a:413; 1975:416). It is Lenin alone, it seems, who had the 'right' and the 'duty' to determine this right and this duty for the people. The Provisional Government was dismissed not by the Congress of Soviets, not even by the Petrograd Soviet, but by the so-called Military Revolutionary Committee of the Petrograd Soviet - where all the members were Bolshevik except one, the president, a left socialist - by a decree drawn up not by its president, but by Lenin (again without consulting anybody, including his party, violating once more the principle of democratic centralism) [Ferro 1980]. By July 1918, the locus of decision-making shifted from the soviets to the party, notes an American historian "The whole system of soviets and executive committees were reduced to an administrative and propaganda auxiliary of the party" [Daniels 1967]. "The soviets were transformed from organs of the proletarian self-rule and vehicles of radical democracy into organs, allowing the party elite to lead the masses" [Anweiler 1958]. E H Carr cites a resolution of the Eighth Party Congress (1919): "The Russian Communist Party must win for itself undivided political mastery in the soviets and political control over all their work", and then adds, referring to what really happened within three years of the seizure of power, that the "ultimate power of decision rested with the appropriate party organ", and that "central soviet organs and local executive committees both ultimately recognised and authority outside the soviet system" [Can 1964: our emphasis].

By the side of the soviets another organ of workers' self-rule arose in Russia in 1917 - the factory committees, organised by the industrial workers alone. While the soviets in course of their growing institutionalisation were often not in direct contact with the working masses at the base, the factory committees, elected by the workers and subject to recall by their electors, were in daily contact with the workers at the shop floor and to that extent they directly reflected the changing temper and growing revolutionary experience of the workers. By October 1917, these committees, now spicad all over the industrial centres, had successfully pushed the trade unions in the background, and, independently of any law, they were directly intervening not only in the questions of day-to-day production, but also in those of enterprise management, frequently bringing the factories under the collective possession of the workers after expelling the legal owners [Avrich 1963: Ferro 1967]. The Bolsheviks had found in them an ideal instrument of propaganda and, in fact, these became a Bolshevik stronghold fairly rapidly. However, after the seizure of power, these factory committees, like the soviets, underwent a 'radioactive decay'. The trade unions, now dominated by the

Bolsheviks, succeeded in annexing them and transforming them into their own organs at the lowest level, thus ending the sovereignty of these organs of workers' selfrule. The practice of collectively administering the aftairs of work places by the workers themselves through their elected organs, carlier championed by the Bolsheviks, was now denounced as "petty bourgeois, spontaneity" by Lenin who, at the same time, stressed the importance of "raising labour discipline and labour productivity" through such typical bourgeois measures as single-person management "vested with dictatorial powers (diktatorskim polnomochiyamı)", Taylor system and piece work (1982a:630; 1975:622)

It should be clear that in the light of the effective liquidation of the soviets, including the factory committees — which had their own 'soviet of factory committees' — as the working people's independent organs of self-rule, the first term of 'soviet socialism' evaporates (in its original revolutionary sense). Could the system be still qualified as some kind of (non-soviet) 'socialism'?

Russia was formally declared 'socialist' in the middle 1930s (earlier it was supposed to be in the transitional phase between capitalism and socialism). The fundamental reason given was the alleged 'public [that is, mainly state) ownership', equated to 'socialist ownership', of the means of production, And, following Stalin, ownership formed the basis of the production relation (1980 505),71 A party resolution echoing Stalin, qualified this 'socialism' as the "first phase of communism" [KPSS 1971:335]. How do the materialists characterise socialism? Exactly in the same way as they characterise any other social formation, that is, by the specificity of the social relation of production (not by ownership relation or forms). Just as the social relations of production in capitalism are based on the separation (alienation) of the immediate producers from the conditions of production, in the same way the social relations of production in socialism - the antipode of capitalism - are based on the free union of the immediate producers with the conditions of production to which corresponds the "associated mode of production" as opposed to the "capitalist mode of production". It should be noted that to designate the postcapitalist society Marx does not distinguish between socialism and communism, which he also calls, alternatively, Union. Associated Associated Labour, Republic of Labour - the postcapitalist society going through (at least) two successive phases. 4 There is no specific 'transitional society' preceding socialism (communism). The new society emerges from the capitalist society itself. In this profound sense capitalism is the transition to socialism [Marx 1962b:426; 1978b:429]. However, there is a transitional period called by Marx "revolutionary transformation period" under the absolute rule of the working class, during which capitalist relations are increasingly revolutionsed till a point is reached where the producers cease to be proletarians, commodity production and wage labour go out of existence, and the state, by definition a repressive machinery. evaporates. Correspondingly, it is society itself, after getting rid of the state, that collectively appropriates the conditions of production - in which case only one could speak of 'social ownership' - and takes charge of allocation and distribution of the results of production. This is socialism as originally conceived by Marx where, as opposed to individual's "personal dependence" - as in pre-capitalism - and "material dependence" - as in capitalism there is "free individuality" [Marx 1953:75], where "the development of the human power is an end in itself [sich als Selbstzweck]" [Marx 1964:828; 1984:820]. Here at last the 'pre-history' of humanity ends and its 'history' begins, in Marx's famous 1859 formulation.

What was the nature of 'socialism' that was inaugurated in Russia in 1930s? First of all, it should be clear that the "revolutionary transformation period" under the absolute rule of the proletariat as a class preceding socialism did not exist in Russia. As we argued above, it was a dictatorship over the proletariat by the party, standing above and completely autonomised from the immediate producers, with all the levels of power concentrated in its hands. The state which, under the proletarian rule, is supposed to be already "no longer a state in the proper sense of the term" (Engels) - that is, with much of its repressive power already gone - became on the contrary, in Russia increasingly oppressive and, to paraphrase Marx, the Bolsheviks (unlike the Communards) "perfected the state machinery instead of throwing off this deadening incubus".25 Thus lacking the necessary pre-conditions, the advent of a socialist society in the post-October Russia was out of question. Under a state completely monopolised by the party over which the producers had no control, 'public' or 'social ownership' in the means of production simply signified nonownership of the producers over the means of production, the juridical fiction to the contrary notwithstanding. For most of the 'socialist' period, the producers' nonproperty in the means of production meant also their separation from the conditions of production at the level of the individual commodity producing units of production. In other words, the industrial wokrers continued to be wage labourers under what

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the Russian rulers called - by a singular inversion of categories - the "lower phase of communism", where, in fact, in Marx's famous paraphrase of Ricardo, "the means of production employed the labourers, the labourers did not employ the means of production". For about 15 years - from the late 1930s to the early 1950s - the wage labourers were also subject to non-economic constraints, such as labour books, legal prohibition on leaving jobs, severe penalties for absenteeism, compulsory transfers for the skilled workers - leaving aside the question of the great number of prisoners working (productively) from inside the labour camps. There is no evidence that these constraints were self-imposed by the workers themselves. The situation of the immediate producers in the countryside was even worse. They were, for a long time, subjected to compulsory corvee like road building and timber cutting, which did not apply to the city dwellers, and, in the words of a foremost authority, they were "subjected to a labour system which reminded them of conditions from which the revolution seemed to have redeemed them forever" [Lewin

We conclude that there was no socialism in Russia. Indeed, if we take 'soviet' and 'socialism' in their original revolutionary senses, then that which the 'Left' calls 'Soviet Socialism' turns out to be anti-soviet antisocialism.

# **Notes**

[Citations from non-English sources are given in our own translation. Wherever possible, their English versions are also referred to. In that case the first reference is to the original version, the second to the English version.]

- 1 In the following lines 'communist party' and 'communists' in general refer uniquely to the leadership of the party at the highest level, unless otherwise qualified.
- 2 This is a somewhat surprising argument worthy of the 'social democrats' - in Ahmad's pejorative sense - who would like to hang on to power, unlike the communists who are supposed to challenge the existing order in a revolutionary way, even at the cost of losing the governmental power. In any case it is not at all clear how a 'social democratic' government would behave in a similar situation. Here a recent pertinent comment by the EPW is worth citing. Referring to the Indian Leftists' "problem of retaining and continuing its adherence to the basic principles of socialism", it added: "A Left Front ruled West Bengal... was expected to provide an alternative model of government that would heed to the demands of the common people for an end to corruption and police atrocities on the one hand and for the restoration of the sick industries which have thrown thousands of workers out on the streets on the other. On both counts the Left Front government has

- failed. Its increasing dependence on and compromise with big industries are making it indistinguishable in these respects from either the Congress or the BJP ruling parties in other states' (EPW, Vol XXXI, No 28, p 1812).
- 3 Speaking of "India's strategic ambitions to develop nuclear capabilities kept well hidden for decades under the cover of peaceful nuclear programmes", EPW has correctly observed that "what is particularly ominous is that the entire range of mainstream political parties from the right to the left share a consensus on this issue" (Vol XXXI, No 26, p 1636, our emphasis). Or maybe we are wrong. Maybe the 'Left' has discerned beneath the class language cover of the 'bourgeois-landlord classes' that these classes are pursuing the relentless arms programme not to strengthen their (repressive) state machinery, but really to develop weapons to destroy 'imperialism'. But even in the latter case our argument about 'consensus' holds, though it is now around a 'iust cause'.
- 4 With this kind of ultra chauvinism, one wonders how CPI(M) can still claim to be the followers of Lenin who, to his great credit, was an out and out internationalist and a firm partisan of the right of self-determination including the right to secede of the minority, nationalities of a country. Quite possibly the CPI(M)'s position constitutes a creative application of (Marxism) Leninism in the era of decline and fall of 'socialism'.
- 5 See de Oliviera Marques (1972), Bourdon (1985); Durand (1992).
- 6 See also Tanin and Yohan (1934).
- 7 For Iran we draw on Arani (1979) and Cottam (1979, 1980).
- 8 To the credit of Trotsky, he, in 1930, called for a united front of the commuists and the social democrats against fascism and qualified as "absurd" the idea that fascism could not be defeated without the prior defeat of the social democrats Similar also were the views of Bukharin, accused of being a 'rightist', who called for a "single proletarian front".
- 9 We cannot leave this brief note on the German party's positive role in the rise and victory of German Fascism without mentioning workers' massive uprising in Germany at a later date, which did not require any fascist government to suppress it. The 'working class leadership' was at hand for the job. In the 'Socialist' German Democratic Republic there was a massive working class uprising against the regime, begining on June 17, 1953, first in the form of widespread strikes against low wages and high cost of living, and then increasingly taking political overtones. In view of the popular character of this uprising Brecht wrote a poem where he advised the party to dissolve the people. who did not deserve the party's confidence, and elect a new people [Brant 1955; Heller and Nekrich 1982].
- 10 National Confederation of Labour and Iberian Anarchist Federation within the former. One of the best accounts of the development of the anarchist movement in Spain is in Brenan (1969) For CNT the best reference is the monumental three-volume work by J Peirats (1951-1953).
- 11 These dissident communists, Workers' Party

- on markist Unification (FUUM) was numerically small, almost confined to Catalonia, but contained an unusually high proportion of politically conscious members. POUM would be increasingly villified by th PCE; falsely and conveniently, as 'Trotskyists' ('Trotsky-fascists') which it certainly was not. The Trotskyists had their own independent party, so tiny as being of no importance.
- 12 The first phase of the revolution from the rise of the 'committees' and the corresponding workers' militias to the disbanding of the former and the disarming of the latter by the republican government spearheaded by the PCE is brilliantly portrayed in the recent film by the independent Marxist Ken Loach, Land and Freedom, which is also notable for its high aesthetic qualities.
- 13 Orwell, who was fighting in the POUM ranks on the Aragon Front, wrote: "The thing that had happened in Spain was not merely a civil war, but the beginning of a revolution. It is this fact that the anti-fascist press outside Spain made it its special business to obscure The issue has been narrowed down to 'fascism vs democracy' and the revolutionary aspect concealed as much as possible. Outside Spain few people grasped that there was a revolution; inside Spain nobody doubted it" [Orwell 1966]. Bolloten cites F Claudin, an ex-PCE leader: "In the weeks after July 19, the capitalist order practically ceased to exist in the Republican area, the means of production and political power in effect passed into the hands of the workers' organisation. All historians of the Spanish Civil War are in agreement on this point except for those who do not aim for historical truth, but to justify the policy of Stalin and the Commtern" [Bolloten 1991]
- 14 The International Brigades distinguished themselves particularly by their magnificent defence of Madrid. For a synthetic account of the Brigades see Delaperrie de Bayac (1968).
- 15 Formally he was a member of the 'Unified Socialist Party of Catalonia' (PSUC) which resulted from a merger of Catalonia's socialist party and communist party. PSUC was affiliated to the Comintern.
- 16 It was a bitter pill for the Comintern. In his report to Moscow Togliatti called the sentence "outrageous", which was "no serious punishment" The PCE simply did not publish the judgment [Bolloten 1991]
- 17 Pravda had written on December 17, 1936: "So far as Catalonia is concerned, the cleaning up of the Trotskyist and anarcho-syndicalist elements has already begun, and it will be carried out with the same energy as in the USSR." The torture and assassination of Nin by secret police would later be revealed by a PCE leader, J Hernandez, minister of education under Negrin, after the civil war when he had escaped to Mexico from Moscow [Hernandez, 1953].
- 18 We assume that by 'Commune' the author means the Commune of 1871 and not the Commune of Paris which arose during the French bourgeois revolution of the 18th century.
- 19 To bring out the spirit of what Lenin was saying, the term vlast is more appropriately rendered as 'power' rather than 'government' as in the Moscow translation.

- 20 1 rotsky, second to Lenin in the party leadership, wrote in 1920: "The substitution of the power of the party for the power of the working class is, basically, no substitution at all."
- 21 To the glory of Russia's women, the soviet movement was initiated by the women of Petrograd on the International Women's Day, February 23 (March 18), the women's role being crucial not only in leading the beginning stages of the movement but also in disarming the forces sent to repress it.
- 22 In a famous justification of the Bolshevik monopoly of power Lenin asserted not long before the seizure of power that if 1,30,000 landlords could role Russia, then so could 2,40,000 Bolsheviks, of course "in the interest of the poor and against the rich" (1982a:367; 1975-369).
- 23 Stalin's formulation was of course a complete inversion of the materialist position according to which "juridical relations arise from production relations" and property relation only "reflects (widerspiegelt) economic relation" which is its "content (Inhalt)" (Marx 1962a. 99, 1978a:88, 1966:177; 1970:318). The Moore-Aveling English translation of the relevant text in Capital I is rather poor.
- 24 Thus, contrary to a widespread idea shared also by at least the majority on the 'Left' - socialism is not the transition to communism.
- 25 The 'Left' the modern day statists should note well that Marx had praised the Communards for their "Revolution against the State itself" (1971: 152; emphasis in original). Later Engels severely criticised the "statist superstition" of the German Social Democrats.

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# Economic Rights of Women in Islamic Law

# Flavia Agnes

The law of marriage in its essence is a law regulating economic transactions and woman's access to and control over it. The Islamic provisions of 'mehr' and marriage agreements, and right of property management have stood Muslim women in good stead during litigation in the last century. However, gradual infiltration of Hindu notion of sacramental marriage and English principles of morality and public policy have curtailed Muslim women's rights granted under Islamic jurisprudence. Muslim leadership needs to give up its attitude of negating women's rights if it aspires for support of secular and human rights forum in the period of aggressive Hindu communal propaganda for uniform civil code.

THE law governing marriage and family relationships in its essence is a law of property settlement rather than a law governing sexual morality. Hence, any proposal for reform would have to necessarily redefine property rights of women within the family. This consciousness has led both conservative as well as progressive forums now engaged in drafting alternate codes to focus more upon the economic rights of women rather than confine the debate to issues of monogamy and sexual control.

In this context, even the Hindu fundamentalist political parties like the BJP have been forced to acknowledge that the Hindu law of succession does not grant rights to women and hence while enforcing a uniform code, the concept of Hindu joint family property may have to be abolished.

Most legal scholars concede that the Muslim law of inheritance protects women's rights better than the Hindu law based on male coparcenary. But in the realm of matrimonial law, it is presumed that the Hindu law (which is a reflection of the archaic British law) will be more favourable to women than the Muslim law which permits polygamy and triple talaq. In fact, the rationale for a uniform code is based on this premise, i e, liberation of Muslim women

The present Hindu law of marriage and divorce is a curious mixture of Victorian morality, Hindu notion of women's servility and the modern concept of a contract between equals, which collectively work towards the subordination of women. Since it has nothing to offer in the realm of economic rights, we need to take recourse either to the Continental system which is based on equitable distribution of matrimonial property or to the Islamic concept of mehr.

Unfortunately, due to the communal undertones which usually accompany the demand for a uniform civil code, the contribution of Islamic legal principles to the modern matrimonial jurisprudence has not received due recognition. For instance, the Islamic principle of marriage as a dissoluble contract was borrowed first by the Continental and later by the British matrimonial juris-

prudence, to set off the Christian notion of marriage as an eternal and indissoluble sacrament, while ushering in modernity. This concept was incorporated into the Hindu law in 1955.

In the British legal system, divorce, in its origin, was confined to faults, where one spouse had to prove a matrimonial offence against the other. And if women were the 'guilty' spouse, they would be deprived of the meagre maintenance dole and additionally their property could be settled in their husbands' favour as compensation for the loss of proprietary rights.

In contrast, the Islamic law provided for more civilised modes of dissolving marriages, either by consent or by providing for irretrievable breakdown of marriage. Only in the later half of 20th century the British matrimonial jurisprudence accepted the concept of divorce by mutual consent. This was incorporated into the Hindu law in 1976. The Indian Divorce Act which governs Christian marriages has not recognised this concept to date and the only option open to consenting spouses under Christian law is collusion and perjury. The notion of 'no fault divorce' (or irretrievable breakdown of marriage) has not yet been accepted by the Hindu law.

Under Islamic law, while the husband is granted an unlimited right of divorce, the wife is also granted a limited right of khula. To equalise the status of spouses within marriage, the neighbouring Pakistan and Bangladesh have, at one level curbed the husband's right of oral talaq by stipulating mandatory arbitration procedures, and at the other level, secured the woman's right to khula through standardised marriage contracts, nikah-nama. The contract includes a routine clause through which the husband is bound to grant the right of khula to the wife at the time of contracting the marriage. The Supreme Court of Pakistan in the landmark decision in Khurshid Bibi's case while interpreting this provision held that hatred or aversion towards the husband is sufficient for obtaining khula and ruled that the consent of the husband is not a necessary precondition.

The provisions of arbitration and speedy settlement of matrimonial dispute are also important principles of Islamic matrimonial jurisprudence. If arbitration procedures fail, the matrimonial bond should be severed with ease, ahsan. Several judgments of high courts in Pakistan have relied on this principle and have held that marriage should be dissolved through a simple deed and anyone who makes it complicated will stand ostracised.2 This concept has gained statutory recognition in India, through the family courts act which provides for. arbitration and speedy settlements rather than prolonged adversarial litigation of the British system, where one spouse is required to prove the matrimonial offence against the other, which causes great hardships and humiliation to women in court rooms.

Since Islamic law provided the modern matrimonial jurisprudence with important legal principles, perhaps it would be worth our while also to examine the Quranic right of mehr which was meant to provide a safeguard against arbitrary oral divorce. This right of providing for the future security of the woman at the time of marriage, finds no parallel in any other legal system.

All provisions of dissolving a marriage become detrimental to women if they are not simultaneously linked to protection of economic rights. It is this court room reality which makes it imperative to examine the rights of mehr and pre-marriage agreement bestowed upon women under the Islamic law.

SUPERIOR POSITION OF WOMEN IN ISLAM

Mehr is a Quranic right. A specific mention of this right is made in all subsequent legal texts. Chapter IV verse 3 of the Holy Quran stipulates: "And give women their dower freely and if they are good enough to remit any of it of their own free will, then enjoy it with a good conscience". There is also a mention that the Prophet settled 500 dhirams on each of his wives with the exception of Omm Babeebah (from Abysinia) on whom he settled 4000 dhirams.

According to the Maliki school of Islamic law, a marriage without the stipulation of

ment is invalid. According to the Hanafi school the marriage is valid but if no mehr is stipulated or if the amount stipulated is very low, the woman is entitled to a proper mehr, mehr-el-misl. The proper mehr would have to be determined depending upon the means of the husband and the family status of the wife.

While a minimum of 10 dhirams is mandatory, the legal texts routinely mention amounts of 1,000 and 2,000 dhirams by way of examples which indicate that the amounts settled were meant to be far above the lowest stipulated. Additions to the amount stipulated at the time of marriage can be made at any time during the marriage. Mehr is a mark of respect to the wife and is meant to set off the disability suffered by women under the law of inheritance. Hence, the amount stipulated has to be substantial. A token amount is injustice and wrong as per Islamic principles

If the mehr is prompt it is payable on demand. If it is deferred, it must be paid subsequently and in any event upon dissolution of marriage either by death or divorce. If at the time of dissolution of marriage the mehr dues are unpaid, the woman is entitled to retain possession of her deceased husband's property. Usually this right is discussed in legal texts as a 'widow's right' but the same principle would apply if the marriage is dissolved by divorce.

A woman has the right to impose conditions regarding her mehr. For instance she can stipulate that if the husband resides in the same city as her parents then the mehr amount would be 1,000 dhirams, but if he shifts to another city then the amount should be doubled. In such a case if the husband does shift to another city then the wife is entitled to claim 2,000 dhirams.

Mehr need not be stipulated only in cash. Gold ornaments, valuables and other movable and immovable property can also be settled as mehr. Mehr is the sole right of the wife and the husband cannot have any claim over it once the marriage is consummated.

The husband can settle his share of family property or a particular house as mehr. The woman would then be entitled to this property or its monetary value. If the woman claims that the matrimonial residence has been given to her in lieu of her mehr debt, it is for the husband to rebut the presumption If the husband refuses to pay the prompt mehr upon marriage, the woman can refuse to fulfil-her marital obligations including cohabitation. She is not bound to obey any of his commands. The wife is entitled to live separately and claim maintenance from her husband during this period. Even if the husband has paid nine dhirams and one dhiram is due, the wife has a right to refuse cohabitation and the husband is not entitled to reclaim the nine dhirams already paid.

If a man agrees to pay a certain amount of mehr upon the condition that the wife is a virgin and subsequently discovers that she is not, he cannot retract from his commitment and the woman is entitled to the full amount. Once settled, the husband cannot be absolved of his duty to pay the dues, even when there is a subsequent separation which is caused by the wife's action. Even when a Muslim marries a non-Muslim he is bound to pay her the mehr.

The superior position of women under Islamic law can be ascertained only when we compare it with the status of women under other contemporary legal systems. Under Roman and British legal systems of this period, women lost their rights to acquire, hold and manage separate property upon marriage. The Roman law of marriage which derived its roots from the Judaic law was based on the notion of a patriarchal family consisting of wives, sons and slaves. The head of the family acquired total control over the person, property and labour powers of all the members of his household. The wife was treated as the ward and she had no independent identity.

Under the British system, upon marriage, the woman lost her legal existence. Marriage meant a legal death. All her property belonged to her husband and he could not only use it but even alienate it without her consent. The husband's right to his wife's property was held in such high esteem that even after betrothal, if the woman alienated her property without the consent of the groom, he could sue her for fraud.

Only in the year 1870 a married woman who was legally separated from her husband was granted the right to hold separate property. A married woman did not have the right to enter into a contract either with her husband or with a third party till the year 1935.

The Qurante right of mehr is distinct from the customary right of bride price and the English concept of dower. Many tribes and communities in Africa and Asia followed a custom of bride price where the groom was bound to pay a certain sum to the bride's father to compensate him for the loss of his daughter's labour power. The Prophet changed the concept of bride price to mehr, a sum to be settled upon the woman herself, as a mark of respect and future security to her. The amount settled belonged to the woman exclusively and not to her relatives.

The British jurists used the word mehr and dower interchangeably. But the right of mehr is distinct from the right of dower. Dower, under English law, is a widow's right to be maintained from her deceased husband's property. This right is very distinct from the Islamic right of mehr, which is a right upon marriage and not a right arising upon widowhood.

# JUDICIAL DECISIONS IN BRITISH PERIOD

The personal laws of the post-colonial period are no longer applicable in their pristine form. The rights are based on English translations of the original texts, the legal precedents of the British jurists and the local customs and practices. In order to ascertain the contemporary status, a scrutiny of these sources would be necessary.

While examining the case law concerning women's economic rights within marriage one can discern a curious trend. While judicial decisions throttled the Hindu woman's economic rights by constraining the scope of stridhana, the Muslim woman's economic rights could not be similarly throttled. The legal precedents also indicate that the rights of mehr and pre-marriage agreements were not just illusory rights but were viable economic safeguards.

Several judgments upheld the woman's right to impose conditions upon their husbands through private agreements. As per the Christian doctrine of eternal and indissoluble marriage, pre-nuptial agreements stipulating conditions of a future divorce were deemed to be against public policy. But since divorce was not considered as against public good under Islamic law, Islamic jurisprudence held such contracts as valid.

While adjudicating over matrimonial disputes, if the British jurists relied upon Islamic principles, the agreements were held to be valid. But if they relied upon British notions of morality and public policy, the agreements were invalidated. Some important legal decisions in this direction are discussed below.

In Badarannissa Bibi's case decided by the Calcutta High Court in 1871, the husband had entered into a pre-marriage agreement (kabin-nama) with his wife, authorising her to divorce him if he remarried without her consent. Subsequently, the husband did remarry and the wife approached the court for redress. The court dismissed the wife's plea on the ground that the Mohammedan law does not permit a wife to divorce herself upon a private agreement.

In appeal, an Islamic jurist, Moulvi Mahamat Hossein, appeared for the orife and pointed out the relevant sections from the legal texts which specifically mention the delegated power of the wife to divorce husband and pleaded that such a provision is not repugnant to the Mohammedan law. The court concurred with this view and ruled in the woman's favour.

Under the English law of contracts a person who is not a party to a contract cannot enforce it even when s/he is a beneficiary. Hence the following judgment, Khwaja Mohammed v Husseini Begum<sup>4</sup> discussed in detail, becomes an important milestone in the law of contract in India. The privy council

laid down a new precedent by upholding a minor gul's right to enforce a contract against her father in law even while she was not a party to it

In the year 1877, on the occasion of the marriage of his son, the father-in-law executed an agreement that he would pay the daughter in-law Rs 500 per month as khapch i pandan in perpetuity. After seven years, the wife was compelled to leave the husband's home. Thirteen years later, in 1896, the couple was separated. In 1901, the wife filed a suit to recover arrears. The trial court refused to enforce the agreement on the following grounds.

- 1 It is unreasonable to suppose that wife can enforce her contract against her father in law even when she refuses to live with her husband. To hold so would be repulsive to conscience and common sense.
- 2 The unchastity of the woman has not been proved, but her character is not beyond suspicion
- 3 If she refuses to live with her hu band the father in law has no duty to pay kharch-r pandan
- 4 The ausband entertaining prostitutes at home and incurring debts are not reasonable justifications for wife strefusal to live with him

In appeal the Allahabad High Court decreed in the wife's fivour as follows

- No condition had been attached to the payment of the annuity
- 2 Nothing is said in the agreement about the chastity of wife
- 3 Noprovision is stated under which father in law ce ises to be liable if wife stops living with ner husband or due to any other acts of the wife

In an Appeal against this decree to the privy council by the husband it was held

- 1 Although she was not a party to the agreement the wife was entitled to enforce it is she was the only beneficiary of the agreement. In India and among Muslim communities, mairrage is contracted by parents/guardians on Fehalt of minors. Hence serious injustice will be caused if the common law doctrine (read English law doctrine) is applied to agreements entered into an connection with such contracts.
- 2 The wife had not forfeited her right to tae allowance on her refusal to reside with her husband. By the agreement, the father in Tawbands himself unreservedly to pay to the wife the fixed allowance. There is no condition in the agreement that it should be paid only while she is living in the husband's house.

The court admonished the subordinate judge for his tenturk that the woman's character was not free from suspicion, and held that if the allegation of unchastity was

not proved, it was incorrect to make such derogatory comments in the judgment. The court also drew a distinction between kharch-1-pandan and the English concept of 'pin money' which could only be spent with the consent of the husband. In contrast, the Muslim woman could exercise her sole control over her kharch-1-pandan Explaining this concept the court ruled, "Kharch-ipandan, which literally means 'betel box expenses' is a personal allowance to the wite customary among Mohammedan families of rank, especially in upper India, fixed either before or after the marriage When they are minors, as is frequently the case the arrangement is made between the respective parents and guardians."

In a case decided by the Allahabad High Court in the 1921,5 the husband had married twice and had treated both wives with cruelty. The father of the third wife entered into an agreement with the husband and his father prior to the marriage, binding the husband to pay a sum of Rs. 15 per month for life, in addition to the dower debt, in case of divorce.

The wife was subsequently divorced and she approached the court for the enforcement of her contract. The court held that the agreement was enforceable as it was meant to secure the wife against ill-treatment. The court countered the plea that pre-marriage agreements are against public policy and held that agreements protecting a woman's future rights are valid under Islamic law.

# PUBLIC POLICY TREACHEROUS GROUND

While upholding the right of a Muslim wife to enter into agreement in respect of future maintenance, the Lahore High Court made an interesting comment regarding the notion of public policy. There is nothing in the husband's promise to pay a certain sum of money for the personal expenses of his wife which can be regarded as opposed to public policy. The court further cautioned. Public policy is unsafe and treacherous ground for legal decisions. It must therefore be kept within reasonable restraint. The

It must be noted that notions such as morality and public policy were English principles which were surreptitiously introduced into the Indian family law to the detirment of women's rights. Based on this premise women's customary and textual rights to divorce to adopt children or to inherit property were constantly curtailed. The following case reported in 1853 is a classic example of how the notion of public policy could be used against women's economic interests.

The case concerns the Muslim trading communities of Gujarat – Khojas and Memons. These communities followed the local custom of holding the family property

jointly! The male-headed coparcenaries denied women their right to a stipulated share in the property, which they were entitled to under the Shariat A woman from the trading family challenged this practice

On her behalf it was argued that the Hindu custom of disinheriting daughters which has been adopted by Mohammedans is most unreasonable and that public policy would dictate the adoption of the wiser rule laid down by the Quran by which daughters are allowed a defined share in the succession A contrast was drawn between the relative position which females hold in Hindu and Muslim systems. It was pointed out that since the Muslim system was more beneficial to women, it was the duty of the court to give it effect when the two come in collusion.

The comments of the concerned judge, Lord Erskine Perry, while disallowing the woman's claim are interesting to note "A custom for females to take no share in the inheritance is not unreasonable or against public policy in the eyes of the English law It accords in great part with the universal custom as to real estates where there are any male issue and with some local customs mentioned in Blackstone by which in certain manors females are excluded in all cases"

While the high courts of Calcutta, Allahabad and Lahore upheld a Muslim woman's right to enter into agreements, the Bombay High Court relying upon the English doctrine of public morality invalidated them

In Mehrally v Sakerkhanoobhar the couple was married in 1901. After a few months due to marital conflict the wife left the matrimonial home. Thereafter, in an attempt to reconcile, the husband executed an agreement stipulating the following.

- 1 He will rent a house and live separately with his wife, away from her family and relatives. If they cannot live together he will pay her Rs 20 per month as maintenance.
- 2 The wife's ornaments (20 to las of bangles, five to las of chain) belong to her exclusively and he would not claim any right over it,
- 3 He would not obstruct her from meeting her friends and relatives

The reconciliation following this agreement lasted only for one year and thereafter, the wife returned to her parents' house. Husband filed for restitution of conjugal rights. The wife relied upon the agreement in her defence. Rejecting the wife's plea, the court held. "The principle upon which the law looks askance at agreements contemplating the future separation of husband and wife, is a principle which is thoroughly fixed, having its foundations in the welfare of society. Hence an agreement which provides for a subsequent separation, is bad under English law."

rine court timen applied this principle to an agreement regarding maintenance in Bai Fatima's case? While contracting a second marriage, the husband executed an agreement in favour of the first wife that in case of disagreement he would pay her Rs 8 per month as maintenance. After separation, the first wife sued for recovering arrears of maintenance. Relying upon the preceding judgment, the court ruled that since the separation did not take place until some weeks after the execution of the agreement the post-nuptial agreement encouraged future separation and hence it was against public policy.

As can be observed, Muslim women were on a firm footing if the courts applied Islamic principles. The decision of the Oudh high court in Mansur v Azizulio is yet another example of this trend. In this case the Court laid down an important principle regarding the Muslim woman's right to shelter or, as formulated in the present context, the right to matrimonial home.

At the time of the second marriage, the husband entered into an agreement granting the first wife option to live separately and claim maintenance of Rs 5 per month in the event of disagreement between the two wives Subsequently, the first wife sued for arrears of maintenance amounting to Rs 58 7 0

Upholding her right of separate residence and maintenance, the court observed. If a Muslim marries two wives and if the wives are not able to get along, and if the husband is not able to provide separate ipartments, agreement in favour of one wife granting her maintenance (guzara) is not against public policy. The court differed from the view expressed by the Bombay high court that such agreements encourage separation. The judgment relied upon two important authorities on Muslim law regarding the Muslim woman stight of separate residence.

I A passage from the Hedaya It is incumbent upon a husband to provide a separate apartment for his wife's habitation to be solely and exclusively appropriated to her use, so that none of the husband's family or others may enter without her permission and desire because this is essentially necessary to her and is therefore, her due the same as maintenance and the word of God appoints her a dwelling house as a subsistence and as it is incumbent upon the husband to provide a habit idon for his wife, so he is not at liberty to admit any person to a share in it as this would be injurious to her, neither is the husband at liberty to intrude upon his wife, his child by another woman. If the husband appoints his wife an apartment within his own house giving her the lock and key it is sufficient as the end is, by this means. fully obtained"

2 A passage from Ameer Ali's Mohammedan Law "Under the Mohammedan law, the maintenance (nafkah) of a wife includes everything connected with her support and comfort such as food, raiment, lodging, etc, and must be provided in accordance with the social position of the parties. The wife is not entitled inerely to maintenance in the English sense of the word but has a right to claim a habitation for her own exclusive use in accordance with the husband's means. It is incumbent on the husband to provide a separate apartment for his wife's habitation to be solely and exclusively appropriated by her, because this is essentially necessary to her and is therefore her due, the same as her maintenance and the word of God appoints her a dwelling house as well as a subsistence'

### KLYSTONE OF ISLAMIC LAW OF MARRIAGE

The judgments discussed above indicate that a Muslim woman's right upon marriage were superior to the English woman's rights But recent research on Muslim societies indicate that these rights have been corroded Mehr is reduced to a mere token and in its place dowry, a custom practiced by the upper caste Hindu society is gaining acceptance. This development is disturbing Due to the ritualistic manner in which mehisettlements are contracted, there is a fear among women's rights activists that this right is not an adequate safeguard against destitution. But the reported judgments of a bygone era bear testimony to a different reality

In Sungra Bibi's a case decided in 1880,11 the unpaid mehi dues at the time of husband's death were Rs 51,000 and the assets left behind by the husband were insufficient to pay the dues. The full bench of Allahabad high court held that the wife was entitled to the whole amount stipulated, irrespective of the fact that the husband's assets were not sufficient to pay the dower debt.

In Kamar un-nissa Bibi's case of the saine period <sup>12</sup> the husband had made an oral gift of the property to his wife in the presence of seven witnesses. I after, he executed a document mukhtar nama to give effect to the gift, which was made in lieu of the unpaid dower of Rs 51 000. However, it was proved that the dower stipulated at the time of mairrage was a mere Rs 100. Decreeing in the woman's favour, the privy council held that it was not necessary to prove that Rs 51,000 was agreed upon it the time of marriage. Under Mohammedan law, mehi may be fixed even after marriage.

The Sultan Begam case of 1936 (AIR 1936 Lah 183) is yet another milestone in this direction. The widow claimed Rs 50,000

out of the stipulated amount of Rs 1,50,000 since the assets of her deceased husband were not sufficient to satisfy the entire amount. The husband's relatives alleged that the dower publicly announced was not intended to be paid and only a smaller amount settled in private was payable. But the privy council validated the *Kabin nama* of 1877 where a sum of Rs 1,25,000 was stipulated. The document was signed by the husband and attested and witnessed by 25 persons. The court held that the fact that the husband did not have the means or expectations to pay the amount was no reason to decree a smaller sum.

This judgment is significant for its observations regarding the right of mehr The privy council commented "Mehr has important uses which affect the domestic life of Mohammedans. The law giver of Islam. was anxious to safeguard the wife against the arbitrary exercise of the right of divorce by the husband. He accordingly devised the institution of mehr to control that right Mehr is a weapon in the hands of the wife to protect her from possible ill treatment by the husband. If she survived her husband and his other heirs ill treated her, she would not be thrown out into the streets but would be able, apart from her legal share to enforce against them her claim which must be paid out of the assets of the husband before they are distributed among his heirs. This is the keystone of the Mohammedan law of mehr in its purity

Protecting the woman's interest auther the courts have also ruled that nichr cannot be absolved in distress. Since the woman has a right to enter into a contract regarding her mehr the Islamic law grants her the right also to opt out of the contract. This is called the right of remittance. This provision is misused by elders in the family and the wom in is coerced into remitting the mehr during the husband's illness or on his death bed Recognising the disability women face during these moments, the courts have ruled that a consent obtained in a moment of distress does not constitute valid consent and the woman does not tortest her rights by this action

The courts have also granted due recognition to a woman's mability to claim her dues during the subsistence of her marriage. In 1855, the privy council held. It is important to consider how inconvenient it would be if a married woman was obliged to bring an action against her busband. It would be full of danger to the happiness of married life. 14

In a series of judgment the courts have ruled that, if at the time of the husband's death the widow's mehi dues are unpaid, and she is already in possession of the property, she has the power to retain possession. In economic terms this is a

substantial safeguard against destitution. The husband's relatives do not have the right to dispossess the widow until her claim is satisfied. Several courts have also held that this right is heritable and transferable.

The high amounts demanded by women as mehr resulted in the enactment of statutes in the states of Oudh (in 1876) and Jammu and Kashmir (in 1920) to protect husbands from the exorbitant amounts claimed by the wives. The statutes empowered the courts to reduce the amount if deemed to be too high and beyond the husband's means.

The amounts mentioned in the judgments cited above need to be viewed in the context of the living standards of this period. Only then will it be possible for us to grasp the security which the high amounts stipulated as mehr provided for women. The salaries for clerical posts in government jobs during this period ranged from Rs 40 to Rs 100. A sum of Rs 10 to Rs 20 was deemed an adequate amount as maintenance.

Although it is possible to argue that the cases discussed above concern women of affluent families, the decisions are a reflection of the prevalent social norms and hence it can reasonably be assumed that mehr was a right which provided the Muslim woman substantial economic protection. The case law also provides concrete evidence that even lower class women did enter into agreements with their husbands to protect their economic rights as the low amounts of settled as maintenance indicate.

# CONTEMPORARY TRENDS

It is in the context of the above legal status that the present situation of Muslim women need to be examined. Despite progressive legal provisions, it is the customs and practices prevalent in the community which determine the status of women in any society.

While the community practices are not homogeneous, nor is the shariat followed in its letter or spirit, recent studies indicate that mehr continues to be an integral part of a marriage contract among most Muslim communities. But the right is corroded beyond recognition. The amounts stipulated are as low as Rs 101 to Rs 501 and only among a minuscule section the amounts exceed Rs 10,000. The communities also practice the dowry system and the amount of dower paid to the groom is always higher than the mehr which is settled upon the woman.<sup>15</sup>

There is a pressure within the community to stipulate a low amount in a ritialistic manner. The practice of pre-marriage agreement is almost non-existent. Although marriage among Mushims is a contract, the Hindu notion of a sacramental marriage seems to have permeated into community practices and high amounts of mehr are

disapproved due to its analogy to a contract of sale. The absence of economic safeguards has upset the delicate balance upon which the Islamic law of marriage had rested and tilted it in husband's favour. The arbitrary oral divorce which cause destitution of women perhaps is a direct corollary to the deterioration of the economic safeguards. Unfortunately, there are no sociological studies which shed light on the social processes which were instrumental to this deterioration.

Partition and the transfer of population which followed it, have resulted in the general lowering of economic and social status of Indian Muslim community. The communal holocausts in the intervening years and the communalisation of political processes in the country have kept ablaze the insecurities experienced by Muslims at the time of Partition. This insecurity has resulted in a narrowing down the visions and aspirations of the community in the post-independent period. In this mileu the rights of women are deliberately allowed to corrode. While the community leadership has been vigilant in opposing state interventions in the realm of personal laws for fear of subversion of its identity, the subversion of women's rights through the process of Hinduisation seems to have caused no concern for the leadership. The insidious co-relationship between dowry and mehr is a case in point.

Another example of this trend is a recent judgment by Justice Tilhari which invalidated the practice of triple talaq. The community leadership opposed the judgment as intervention into the personal laws of the community. But the basic issue which the judgment was meant to address was of land rights. Under state enactments, the woman's individual property was deemed as the

property of the husband as nead of household. This principle is un-Islamic, but this violation of the Islamic principle seems to have caused no concern for the Muslim leadership. 16

The neglect of women's concerns can also be ascertained through the events following the controversial judgment in the Shahbano case. The adverse remarks of the judiciary regarding Islam and the Prophet aroused the wrath of the Muslim leadership which led to enactment of the Married Women's (Protection of Rights upon Divorce) Act, 1986, which the religious and political leaders felt would be more in keeping with the Islamic precepts. The preamble of the act emphasises this.

The act disentitled divorced Muslim women from claiming maintenance under a secular provision of the Criminal Procedure Code (Cr PC). But instead of a monthly maintenance dole of Rs 500 (provided by section 125 Cr PC), the act granted Muslim women the right to a fair and reasonable provision and maintenance, which the Muslim leadership felt were more in keeping with the Ouranic principles.

While the act met with a lot of criticism from progressive and women's rights forums, several courts interpreted the provision in women's favour by granting them lump sum settlements. In one of the earliest cases after the statute came into effect, the judicial magistrate at Lucknow's Diwani Kacheri awarded the divorced Muslim wife a sum of Rs 85,000 as fair and reasonable settlement.<sup>17</sup>

The Gujarat high court<sup>18</sup> while interpreting the clause, reasonable and fair provision and maintenance to be made and paid to her, held that the word 'provision' indicates that something is provided in advance for meeting future needs. At the time of divorce the

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Musim husband is required to visualise or contemplate the extent of the future requirements and make preparatory arrangements in advance for meeting the same. This interpretation seems to be in confirmation with the cases discussed above. The Kerala high court reiterated this view and held that even a millionaire wife who lives in luxury and affluence is entitled to claim under the act and the requirement of 'not being able to maintain herself' is no longer applicable to Muslim women under the act. 19

It is in this context that the commitment of the Muslim leadership towards its women becomes questionable. Instead of welcoming the pro-women judgments as concurring with the Islamic principle of providing future security to women, the Muslim Personal Law Board filed appeals to the supreme court challenging the Constitutional validity of these judgments. In 1992, Syed Shahabuddin introduced a private members bill in the Lok Sabha to plug the loopholes through which the courts granted women lump sum settlements. 30

But confronted with the aggressive Hindu communal propaganda in the post-Ayodhya phase and its demand for a uniform civil code, the Muslim leadership is today compelled to focus attention to the problems faced by women. It is evident that in the name of protecting its cultural identity, if it pursues its ostrich like attitude of negating women's rights, it will lose the support of secular and human rights forums who had stood by the community in its hour of tribulation following the demolition of Babri Masjid. This political reality has led to some stirrings within the Muslim leadership

At the biannual meeting of the All India Muslim Personal Law Board held in Ahmedabad in October, 1995, a group of Muslim women were invited to present their views. This group has been working on a format of standard nikahnania which could adequately protect women's rights within the Islamic framework. Some of the suggestions formulated by this group are mehr should be stipulated in gold, silver or other valuables so that over the years its value is not depreciated, the nikahnama should provide the woman the right of khoola and talaq-e-tawfeez, a man should bind himself to divorce through an arbitration forum, the husband should not contract bigamous marriage without the consent of the first wife and in the event that he does the wife can pronounce khoola and release herself of the marriage bond and claim her mehr dues. There is also a suggestion that in the event of arbitrary oral talaq the man should be compelled to pay penalty mehr, double or triple the stipulated sum All the suggestions are within the Islamic precepts and subscribe to the theory of

'reform from within' rather than a uniform civil code

Although these suggestions have not yet been accepted, the Fiqah Academy which is the apex body of Muslim jurisprudence in India, in its recently concluded international conference has addressed this issue. Maulana Mujahidul Islam Qasmi a leading Muslim theologian made a plea for structural reforms which would reflect the social realities of Muslim women in India.

While this is one area of law retorm, another area which the women's organisations are pursuing is small specific legislations which would not arouse the controversy of the uniform code and at the same time protect women stights. Bills like Domestic Violence Act and the Right to Matrimonial Home and Property are already on the anvil. The specific statutes are meant to fill the lacunae within the existing Indian matrimonial laws. The bills have been debated in public forums and in the Parlia ment. It will indeed be tragic and ironic if in today's vitiated atmosphere, the Muslim leadership pleads for exemption from their application on the pretext of state intervention, when in fact the statutes would be giving legal effect to Islamic principles of woman's security in a similar manner the principle of marriage as a dissoluble contract was extended to other jurisprudence in the last century

# PREDICAMENTS OF WOMEN AND MANIFELLATIONS BY HUSBANDS

While not denying that the provisions of shariat are patriarchal and reflect a male bias particularly in the realm of penal law and succession rights at least in its origin, the law of marriage was tilted in women is favour, by securing their economic rights. Hence, Islamic principles could be effectively applied to safeguard the women from their husband's manipulations to deprive them of these rights. The following three cases are discussed to draw a parallel between the predicaments of women of the last century and the women of today.

In the first case, Moonshee Buzul ul-Raheem v Luterfutoon Nissa? Rs 10,000 and Rs 1 000 gold mohurs were settled as dyn-mohur (mehr) in 1842. In 1847, the husband remarried. The second wife laid down a condition that the husband should divorce the first wife. But if he divorced her he could be compelled to pay the mehr dues So he treated her with cruelty and denied her food and clothing in order to induce her to ask for divorce, khoola, in which case she would be compelled to forfeit her right to dower.

The mehr deed was in the possession of her mother and the wife informed her of ill treatment and requested the mother to hand over the deed to her husband. The mother filed several complaints against the ill treatment of her daughter in the Fauzdari court and finally obtained permission to visit the daughter. At this meeting the husband informed the wife smother. Thave divorced her. You give up the paptr and take away your daughter. But the mother refused to give up the settlement deed. But in 1850 since the daughter scondition was becoming unbearable, upon her desperate plea, the mother sent over the document and the wife handed it over to her husband. Thereafter, the husband forced the wife to sign a Khoolanama relinquishing the mehi dues

Subsequently the wife filed a suit for the recovery of her mehr dues valued at Rs 26 000 (the 1 000 gold mohars valued at Rs 16,000) in the district court. The case was submitted to the 'moulvie' for his 'Futwa' who proclaimed that as per the Mohammedan law, a Khoolanama cannot be proved without the wife's admission. But since the husband has the power to give talaq the divorce cannot be disputed. Hence the husband is liable to pay the whole dyr mohar, and addit allowance. In an appeal filed by the husband, the Sudar Dewanny Adawlut' upheld, the trial court's decision.

The husband tiled at appeal the privy council which confirmed the lower court order on the following ground. 'Muslim law recognises two forms of divorce, talay and khoola Talaq is the arbitrary act of the husband, who may repudiate his wife at his own pleasure, with or without cause. But if he idopts that course he is liable to repay her dower. A divorce by khoola is a divorce with the consent and at the instance of the wife. In such a case the terms of settlement are a matter of arrangement between the spouses and the wife may as a consideration, relinquish her mehr and other rights. But since the wife has not admitted to the khoola, it does not constitute a divorce. The divorce was effected through the husband's repudiation of the wife. Hence he was bound to pay his mehr dues

In the second case a Muslim widow with five children. Shamsoonnisa Begam 25 inherited a large share of her father's property in November. 1847. A few months prior to this in May 1847 she married Mot chee Buzloor Ruheem. Due to ill freatment, an December, 1855 she left her husband. But the husband retained the government securities which she had inherited from her father. So in April. 1856 she filed for recovery of her property. In retaliation, the husband, filed, for restitution of conjugal rights.

The husband's sent for restitution was dismissed by the trial court and the high court. The wife obtained a decree in her tayour regarding the property detained by her husband valued at Rs 2,34,800. The

husband appealed against both the orders to the privy council.

During litigation, the husband claimed that he had purchased the securities from the wife and she had spent the amount for the marriages of her children from previous marriage. But the husband was already in debt and a decree was passed against him for a sum of Rs 2,48,000. The documents concerning the securities were traced in the hands of the husband's creditors.

The privy council while upholding the wife's claim of property held as follows: "The wife came to her husband's house as a wealthy woman and left as a destitute. As a Muslim woman of rank, she was in Zenanah and had passed the securities to her husband who was supposed to have managed them for her for the purpose of collecting interest. Instead he had transferred them to his creditors. Her communication to the outside world was from behind the Purdah. Due to her state of seclusion (i.e., Purdah-nusheen) her husband, who managed her affairs for her, was in a position to use undue influence on her".

Regarding the right of Muslim women upon marriage the privy council commented: "Distinction must be drawn between the rights of a Mahmmodan and a Hindu woman and in all that concerns her power over her property, the former is, by law, far more independent, in fact even more independent than an English woman. There is no doubt that a Mussulman woman when married retains her dominion over her own property and is free from the control of her husband in its disposition. The Mohammedan law is more favourable than the Hindu law to women and their rights and does not insist on their dependence upon and subject to the stronger sex".

The third case concerns a marriage agreement. At the time of the marriage Poonoo Bibi's 4 husband entered into the following agreement with his wife: "That I shall never give you trouble in feeding and clothing you; that I shall make over to you and nobody else besides you whatever I shall draw from employment, that I shall never exercise any violence on you; that I shall not take you anywhere else away from your home; I shall not marry or make nikah without your permission; that I shall do nothing without your permission; and if I do anything without your permission you will be at liberty to divorce me and realise from me the amount of dynmohur forthwith and this nikah will then be null and void".

After desertion, the wife filed for the enforcement of the agreement regarding the husband's savings. The husband was employed in a clerical post and was drawing a salary of Rs 40 and had savings of around Rs 568. The husband's advocate argued that the agreement is against public policy

as it amounts to reducing the husband to a slave. During litigation a compromise was arrived at and the wife agreed to a monthly maintenance of Rs 10. Although, the court commented, "Some part of the agreement may be void", it did not strike down the agreement as invalidor against public policy.

The law of marriage is not a law concerning sexuality or morality. The law of marriage in its essence, like all civil laws, is a law regulating economic transactions, and more specifically, women's access to and control over it. The Islamic provisions of mehr and marriage agreements, and right of property management have stood Muslim women in good stead during litigation in the last century. Hence, the decline from Luteefutoon-Nissa and Shamsoonnisa Began in 1860 to Shahbano Began in 1985, is not a reflection of the Islamic law of marriage, but a sad comment on the politicisation of women's rights within a communally vitiated and patriarchally tilted social structure.

### **Notes**

- 1 Khurshid Bibi v Mohammad Amin PLD 1967 SC 97.
- 2 See Dr Qamar Murtaza Bokhari v Mst Zainab Bashir PLD 1995 Lah 187 and Shah Begam v District Judge, Stalkot and Ors PLD 1995 Lah 19.
- 3 Badarannıssa Bibi v Mafiattala (1871) 7 BLR 442.
- 4 (1910) 37 IA 152.
- 5 Muhammad Mum-ud-dın v Jamal Fatima AIR 1921 All 152.

- 6 Muhammad Ali v Mst Fatima (1929) ILR 11 Lah 85.
- 7 Kutchi Memon's Case Perry's Oriental Cases 110-129 (cited by A A A Pyzee (1965) in Cases of Muhammadan Law of India and Pakistan, Oxford University Press, London, pg xxix.
- 8 (1905) 7 Bom LR 602.
- 9 Bai Fatima v Ali Mahomed Aiyab (1913) ILR 37 Bom 280.
- 10 AIR 1928 Oudh 303.
- 11 Sungra Bibi v Masuma Bibi (1878-80) 2 All 573 (FB)
- 12 Kamar-un-nissa Bibi v Hussaini Bibi (1881) 3 All 266 (PC).
- 13 Sultan Begam v Sarajuddin AIR 1936 Lah 183.
- 14 Ameer-un-nissa v Muradunnisa (1855) 6 MIA 211
- 15 See Newsletter of Women's Research and Action Group, Bombay Vol 1/2 September, 1994, Vol 11/1 February, 1995, Vol 11/2 and 3 August 1995 and Vol 11/4 October, 1995.
- 16 Flavia Agnes: Triple Talaq Judgment Do Women really Benefit? Economic and Political Weekly, 29-20 May 14, 1994, p 1169.
- 17 Flavia Agnes. State, Gender and the Rhetoric of Law Reform, SNDT University, Bombay, 1995 p 240.
- 18 A A Abdutla v A B Mohmuna Saiyedbhai, AIR 1988 Guj 141
- 19 Ahmed v Aysha II (1990) DMC 110 Ker.
- 20 Bill No 155 of 1992
- 21 Islamic Conference Proposes Amendments on Marriage Laws, *The Times of India*, (Bombay edition), October 27, 1995.
- 22 (1861) 8 MIA 379.
- 23 Moonshee Buzloor Ruheem v Shamsoonnisa Begum (1867) 11 MIA 551.
- 24 Poonoo Bibi v Puex Puksh (1875) 15 BLR App 5.

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# **Cultural Intervention and the Left**

# Sahmat Model of Cultural Activism

S M Menon

THE upsurge of Hindutva deeply unsettled all the more comfortable assumptions about the character of politics in India. It was a campaign that ran along several planes—social political and cultural offensives often blending seamlessly. The rhetoric of Hindutva today does not, perhaps, carry the arrogance of those days or bristle with the same kind of aggression. But that does not mean the menace has abated. The extreme rhetoric of cultural exclusion that Hindutva patented is being continually honed for deployment at a future date of convenience.

Rosy prognoses of the end of the cor imunal threat may be unduly optimistic. But there is little doubt that the juggernaut has faltered in its onward march. This is an outcome primarily of the strength of the political challenge to communalism - the process of building social coalitions of those excluded from the ambience of cultural nationalism, and the translation of this solidarity into an electoral plurality. Hindutya emerged from the interstices of a liberal democracy and threatened to demolish its very foundations The challenge to it emerged from the same broad milieu, utilising the liberties and privileges afforded by it to beat back the menace, strengthening in the process the participative basis of a liberal democracy

The role played by ideological and cultural intervention in the secular counter offensive cannot be underestimated. A variety of initiatives contributed all of them working towards, the rejection of the exclusivist cultural paradigm posited by Hindutva. Two broad lines of approach were discernible in the cultural challenge to Hindutva, one which sought to establish cultural nationalism as a lineal descendant of the legitimising ideologies of easte privilege, the other which counterposed a model of inclusion, tole tance and assimilation as the fundamental principles of Indian cultural evolution.

The overarching parameters of these cultural interventions were provided by the relative unity of purpose achieved by the forces which stood for upholding the diversity and plurality of Indian traditions against the homogenising vision of Hindutva. That sense of mutual solidarity has survived great adversity and been institution ilised in recent times in the United Front government that today is in office.

Competitive radicalism, the effort to draw fine shades of distinction in political virtue and the 'more revolutionary than thou' posture which have often undermined the unity of progressive political mobilisation – all these were set aside as the Hindutva phenomenon acquired its most menacing dimensions in the months following the Ayodhya demolition. That this divisive tendency should resurface now when the threatis on low key is understandable, though that does not make it a welcome development. Nor is triviality rendered protound by calling upon the authority of the hero of Bolshevism Impassivity of response and inflexibility of attitude were no part of the strategy of the architect of the Russian revolution.

Political activity—even as cultural intervention—hastobesensitive to its context. The principles of political activity evoived by Bolshevism in the context of clandestine activity in the despotic. Is anist regime are of immense strategic value for any party committed to socialism. But their mechanical application to a noninnally democratic regime which maintains the institutions and processes of liberalism may be a less than useful procedure.

The onward march of Hinduts a had multiple and diverse facets. The common underlying theme was the ab indonment of all presence of commitment to a democratic ethos—the nominal adherence to the principle of equality before the law was ejected and the appeal to preternatural faith rather than reason consecrated as the central political virtue implicated in the process were the institutions of democracy itself—organs of the state like the civil administration—the police and the judiciary. Neither was the media—whether regarded as the fourth estate, the watchdog or conscience keeper—tree of the infection.

Nothing escaped the grasp of Hindutva For those who were sensitive to such subtleties, the public mood after the Ayodhya demolition was an amalgam of several sentiments. Mingling with the sense of shock and outrage that all with a commitment to secularism felt was the unstated triumphalism of even some of the uncommitted—the sense of fulfillment that an alien cultural presence which had diluted and even subverted the primordial id nitty of the Hindu nation had been given notice of eviction.

The micsage of the Ayodhya aftermath was clear enough for anybody to grasp. But since memorics are short some of the more disturbing episodes bear recapitulation – the disproportionate use of force against Muslim protestors, the ruling of the Allahabad High Courton Lord Ram's status as a constitutional entity, on the basis of which devotees were

permitted to offer prayer at the shrine erected on the ruins of the mosque, effectively legitimising the demolition

But if these events called for some interpretative effort, the Bombay riots of January 1993 imposed no such requirements For close to a week, moters held the city in their thrall, with the active assistance of the custodians of law and order. And as a contender for influence in the underworld blazoned across the pages of his newspaper his arrant disregard of the law, mutting his brutalised flock to wreak a horrible vengeance on the Muslim community, the mass media chose the path of extreme prudence. For the entire duration of the riots. Bal Thackeray's fulminations passed without comment by most major newspapers. More than appeasement, it was a policy of abetment through a sustained conspiracy of silence

More than the lives and fivelihoods of an entire religious community, their claim to a place under the Indian sun—which are worth endless political struggle to safeguard—what was at stake then was the integrity-of the democratic institutions that had been crafted over four decades of independence, the central republican values themselves

To say that this subversion of the administration is a necessary outcome of the politics of a repressive state is a credible argument. But it is of little political utility in a context v high demands the participation of socialist parties in the nominally democratic processes of a bourgeois state The shrinkage of whatever democratic space is available helps nobody unless the correlative argument is advanced. That liberal democratic pretensions must be ruthlessly done away with, that the socialist project will really gather momentum only in the struggle against naked despotism. Under this rationalisation, parliamentary illusions are the enemy of socialist struggle, whose true glory would only emerge under the repression of an overtly anti-democratic regime

These are arguments that have periodically surfaced in left circles by are now considered with some justice to represent a variety of political infantilism. Mature consideration would seem to pose two questions for consideration is the octalist revolutionary project in any way compromised by a defence of the democratic secular space? Can the two coexist in a relationship of logical (and temporal) sequence or of inclusion of one within the other? The alternative to answering these questions with the seriousness they deserve would be to adopt the traditional healing inform of the witch doctor—that matters must be aggravated before they can be improved.

An appropriate trictal perspective for the left would emerge as a derivitive of these questions. The fundamental issue here is the attitude to be adopted to the institutions of

liberal democracy. There is the option of turning one's back on these on the grounds that the rights they safeguard are entirely superficial, that at their core they serve only to defend an oppressive order that has little in common with the socialist vision. But in a context when even the nominal rights enshrined by these institutions are under threat, such an attitude would perhaps be suicidal. The choice in such circumstances would be unequivocal — to fight for the defence of these institutions, to correct when necessary and influence when possible.

The Indian press adopted the most unheroic attitude towards the upsurge of Hindutva. Worse than acquiescence, it actively campaigned for the country's subordination in world councils to the imperialist cabal of the IMF, the World Bank and GATT. The judiciary similarly was often in error and sometimes remiss in its attitude towards these pivotal political issues. Yet nobody has argued that the left should disengage itself from these institutions. Political activism cannot be renounced in an unending vigil over socialist purity.

As an institution, the police have their own assigned function in the liberal order. They carry the guns that kill and wield the lathis that maim. The coercive functions of the judiciary and the media have the quality of abstraction about them—police repression has an immediacy, a clarity and an unmistakable brutality about it. But it does not follow from this that the police as an institution and as a collectivity of individuals are unamenable to correction and impermeable to political influence.

A government that proves unwilling to defend the liberal principles on the basis of which it is constituted forfeits the right to rule. But the right of recall is not constitutionally mandated in India or for that matter in any contemporary democracy. For better or worse, a government elected to office can without making too fine a point of scruples continue in authority for a five year term. However, it is unusual in a multicentred polity such as India's for an entire government to uniformly lose credibility and popular legitimacy. This is partly because of the enduring influence of certain of the foundational principles of Indian democracy. The government may waver in the practical sense in the defence of these principles. But it is seldom that it will repudiate them at the ideological level.

It is not outlandish to argue that this represents an opportunity for those who believe that the defence of these principles – secularism being one – is fundamental to the survival of Indian democracy. If funding is available from the government for activities directed towards this end, there seems no apparent basis to imagine that the money is tainted. Such an argument would lead to the perfectly bizaire conclusion that all intellectual and cultural activity funded by

a government that is less than pure is inherently compromised.

Nor is it easy to discern an argument in Gandhi that any activity bears the stigma of the source that finances it. The Mahatma partook with little reserve of the finances of GD Birla and Jamnalal Bajaj, who had built their fortunes in the colonial trade. There could not have been, for an anti-colonial fighter, a more tainted source. But in the circumstances, there could not have been a more robust approach to a defined political goal.

# Aba-oa and Gender Equations among Garos

# Bela Malik

THIS response to Bina Agarwal's comments (EPW, June 8, pp 1417-20) on Indu Agnihotri's review of A Field of One's Own: Gender and Land Rights in South Asia (EPW, March 8) stems from my own doctoral research in the Garo Hills region. I disagree with her claim that her analysis was based on "available archival material in English (there wasn't much, and I doubt much more could be dug up in English)..." (p 1418). Given the broad scope of her work, it was perhaps not possible for her to explore the existing range of arhival sources (in English), but that does not mean that it is not there. Even after four years of research, archival and field-based, I would hesitate to claim that my use of written sources was exhaustive. Apart from records of the various government departments at the national, state and district-level archives and record rooms, there is a wealth of material in the tribal research institutes, church record rooms and the district council record room.

I argue that Agarwal's meagre use of primary historical material had led to a skewed understanding of the impulse leading to the transformation of the shifting cultivating community in the Garo Hills. Let alone primary, even a glance at the expansive secondary literature on shifting cultivation would have drawn attention to the shifting cultivation production system itself and away from emphasis on property structures in relation to the state as explanation for systemic transformations.

While there can be little dispute about the manner in which Agarwal chronicles gender equations among the Garos, what is contestable is the identification of the state (both colonial and post-colonial) as the primary agent of change (laws, projects, scarcity of land due to government initiatives and so on). Such a focus renders other pro-cesses, emanating from within the agricul-tural system, marginal.

Shifting cultivation is a very fragile system which can be set off on a continuously downward spiral by the alteration of any of its variables (do nographic or ecological). The role of an externally constraining agent may not be significant. In any case, mere qualitative assertions that the transformation of shifting cultivation was induced by state initiatives cannot suffice. Agarwal, as a trained economist, cannot ignore the significance of quantitative evidence: land area under shifting cultivation, demographic changes and the proportion of land under direct state

control. In the post-1955 period, often statesponsored schemes have worked successfully in those areas where shifting cultivation has reached a sub-optimal level and the cultivators have been keen to accept any available alternative to, or supplement for, shifting cultivation. That the state's Soil Conservation Department has an image far different from its coercive forest counterpart is significant.

Further, Agarwal has failed to grasp the importance of the current political configuration obtaining in the autonomous hill districts of north-east India. Laws restricting shifting cultivation do not translate into political reality, neither is state control in the district council areas absolute. In the Garo Hills, for example, shifting cultivation comes under the 'unclassed forest area', which is the responsibility of the district council, not of the state forest department. The elected representatives of the district council ensure that the laws relating to shifting cultivation are more notional than real. It is surprising that Agarwal identifies legal statutes as the primary agent of change in this instance, given that her overall thesis in A Field of One's Own is that mere legal gestures cannot altr. gender equations.

I also question Agarwal's construction of binaries: *jhum*, animist, subsistence vs wetrice, Christian and cash-based [Agarwal 1994: Table 4.1, p 167] as unrealistic. There are innumerable Garos practising *jhum* (incidentally called *aba-oa* in the area) who are linked to the cash economy and are Christian.

Finally, I cannot help wondering if Agarwal has not uncritically generalised the conclusions reached by Kibriaul Khaleque (1983). The case of the Garos of Bangladesh studied by Khaleque is unique in at least two crucial respects:

(1) In the regional political economy of district Tangail, (East Pakistan or Bangladesh), the Garos are a marginal group.

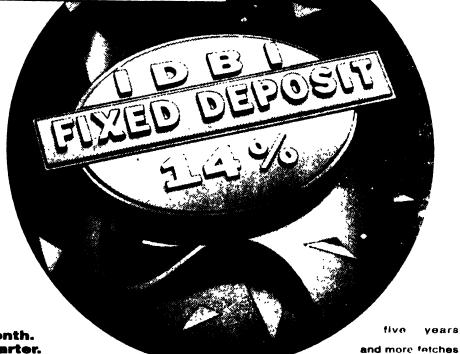
(2) The specific focus of Khaleque's study is the Madhupur Garh Reserved Forest, where the marginalised and dominated aspect of the Garos is accentuated.

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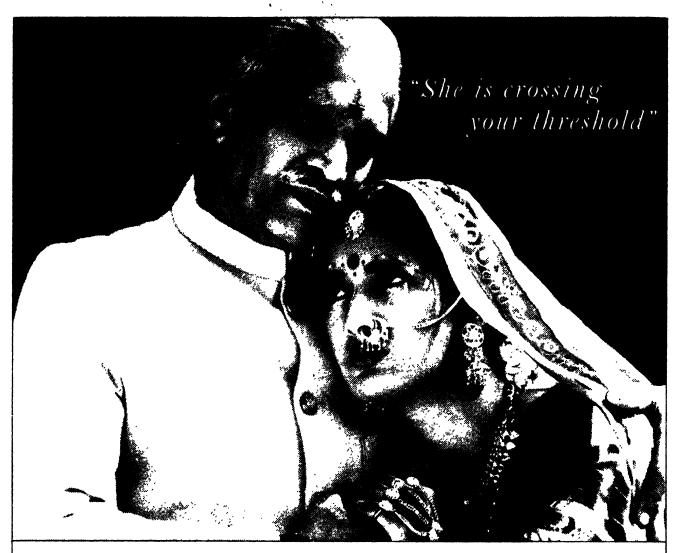
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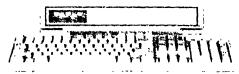












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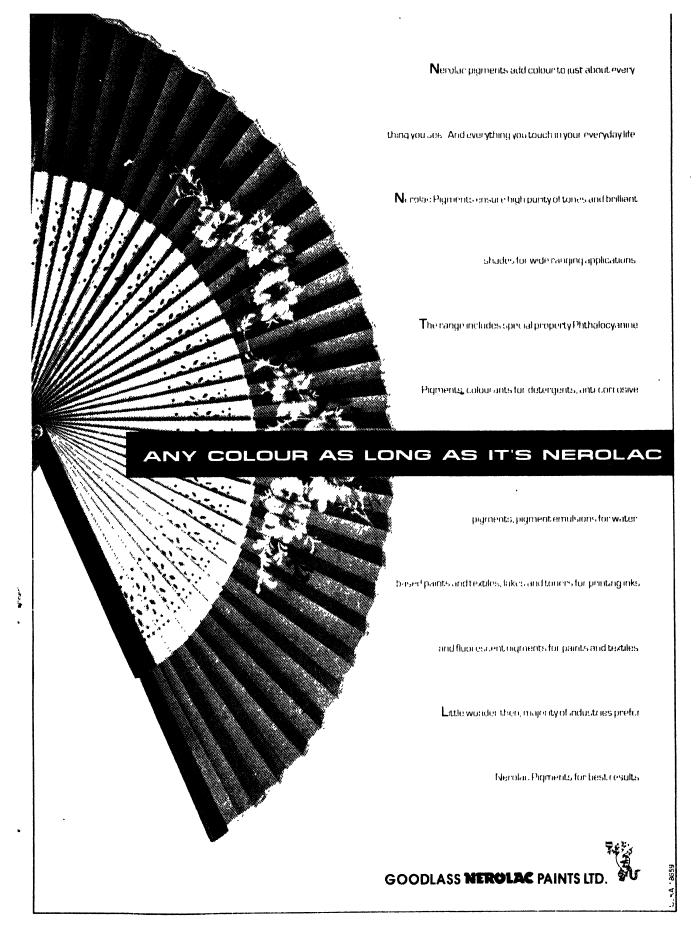
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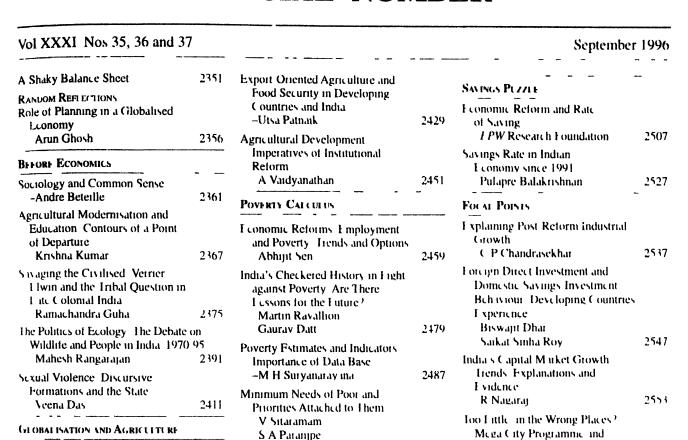
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# SPECIAL NUMBER



# A Shaky Balance Sheet

T Krishna Kumar

A P Gore

J G Sastry

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WITH over five years behind us since the initiation of the so-called economic reforms programme we have a fairly clear view of its consequences. Signs of a slowing down are now clear in almost every sphere of macro le el performance of the economy For a while there were indications that some of the ground lost in the initial years of the retorms had been recovered in the subsequent two years but doubts have emerged about the sustainability of the higher growth Real GDP growth, which had dipped to 0.8 per cent in 1991-92, the first year of reforms and was 5 per cent in each of the next two years improved to 6 3 per cent in 1994-95 and possibly to 6.2 per cent in 1995-96. The CSO had carlier revise lits advance estimate of GDP growth in 1995-96 from 6.2 per cent to a robust 7 per cent and forecast a growth of 6 6 per cent for 1996 97 Both these projections seemed rather stretched and the CSO has now restored the original 6.2 per cent growth estimate for 1995-96

Should Domestic Prices Be Lquated

to World Prices?

Prabhat Patnaik

The CSO's forecast of 6 6 per cent growth of GDP in 1996-97 is predicated on

acceleration of growth in the services sector from 7 per cent in 1995 96 to 8 1 per cent apart from 2-3 per cent growth in agriculture and allied activities and 8.5 per cent growth in industry. While the satisfactory runfall situation does portend an improvement in crop output there are definite indications of a slow down in industrial activity in general and in infrastructure industries in particular The growth of industry and services in 1994 95 and 1995 96 was to a great extent supported by the rise in fiscal deficit by sizeable injection of external liquidity and by repression of administered prices and costs. The portents in these respects for 1996-97 are far from hopeful and the overall growth of GDP this year is likely to be less than 6 per cent. Investible funds available for industry have shrunk and interest rates have gone up sharply, as a result of which the implementation of many major projects in both the public and private sectors has been delayed. The government has been forced to effect hetty increases in the administered prices of petroleum products and some other price increases are in the offing. The annual rate of inflation as per the wholesale price index has is a result moved up from 4.2 per cent to 6.7 per cent. If expenditure compression continues to be the mainstay of fisc if adjustment, with the total expenditure of the central and state governments together falling steadily from 30.6 per cent of GDP in 1990-91 to 28.5 per cent in 1995-96 and further to 27.3 per cent in 1996-97 (budget). The decline is expected to gather pace in 1996-97, whether we consider the ratio of total development expanditure to GDP or that of capital expenditure or plan expenditure to aggregate expenditure.

I fliciency and I quity in Indian

Urbanisation

Sanjoy Chaki ivorty

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That industrial growth is flattening out is evident from a number of indicators. The rise in the index of industrial production which had dipped to 0.6 per cent in 1991-92 and 2.3 per cent in 1992-93, recovered to 6 per cent in 1993-94 and accelerated to 9.4 per cent in 1994-95 and 12.1 per cent in 1995-96. In the first quarter of 1996-97 however, the CSO's index of industrial production showed a rise of only 8.5 per cent compared with 14.6 per cent in the first quarter last year. The growth of production

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in industries accounting for 50.37 per cent or the total weight in the general index was 12.5% of per cent against 12.6 per cent in the are repord last year. The sharpest fall has section infrastructure industries. Crude oil conduction has registered a tall of 10.4 per and the trist quarter of this year against a is all 19 per cent in the corresponding eath last year. The decline in the growth power generation has been from 11.7 per coa to 2 4 per cent. The major infrastructure industries had already experienced a deceleration in 1905-96, which should have 4) impact on industrial growth in 1996-97 It maistrial growth in 1996-97 does slow fev is as seems very likely, the ground lost in the industrial sector in the immediate offering and structural adjustment is unlikely 30 to a been fully recovered and so the association of schaim that the reforms have rives a decisive boost to industrial growth would be clearly unwarranted

Not is the claim that the improvement in sociall GDP growth performance is action table to the improved performance of adastry following economic liberalisation nable. Over the period of the reforms, oculture has made a significant con-Obstrong to GDP growth. Growth of Grop prodestion averaged. Uper cent per annum between 1992-95 and 1994 95 despite the icknowledged slowing down of investment in agriculture. The strong backward and forward linkages of nine continuous years of good agricultural seasons (from 1988-89) to 1996-97) which have kept the production of major crops on a high plateau, must have been very substantial. In fact the stabilisation and structural adjustment programmes have, if anything, come in the way of the economy benefiting fully from the high agricultural growth. Real investment in agriculture had begun to flag in the early 1980s. Though there occurred a fractional improvement in the early 1990s, this was essentially the result of rise in private investment in response to successive good agricultural years. Average public sector investment in agriculture at 1980/81 prices in the three-year period 1991/92 to 1993/94 at Rs 1,080 crore was about 12 per cent lower than in the preceding three-y to period from 1988-89 to 1990-91. s a Rs (24 crore). During the same period, gravate investment in agriculture registered a 29.4 per cent rise. Also unsubstantiated is the government's claim that reform of customs tariffs, liberalisation of domestic and international trade and easing of exchange control have substantially reduced the bias against agriculture, improved its relative probbability and the incentives as utable for farmers. True, 5.6 mn tonnes of tice were exported in 1995/96, but the primary reason for the improvement in the terms of trade for agriculture (base  $\pm 969-72\pm 100$ ) by about 10 per cent between (99) 91 and 1995/96 was the large increase in procurement and minimum support prices of foodgrains. Between 1990-91 and 1995-96, the procurement price of common

varieties of rice was raised by 75.6 per cent and that of wheat by 69 per cent. Minimum prices of pulses and many other crops were raised even more.

Export-import data too reflect signs of slowing down of economic activity. Annual export growth, which had accelerated to about 18-21 per cent during 1993-94 to 1995-96 from 3.8 per cent in 1992-93 and (-)1 5 per cent in 1991-92, has come down sharply in the first five months of the current year to 8.9 per cent against a rise of 26.2 per cent in the corresponding period of last year. The target of 20 per cent growth in exports in 1996-97 now seems far-tetched, Non-POL imports too have experienced a fall of 4.7 per cent against a rise of 42.3 per cent during April-August last year. The reduced growth of about 24 per cent in the first quarter of 1996 97 (against 56 per cent in the comparable quarter of 1995-96) in import of machinery and the decline of 6 per cent (against a rise of 53 per cent last year) in in.port of chemicals obviously reflect the slow down in industrial activity.

The relatively impressive performance of the economy in the last two years has thus turned out to be a short-term phenomenon attributable to some specific factors rather than a sustainable outcome of the reforms The high level of agricultural output with substantial spread effects, massive injection of liquidity from abroad in 1993-94 and 1994-95 through portfolio inflows, the higher levels of gross fiscal deficit than planned which augmented aggregate demand in the economy and the rapid increases in the volume of world trade which helped export growth were some of the immediate factors which played a role in improving the performance of the economy in the past few years. Developments in the current year, however, show that, in the absence of some of these factors, growth is sagging and there are few signs of enduring improvement.

This is not surprising because the basic conditions for the success of the reforms have not been fulfilled. Land reforms have hardly been mentioned and instead there has been talk of doing away with land ceilings and permitting, directly or indirectly, largescale corporate farming. The focus of the reform package has been on customs tariffs, trade policy and the exchange rate mechanism which by reducing protection for the industrial sector is supposed to correct the e-stwhile bias against agriculture, but institutional disabilities and the absence of incentives for intensive cultivation and rapid increases in productivity of land remain unaddressed. Likewise, the issues of stre-gthening the social intrastructure, enlargement of human capital and amelioration of acute social deprivation have received scant attention in the reform programme. According to the UNDP's Human Development Reports, India's rank out of some 172 or 173 countries remained static at a low 134, 135, 135 and 135, respectively, in the four years from 1990 to 1993. Many countries of south-east and east Asia have moved up the ladder. The performance in respect of such basic social indicators as literacy, infant mortality and crude birth and death rates in the post-reform period has been below the long-term trend, not surprisingly as public expenditures carmarked for the social sectors, already niggardly, have been declining as a proportion of GDP. Social expenditure, inclusive of that for rural development and the special employment schemes, as a percentage of GDP was 7.7 per cent in 1990-91 and 7.5 per cent in 1996-97. Exclusive of rural development and the special employment schemes, the proportion fell from 6.2 per cent in 1990-91 to 5.8 per cent in 1996-97.

Data on poverty also suggest a deterioration, particularly in the rural sector One set of estimates available in this respect, based on the widely accepted NSSO method. indicates that the percentage of rural poverty which was 39.1 per cent in 1987-88 fell to 33.7 per cent in 1989-90 but rose thereafter to 35 per cent in 1990-91 and to 41.7 per cent in 1992; it registered a fractional fall to 40.2 per cent in 1993-94. Another data set shows that the number of rural people below the poverty line increased from 209 mn in 1989-90 to 245 mn in 1993-94. Available data also suggest that real wages of unskilled workers tell in 1994-95 after showing a rise in 1993-94 - apparently the outcome of the steep increase in issue prices of grains under the public distribution system. In general, the rapid increases in prices of food articles in the period 1990-91 to 1994-95 have adversely affected the real consumption of the poor This deterioration in the poverty situation in real areas has occurred despite significant increases in agricultural output The benefits of output increases have not been translated into reduction in poverty levels. Studies based on the latest NSS data for 1993-94 also show that (a) the rate of growth of non-agricultural employment, particularly in rural areas, has slowed down, (b) agricultural employment growth was negative in states like Punjab, Haryana, UP and West Bengal, where agricul ural output grew the fastest, and (c) most of the increase in agricultural employment in the postreform period has been distress driven.

The prevailing acute social deprivation demanded a dynamic application of the fiscal instrument, whereas the government has chosen to follow a conventional fiscal adjustment programme of surrendering tax revenues, expenditure compression and large net market borrowings. Whereas overall public expenditure has been curtailed and plan outlays and capital expenditures have been reined in, budgetary allocations have not been significantly altered to focus on any definite social priorities. The scope for such reallocation has been severely restricted by the fact that nearly 60 per cent of the central government's aggregate expenditure is absorbed by four major heads of non-plan expenditure, namely, interest payments, defence, subsidies and general services. Since the reform process began, some 70 per cent of the rise in expenditure under these tour heads has been accounted for by interest payments—thanks to the policy of market-related rates of interest on government debt under the financial sector reform programme.

In general, fiscal adjustment has not only turned out to be the most conspicuous fadure of the reforms, but its wayward maplementation has led to many economic and financial distortions. With so much scope for raising the tax to GDP ratio, the government has managed to reduce it further Similarly, though there is imperative need to raise public expenditure as a proportion of GDP to build the physical and social infrastructure, the government has resorted to large-scale expenditure compression There are many countries with public expenditures exceeding 50 per cent of GDP but here the total expenditure of the central and state governments, which stood at 30.6 per cent of GDP in 1990-91, had been scaled down to 27.3 per cent by 1996-97 (budget) The cuts have been entirely in capital and development expenditures, whereas revenue expenditure and overall non-development expenditure have been allowed to grow unabated. As a result, compared to an average of 2.5 per cent of GDP in the 1980s, the revenue deficit has generally remained above 3 per cent in the post-reform period and even touched 4 per cent in 1993-94. One of the avowed objectives of reform should have been to direct public expenditure towards augmenting the stock of productive physical and human capital. On the contrary, both capital formation out of public expenditure and funds earmarked for social infrastructure have suffered a setback. A major destabilising fall out of distorted fiscal adjustment in the past six years has been the massive borrowing requirements of the government giving rise to a situation, almost for the first time, of the government crowd ing out private investment both by appropriating large investible funds and by push ing up the average interest rate on commercial borrowings of the corporate sector

Signs of vulnerability have reappeared in the external sector as well. There has been a phenomenal rise in the deficit on merchandise account - as per the RBI's balance of payments data, from \$ 2.39 bn in 1993-94 to \$ 4.98 bn in 1994-95 and \$ 8.94 bn in 1995-96. These high levels of trade deficit have been hidden by the low level of reporting by the DGCI and S which placed the deficits at \$ 1.07 bn, \$ 2.32 bn and \$ 4.54 bn. respectively. Likewise, the current account deficit has more than doubled from \$ 2.70 bn in 1994-95 to \$ 5.49 bn in 1995-96. Apait from the reduced export growth as indicated above, external sector vulnerability arises from volatility of capital flows, particularly those relating to portfolio investment and their servicing costs. Also, the argument that in external sector budgeting, the cost of non-debt flows should not worry the government is a specious one. In fact portfolio investors in particular expect shorter-term and higher rates of return on their investments in the so-called emerging markets such as India.

A longer term aspect of the vulnerability, however, relates to the nature of FDI flow A quick assessment suggests that (a) while the RBI's automatic clearances based on past FERA rules show a preference for high technology areas with distinct concentration in basic and capital goods industries, the approvals granted by the Foreign Investment Promotion Board/Secretariat for Industrial Approvals seem to have gone in favour of low priority areas with a concentration in consumer goods and the services sector, (b) foreign investors overwhelmingly prefer to focus on the domestic market rather than regard India as an export base; (c) a large number of the FDI proposals approved involve trading activities; and (d) an overwhelming number of the FIPR/SIA approvals envisage puny foreign equity participation, thus requiring substantial amounts of domestic investible funds for completing the projects. Measured in these terms, it is unlikely that FDI proposals as approved by the FIPB/SIA route will trigger a significant investment boom in the country or serve as vehicles for expanding the country's export base or for any marked technological upgradation

The reform process has faced the sharpest adverse reactions in the financial system This is not altogether surprising. In the first place, the financial system has to absorb the shocks originating in the real sectors of the economy. The promotion of conspicuous consumption and the consequent depression of household financial savings, liberal import of gold and silver, persistence of large revenue and tiscal deficits of the central government necessitating large market borrowings, the ebb and flow of volatile and high-cost foreign portfolio investment, the continued fragility of the balance of payments and the determination of the rupee's exchange rate by market forces, are all developments that are mirrored in the working of the financial system. Secondly, the financial policies of the government and the developments within the financial system have made their own contribution to the system's distortions and uncertainties

The government has shown scant regard for the fundamental fact that market failures are most pervasive in the financial sector and that, as the experience of the south-cast Asian countries has shown, flexible but firm government intervention will not only make these markets function better but will also improve the performance of the economy. At this stage of the country's development, the considerations that should have governed financial policies are (i) further strengthening of the geographical spread and the functional reach of banks and financial institutions. (ii)

special focus on the multi-agency approach to rural banking which has plunged into disarray by default, (iii) active intervention to ensure that large enterprises, real estate speculators, stock brokers and upper class consumers do not pre-empt scarce credit and that banks and financial institutions actively assist agriculture and small enterprises, and (iv) prevention of excessive financial engineering with layers of financial dealings and special tion in the money, capital and foreign exeninge markets, which can only be counter-productive and harmful. The very perspective of financial sector retorm and the entire series of measures taken have gone against these essential considerations Instead of focusing on a genuine revitalisation of the existing commercial and co-operative banking system as a least cost and socially desirable option, the government has sought to raise banking efficiency by the proxy method of promoting competition from new private banks, foreign banks and now private rural banks. A series of measures have been taken to dilute the importance of public sector institutions

Whether it concerns the efficient functioning of the financial system or more rapid growth of the economy, the severest constraint faced by the Indian economy has been the relative stagnation of domestic saving and investment. All aspects of the new economic policy, including sharp reductions in excise and customs duties import of gold and silver, encouragement to banks to give consumer toans and the general environment of large increases in consumption based perquisites spawned by liberalisation have tended to further stimulate the already high consumption propensity of the richer sections of the community Therefore, despite an improvement in the growth rate and very high levels of real interest rates combined with attractive fiscal incentives, the household financial savings ratio has shown a dip in 1995, 96 and 1996/97. It has been found that whenever household financial savings rise as a proportion of personal disposable income there is a bloating of liquidity arising from some external source such as, for example foreign inward remittances from Indianexpatriates abroad doring the 1970 or portfolio investment flows in 1993-94 and 1994-95 Endogenous growth of household saving has been niggardly

Among the components of dome to saving, corporate savings, which played a dominant role in the economic growth of Japan. South Korea and other east Asian countries, have shown some uptrend in recent years, but much of it has been the result of treasury operations and non-manufacturing profits and sharp reduction of taxes. There is no indication that a rising trend has actually set in, though that would also depend on whether a firm uptrend in industrial growth has been established. Besides, Indian companies, increasing dependence on the volatile capital mark. If or

funds does not allow them to plan for larger plough backs. As for the public sector, any attempt to reduce subsidies and other transfer payments may raise government savings, but to some extent that would be at the cost of household savings. (A ready example is the recent increases in petroleum product prices which may reduce the deficit in the oil pool account but would affect household expenditure and savings.)

The experience of the last six years has shown that orthodox stabilisation and structural adjustment programmes do not constitute a relevant strategy for the Indian economy. Yet it is perhaps unrealistic to expect the government to take a fresh look at the whole strategy. But there are certain imperatives. One such is social sector development - universal primary education, primary health infrastructure and essential rural and urban facilities. This calls for decentralised and participatory local governance. Increased public sector involvement in development of social and physical infrastructure is another imperative. The investment requirements of power, ports, roads, railways, posts and communications and other infrastructure will not be forthcoming from the private sector and from foreign capital. The public sector will continue to have to play a dominant role in these areas.

Banking and financial sector reforms have, as noted above, contributed to major distortions in the economy. As a primary consideration, financial sector policies will have to accept the dynamic role of credit in industrialisation and agricultural development. In monetary policy, the pursuit of price stability through monetary control and the use of indirect monetary instruments will have to give way to a renewed focus on bank credit and the deployment of direct instruments of monetary control, including regulation of the amount and distribution of bank credit, stipulation of interest rates and the prescription of sector-specific refinance facilities. In the context of the diversification of financial markets, even in the developed countries considerable attention is now being paid to the direct effects of monetary policy not only on prices but also on output and employment. Guidelines on credit distribution, which can be evolved in a nonbureaucratic manner, must involve disincentives for bank credit flowing to real estates, company shares and consumer durables. To encourage banks and financial institutions to focus on production credit, they should be given flexibility in the application of capital adequacy norms. This will also obviate the need for them to compete with manufacturing firms for equity and debt capital in the market.

To bring down real rates of interest from their present very high levels, a system of interest rate regulation together with quantitative guidelines on the distribution of bank credit has to be put in place. For some years to come, till the financial system acquires competitive strength and the informal sector of the economy achieves a degree of resilience, the erstwhile arrangement of prescribing minimum and maximum lending rates for different categories of borrowers is the only viable strategy. The argument that small borrowers anyway pay usurious rates of interest to informal credit agencies and hence can bear high rates of interest on their borrowings from banks and financial institutions is spurious. Apart from the question of equity which demands a progressive structure of interest rates, it is pertinent to ask, if small units and informal sector borrowers can be expected to put up with very high rates of interest, why not organised sector units?

Despite the reduction in inflation rate, the interest rate on bank deposits up to one year has been kept at 11 per cent and deposits of higher maturities have been freed from interest rate regulation. Rates on bank deposits and similar saving instruments have shot up as a result. Competition among banks has been intensified further by the liberalisation of deposit rates of RBIregistered and credit-rated non-banking finance companies (NBFCs). This will prevent interest rates from coming down even if the liquidity strain is eased. The flow of funds to real estate, company shares and consumer durables will also be further encouraged. It is now well accepted that high interest rates do not augment overall domestic saving, but only shift saving from one instrument to another. A clear distinction between short-term and long-term deposits would have helped to reduce banks' cost of funds, the benefits of which could have been passed on to borrowers, particularly the small and medium ones.

The system of regulation and prescription of minimum and maximum rates needs to be extended to the inter-bank overnight and call money market. Even in many advanced countries, call rates are either targeted or prescribed from time to time by the monetary authorities. Given the structure of the banking industry here, self-discipline is unlikely to work. So it is necessary for the RBI to intervene and prescribe a range of, say, 12 to 25 per cent for overnight call money borrowing (linked to some notion of average cost of deposits to banks at the margin at the one end and a realistic ceiling rate on bank advances at the other). A minimum rate of 10 per cent on call money borrowing is justified to curb lending by lowdeposit-base banks and prevent serious liability-asset mismatches as a result of excessive dependence on the call money market. Call money rates beyond 25 per cent should be considered a sign of the system's weakness and a source of destabilisation. The permission granted to term-lending institutions, mutual funds and other financial institutions to lend in the overnight money market has already done considerable harm

by making for free flow of funds between the money market and the capital market. It has also come in the way of effective transmission of monetary policy impulses by encouraging banks to carry mismatches between assets and liabilities. So FIs definitely need to be pulled out of the overnight call money market. The system of auctioning dated government securities has resulted in their yield rates being pushed up to very high levels. Already the RBI has been forced to revert to the earlier system of predetermined coupon rates on dated government paper. This must become part of regular policy so that false expectations on government bond rates are not generated.

Banks must be required to strictly enforce the end-use of credit. Banks need to effectively use the Tandon and Chore Committee norms on current assets and derive permissible bank finance after excluding treasury operations and financial investments, such as in finance companies, associate companies, shares of other companies and the inter-corporate deposit market. The current framework of monetary policy has stimulated expectations of usurious rates of interest on banks' assets, thus jeopardising growth. It has also ensured that the interest burden on the government is so heavy that there will be no end to the fiscal crisis. The RBI's steadfast refusal to focus on credit as a policy target and to render sector specific refinance and rediscount facilities for such areas as agriculture, small-scale industries and other small borrowers - a policy which south-east Asian countries such as South Korea have pursued with great success - has deprived monetary policy of the ability to play an effective role in promoting geographically and sectorally dispersed industrial development. In the context of the elimination industrial controls, some degree of sectoral and regional priorities in industrial investment can be enforced by the lending policies of the financial institutions. Therefore, the earlier policy of the termlending institutions playing a decisive role in industrial development, with the IDBI functioning as the apex institution to evolve policies, set lending prioritics and undertake tasks of co-ordination, should be restored with renewed vigour. For rural credit, the multi-agency approach deserves to be reinforced. The age-old plans for strengthening the co-operative credit structure need to be pursued with vigour. Regional Rural Banks (RRBs) should be delinked from the parent banks and given operational freedom so that they supplement banking services in their areas of operation. At the same time, the role of commercial banks in meeting rural and semi-urban credit needs must be reiterated and, towards that end, the lead bank scheme of individual banks being assigned different districts for special focus needs to be revived with renewed emphasis.

# Role of Planning in a Globalised Economy

Arun Ghosh

The newly-constituted Planning Commission must tackle three crucial areas: (a) widely-spread rural development; (b) raising of domestic resources adequate to meet developmental needs; and (c) ensuring the long-term viability of the balance of payments.

A NEW Planning Commission has been constituted by the UF government as of July 31, with Madhu Dandavate as the deputy chairman. Despite the excellent past credentials of the new deputy chairman, somehow the new commission does not inspire much confidence that its sights are set right, if only because of the st gement made by the chairman of the reconstituted commission at its first meeting on August 19, with focus on the continued pursuit of economic liberalisation policies and of changing the sights of planning in the above context.

Let us, however, reflect on the above point Times change. The world is constantly changing, for technology does not stand still Ideas and ideologies which may have been appropriate in 1950 may not – in fact are not – relevant in 1996. Only a silkworm lives in a cocoon, but its life is brief. We must accept the fact of the world as a sort of 'global village' today, both the modern means of communication and the magnitude (and mobility) of international finance capital have made for a sea-change in the world scenario which any country can ignore at its peril

Do we need to plan at all, in the framework of the process of 'liberalisation' let loose since July 1991 (and therefore pursued for more than five years)? What precisely is the role of planning in a globalised 'market economy' where all investments are supposed to be based on forces of market demand and supply? Even as per the announced policy of the United Front government, the process of 'liberalisation' is to be continued; and the announced policy of the government is to seek the inflow of external capital to the tune of \$ 10 bn annually, in order to bridge the gap between domestic savings and investment needs. The role of the state, implicitly, is to be limited to social sector investments - on education, on health services et al - so that all production of goods and services (for direct consumption or as producer goods/services, including infrastructure) must now be left to the market, for the foreign investor (as indeed his domestic counterpart also) would be motivated only by the criterion of profitability. Today do we really need a Planning Commission? Do we really need to plan? If so, why plan, and plan what? We need greater clarity in regard to both the above aspects of planning, in the context of the present policy framework; in the context of 'globalisation' being an inescapable reality; in the context of the 'universality' of knowledge, of the need to accept and adopt new technologies (in order to raise the productivity of labour) which alone can improve the standards of living of the people. Will planning help, and if so, how?

#### NEED FOR PLANNING

And yet, let us reflect The world today is doubtless a global village. And yet, like a typical Indian village, it is deeply fractured. Iniquities abound, not only by way of highly different levels of development, the iniquities tend to get intensified by the widely disparate firepower of different countries. Like the muscle-power of the hirclings of the upper castes/classes in Indian villages, the firepower, the threats of its use, the actual use of discriminatory trade and other policies by the industrially developed world has tended to perpetuate the 'dependent' (or subaltern) status of the less developed countries of the world. That also is a fact of life.

It is in the above framework of a global world economy, which is yet a deeply fractured world, that India has to consider its economic policy options. To plan or not to plan, what to plan for, are decisions which are crucially dependent on two stark realities (a) the general lack of knowledge and skills, in a large part of the Indian workforce, with (fortunately for the country) a reservoir of immense talent and skills, at diverse levels, both in terms of 'knowledge' per se and skills required for translating knowledge into technology; and (b) the reality of a highly fractured world order, where disparities/iniquities are far greater than even in a typical Indian village and the gap between the 'haves' and the 'have-nots' of the world has been steadily widening; where the developed world is quite clearly intent

on 'exporting' its own unemployment — which exceeds 10 per cent of the workforce in western Europe, and is still around 6 per cent in the US – through the new international economic order which it has succeeded in imposing over the rest of the world through cajolery, threats and on occasion downright aggression.

The above international framework would require skillful manoeuvres on the part of the Indian state; it would require both vision and determination to implement a consistent set of policies vis-a-vis the external world. The domestic social framework would also call for both vision and determination, calculated to systematically overcome the domestic hurdles to widespread economic development. In brief, we need to plan. Naturally, the planning effort has to veer away from some of the earlier tenets of policy. All good remedies depend on the nature of the ailment, and without further ado, it may be useful to underline the three crucial areas which the newly constituted Planning Commission should tackle - and in regard to which the government must accept the overall planning framework, in order to devise appropriate economic policies. These three crucial areas are: (a) widespread rural development, (b) the raising of domestic resources which are adequate to meet developmental needs, and (c) the ensuring of Fing-term viability of the balance of payments, for the long-term threat to India is not political aggression against the country but its economic (and financial) strangulation

#### RURAL DEVELOPMENT

As per the 1991 Census, more than 70 per cent of the Indian population still lives in villages, and 66 per cent of the workforce is engaged in agriculture and allied activities (farming alone accounting for 60 per cent of the workforce)

Unfortunately the focus of economic policies all along - from the Second Plan onwards - has been on rapid industrialisation, and the policy did succeed until the 1970s (despite the great hiccup of 1966, when the focus shifted to urgent attainment of 'food security' based on the green revolution)

But the green revolution has, by now, more or less exhausted itself, and now, suddenly, the focus appears to have shifted to agrarian exports. Every schoolboy knows, however, that the more developed a country, the more its exports tend to be of manufactured products, with significant 'value addition'. The advantage of a large country

with a potential surplus of agricultural products – can be translated into a real advantage only by getting its agricultural

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- \* Net Profit of Rs 11 1 crores is the highest profit ever achieved by the Bank
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- \* Performance under PMRY Scheme exceeds 101%
- \* Priority Sector Advances reaches Rs.961 crores
- \* Advances to Agricultural Sector stood at Rs 43? crores
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production attuned to supplying the materials required for the export of manufactures; and that principle applies equally to mineral resources. Exports of primary products have always characterised (colonial) developing countries all through the 19th and the 20th centuries.

There are two other realities to be considered in the context of agrarian development. First, even to this day, only a little more than one-third of the total cultivated area in India has irrigation facilities; and though 'minor irrigation' through the use of subsoil water has been increasing, the water-table has also been going down in many areas. In fact, many experts have expressed deep concern about the future problems of water supply, even to meet the basic problem of drinking water; and the water needs of both irrigation and of industrial development are formidable. The proper planning of 'water use' is a matter which can no longer be ignored, unless we are totally unconcerned about the welfare of the coming generations.

The second stark reality that we must face is that over the years the constant felling of trees (and the denudation of forest cover) both to meet the fuel needs of the population and industrial needs of paper making, furniture, and other wood based products has led to systematic soil erosion and degradation of the countryside in large parts of the country. Of the approximately 140 mn nectares of cultivated area in India, more than 80 mn hectares stand degraded in varying degrees, and some parts of this area are now totally bereft of moisture retention capacity, and therefore fully 'desertified'. With the monsoon in India coming in the form of a torrential downpour over a few months, the top soil tends to get washed away, and even mildly sloping areas have been subjected to such degradation; while the absence of drainage in the areas irrigated with surface water has brought about soil salinity in erstwhile fertile areas in the plains. A minimum of 10 ma hectares are subject to heavy annual flooding. On top of all this, excessive monoculture -especially with high yielding varieties of rice and wheat - has now brought about a situation of 'diminishing returns' in many otherwise fertile tracts, requiring more and more applications of chemical fertilisers and pesticides.

The solution to the emerging problem lies in massive rural works; there is need for an enormous extent of land reshaping, bunding, terracing, the planting of trees (to prevent the sudden rush of waters); the planting of sturdy grasses and other vegetation on steep slopes; the building of small weirs and check dams where the contours of the land may allow such construction — so as to create small, mini-reservoirs for local irrigation — and, finally, to dig drainage channels where

the problem is that of excess water. The above operations would require massive deployment of labour; and the actual works would depend on the topography of each locale. What is required is systematic, local 'watershed area planning', and can be undertaken only locally. In a few isolated areas where such efforts have been made, the results have been striking. The yield and employment potential - have gone up several fold; and new activities, including dairying, other activities, have changed the lives and the outlook of the local populace. (Actual results can be seen, for example, in the Kheda district of Gujarat; in Ralegan Siddi village in Maharashtra; in Panchwati in the UP; in Bandwan Block of Bankura district in West Bengal, to name only a few.)

But local 'watershed area planning' can be attempted only by local communities. What is required is the 'empowerment' of local communities and some means for the funding of the deployment of idle labour in each community. There is nothing new in the idea. The Chinese successfully pursued this methodology from 1950 onwards, so much so that overall labour participation in China increased from 36.1 per cent of the population in 1950 to 49.6 per cent in 1990 (vide, Society and Development in China) and India (eds), Mahadevan, Chi-Hsien Tuan et al, Delhi, 1994, p 371). One need not follow Chinese methods to achieve the same end; the only problem in India that has to be confronted is the pattern of land ownership, and whether and to what extent the landowner or the state should pay for the improvement of the land. But (a) there are common works, common lands, and general improvements (which would benefit all), where the state (or the community) has a role to play; and (b) there are individual holdings where the necessary improvements are partly a function of overall improvement, and partly a matter of making the individual peasant proprietor pay for the improvement of land. In most areas, the size of holding is, in general, so small that the peasant proprietor is a net buyer of foodgrains, and subsists below the poverty line. He cannot be expected to make any payment, except partially through his own labour. Incidentally, Krishna Bharadwaj has tound an inverse relationship between the yield per acre and size of holding in India (vide, Rural Development (ed), John Harriss, 1982. p 287) and in this context land reform (of the type implemented in West Bengal after 1977) would help greatly. But even without fundamental land reform, it is possible to tackle the problem because the size of 'operational holdings' in India is not very large (with the possible exception of Punjab where operational holdings are larger than the ownership pattern would suggest).

Incidentally, to finance the employment of idle labour, one could use the existing surplus food stocks with the FCI; cash requirements can be substantially met if the funds currently earmarked for central and centrally sponsored schemes – of the order of more than Rs 8,600 crore in 1996-97 – can be redeployed for this purpose.

An associated development would be the composting of all village wastes in each village; and this concept could be extended to the use of human excreta – as in China and South Korea – through the construction of communal latrines, of the sulabha shauchalaya type in each village, so that both organic tertilisers and energy in the form of 'methane' is locally available in each village.

But such works can only be taken up at the village level. What is the role of the Planning Commission in the above context? There are three responsibilities that the Planning Commission has in the above context. First, all currently wastefully used central and centrally sponsored schemes need to be mercilessly pruned and phased out, and the funds presently deployed for such schemes earmarked for local communities, to be passed on via the states specifically for local area development plans to be implemented by the panchayats (or similar bodies in the scheduled tribal areas). To the extent that funds earmarked for employment guarantee schemes would henceforth be used simultaneously for employment generation and real capital formation in rural areas, this would lead to an immediate increase in the availability of resources for development. Secondly, the Planning Commission should give up its present focus on the 16 agroclimatic zones (and upwards of a hundred sub-zones) and give up attempts at detailed central planning of agriculture; discourage monoculture; discourage the export of primary products, including foodgrains and raw cotton. (Exports of garments, textiles, even of cotton yarn would have lots more 'value added') The focus, instead, should be on crop rotation, and general selfsufficiency in regard to foodgrains production (where millets and poises would be important constituents) in each area; for, by and large, it should really be only the urban areas that depend on outside food supply, with possibly a few exceptional areas like Kerala, where the topography favours commercial crops rather than foodgrains production. Finally, the Planning Commission should essentially be concerned with price policy, and the tunding of research for agrarian development, with the primary focus on dryland farming techniques and the development of hybrid seeds for such areas.

Briefly, then, the focus on rural development has to be different from the present strategy of 'marketisation' of all agricultural production. Markets are important, but only after a minimum level of food consumption for all has been attained. The present obsession regarding the 'globalisation' of Indian agriculture must be done away with, as a precondition.

#### DEVELOPMENT OF INFRASTRUCTURE AND KEY INTERMEDIATES

The planning of the development of infrastructure as well as of key intermediates must remain the responsibility of the state; and hence must remain a major concern of the Planning Commission. Why is this so? The answer is elementary. Infrastructure costs must be kept down; the adequate availability of infrastructure is a prerequisite to any development. Rural roads; a countrywide network of the road system; an efficient railway system; a modern communications network; the assured availability of power throughout the country (at affordable prices); the availability of other forms of energy; the availability of clean water; other urban infrastructure - all these require state intervention at various levels.

And, to finance such development, resources must be found domestically. This is quite contrary to the present thrust for seeking external capital – to the tune of \$ 10 bn annually – for the required development thrust.

Let us talk in practical terms. How much is \$ 10 bn<sup>9</sup> At the current rate of exchange of the rupee, approximately, Rs 35,000 crore.

If only the State Electricity Boards were to be allowed to charge economic rates of power supplied by them to the rural sector and to domestic consumers, and if the SEBs were to be allowed to get a return of only 3 per cent on their investments - as laid down by law - they would be able to raise resources in the region of Rs 15,000 crore annually. As of 1995-96, the total consumption of power for domestic use was 45,602 million KWH; that of agriculture and urigation was 75,524 million KWH, the two totalling 1,21,126 million KWH out of gross total supply (by the SEBs) of 2,69,761 million KWH, 1 e, 45 per cent of total power supplied by SEBs (vide, Annual Report on the Working of State Electricity Departments, Planning Commission, 1995). The effective subsidy on agricultural consumers alone, in 1995-96, was Rs 11,178 crore (vide, ibid, Annex 4.30). The present talk of privatisation of electricity is therefore based on a lot of disinformation.

Why can we not rely on external capital for such infrastructure? Recent experience has demonstrated that foreign capital has to be guaranteed a minimum return of 16 per cent on capital invested. The actual return on the earlier ENRON project (before substantive renegotiation) as estimated by the IDBI which was providing much of

the rupee finance required for the project – was 16 per cent in the first year of operation, rising to 54 per cent in the seventh year of operation. The return on investment for the revised project may be less (than 54 per cent), but that is wholly irrelevant. The return on the foreign investments being made today still remains much too high.

What is likely to be the increased production (and productivity) generated in the Indian economy, following this investment? Certainly not adequate to service the imported capital, with the result that the savings of the rest of the economy would need to be squeezed in order to service such capital. This is reminiscent of the 'Drain Theory' expounded for 19th century colonial India.

Two other desiderata must also be recounted. Because the ENRON project is based on imported fuel, the World Bank had estimated in 1993 that at peak generation, the outward payment (for capital servicing and for fuel import) for the ENRON project alone would be \$ 900 mn annually, or some Rs 3,150 crore, at 1993 fuel prices. An escalation of fuel costs would push up these figures. Since the power is to be used domestically, additional exports to finance such payments would thereby become an essential requirement.

And, to crown all this, a substantial part of the investment – the local construction costs – is to come from the IDBI, that is, from domestic savings.

That is broadly the pattern of recent foreign investments in India, and of the return expected by foreign investors. And we seem to be gullible enough to believe that infrastructure development can be left to foreign investors. Except for telecommunications and exploitation of known oil reserves – both of which are highly profitable, and for the development of which the C-DOT/MTNL and the ONGC/OIL have the required resources and the expertise – all other infrastructure development requires long-term capital at low rates of return.

But we are not prepared to pay the SEBs even 3 per cent on their invested capital; whereas, we are cheerfully prepared to pay at rates varying between 16 per cent and 54 per cent for power generation capacity developed by external capital.

In brief, external capital on such terms can only be disastrous for the economy. The Planning Commission should draw the attention c' the government to these realities; and put a stop to this drain of India's resources.

RESOURCE RAISING FOR INFRASTRUCTURE
DEVELOPMENT

We have already indicated that a mere 3 per cent return on capital to the SEBs could result in additional resources (i.e., wiping out

current losses plus new resources generated) to the tune of some Rs 15,000 crore annually. (That, plus some funding from financial institutions like the IDBI, should be adequate for power development.) How does one raise the additional Rs 20,000 crore required, if the imported capital of \$ 10 bn is to be dis-pensed with, for infrastructure development?

It is common knowledge that the extant rates of interest in India are absurdly high; in fact, that is one factor that has been bringing in short-term external capital into India. Consider Japan. The Bank Rate in Japan today is 0.5 per cent. The prime lending rate of Japanese banks is 2.5 per cent. Consider India. The Bank Rate has been 12 per cent for some time. The prime lending rates of banks were 18 per cent plus till recently; very recently they have dropped, first to 17 per cent and as of writing to 16 per cent (for some banks). But for most small borrowers the bank lending rate varies from 22 per cent to 25 per cent.

What is the rate of profit that one expects a small producer can earn, that he is expected to pay between 22 and 25 per cent interest on the capital borrowed? This absurd situation has come about because of the World Bank thesis that in a capital short economy, the rate of interest must be kept high in order to discourage capital-intensive methods of production.

The above thesis is wrong for two reasons. First, a high rate of interest does not discourage the displacement of labour by equipment; has not, in fact, done so. Secondly, as Keynes demonstrated as far back as 1936, savings do not depend on the rate of interest; nor is the interest rate an equilibrator between savings and (optimum) investment.

Chintaman Deshmukh, as the first Indian governor of the Reserve Bank of India, announced a cheap money policy – with the return of Treasury paper at 3 per cent – as far back as 1935.

Suppose the government and the RBI were to suddenly bring down the entire structure of interest rates by 5 per cent, what would happen? Nothing untoward would happen. There would be no sudden switch from the

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Sainath Book Centre G-11, Mahendra Chambers V T Magazine Market Dr D N Road Mumbai - 400 001 organised to the unorganised money market; the two are highly differentiated to the unorganised money market; the two are highly differentiated. And, if, to begin with a special tax of 3 per cent were to be levied on all 'rentier incomes', the effective interest rate to the lender would come down by 5 per cent, and to the borrower by 2 per cent. (As and when general revenues increase, the interest tax could be slowly brought down, with effective interest rates tumbling further.)

As of July 19, 1996, the total of time deposits of scheduled banks exceeded Rs 3,85,000 crore. At 3 per cent, the revenue to the centre, from scheduled banks alone, would exceed Rs 11,550 crore annually. Add the loans from the financial institutions - 1DBI, ICICI, all other similar lending agencies, the LIC/GIC, and now the Mutual Funds - and additional revenue of the order of Rs 20,000 crore could accrue to the centre only from this one source.

There are many other innovative ways of raising revenue; and this essay cannot possibly go into those. Suffice it to reiterate that all talk of inadequacy of resources is part of the process of disinformation, spread by a combination of domestic and external capital. Resources potential is there for anybody to see; one has to brace oneself and get tough on 'rentier income' as opposed to labour income.

#### EXTERNAL AND INTERNAL BALANCE

One other important area - where the Planning Commission must effectively intervene - is in the arena of policy tormulation which would bring about both internal and external balance. Incidentally, additional resources of the type indicated above would automatically help to achieve both. In fact, foreign capital would become available on much better terms only if domestic savings go up sharply. (Also, incidentally, a sharp reduction in the rate of interest would also bring down, over a period, the government of India's interest payment liability, which would also help to bring about a more balanced state of the fisc). But external balance requires a more careful watch on imports, both of inessential consumer goods and of essential intermediates like oil. The latter must be contained through the development of coal resources, through renewed search for oil and more efficient (and vigorous) exploitation of domestic oil and natural gas.

The exploitation of other potential energy sources, through increased biomass production, through the extraction of methane from all waste products, through micro hydel power along all fast running streams of water, are other ways of meeting our increasing requirements of commercial energy and scarce fuels.

Resource Planning in short cannot be left to the forces of market demand and supply, to the 'enlightened self-interest' of individual agents of production. National priorities and needs rather than the maximisation of profits by each individual must inform the general direction of the use of resources, for which individual agents can be allowed to compete subject to certain overall national considerations.

The present scenario - where the annual trade account deficit alone is \$ 7 bn or more. and where the servicing of private external capital costs another \$ 4.5 bn (both figures being actuals for 1995-96) - is just not viable on a long-term basis. We have so far been bailed out by remittances of Indian workers abroad to the tune of \$ 6 bn annually. This is now expected to come down, with the exodus of Indians with expired visas from the UAE. We must bring down our trade gap; we must control the explosion of remittances for servicing external private capital. The Planning Commission must lay down strict priorities, in terms of which policies of the commerce, industry and finance ministries must be reshaped.

#### **CONCLUDING REMARKS**

In brief, the Planning Commission must be restored to the position of laying down the basic framework of economic policies, within the parameters of which different economic ministries of the government must devise their own detailed policies. But this calls for a sea-change in regard to the position of the Planning Commission within government. It calls for a change in the vision of the chairman of the Planning Commission, from that of a 'humble farmer' to a statesman It calls also for a rare insight, both in the Planning Commisson and in the government generally, into the emerging international scenario, into how India's national interests can be subserved. The first decision therein is to selectively engage/disengage with the world economy.

We must take advantage of 'knowledge', which is a worldwide development; but we can only do so if we promote our own research and development and translate knowledge into technology. We are capable of doing so, as past experience in the nuclear and space technologies has demonstrated. Also, we must improve our 'organisational' abilities, "Knowledge", said Altred Marshall, "is our most powerful engine of production ... Organisation aids knowledge...' (Alfred Marshall, Principles of Economics, Eighth edition (1920), Macmillan, 1947, pp 138-39). We are deficient in knowledge, and poor in the matter of organisation. But, we have enormous latent capability in regard to both, and again, nuclear and space technologies are proof, if any were needed.

But, we must disengage with the world economy in two ways. First, we must prevent predatory external capital, particularly shortterm capital, from devastating our economy. This is quite easily achieved, by a high enough capital gains tax; and a lowering of interest rates would also help greatly. (What is more difficult to control is the flight of domestic epaital, through over-invoicing of imports/underinvoicing of exports. But that objective can be achieved through the maintenance of macro-economic stability combined with sustained development of the economy. This essay has been concerned with how to achieve the latter.) Secondly, our disengagement with the rest of the world has to be in the context of imports, we must not allow India to become the dumping ground for obsolete or polluting technology, and for surplus 'clitist' consumer goods which are sold primarily through high pitched advertisement campaigns. A really high rate of duty is the best way to both achieve this end and get some additional revenue from those to whom money is of little concern, as long as they can have their own lifestyle.

All this is possible. Is it likely? If one were to go by the pronouncements of those in power today, such a scenario is unlikely to emerge. Yet, no one can really predict. One never knows when a 'humble farmer' suddenly sheds his provincialism, emerges from his roots and his background, and gets to become a symbol of national regeneration. (Was Gautam, the Buddha, not born in a royal family?)

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# **Sociology and Common Sense**

#### Andre Beteille

Besides the empirical grounding in careful observation and description of facts, sociology as a discipline is characterised by its rigorous search for interconnections among different domains of society and its systematic use of comparisons. These preoccupations make sociology anti-utopian in its claims and anti-fatalistic in its orientation, and distinguish its 'generalised' knowledge from localised commonsensical knowledge.

SOCIOLOGY in contemporary India is a loosely-defined field of intellectual activity. There are pervasive disagreements about its aims, its scope, its approach, its methods, its concepts and its very subject matter. Many would say that it is at best a subject. and not quite - or not yet - a discipline. There are professors of sociology who not only disapprove of the subject as it exists but are doubtful about the very possibility of its existence; and there are laymen with only a passing acquaintance with its vocabulary who speak confidently about its aims, objectives, methods and procedures If I began to give an account of the unsolicited advice I have received about what kinds of sociological studies I should undertake and how I should conduct them from civil servants, bank managers, engineers, social workers, even society ladies, I would hardly have time for anything else. No sensible citizen would dream of offering that kind of advice to a chemist, a geologist or even an economist; sociology seems by contrast to be grist to everybody's mill. Part of the ambiguity and uncertainty characteristic of the subject arises from the fact that it touches the everyday experience of the ordinary person at so many points; and it often appears so close to common sense that there is an inevitable tendency to use the one in place

On this occasion I shall confine myself largely to academic sociology or the discipline that is pursued under that name in the universities and institutes of research. This is not to suggest that the subject can have no place outside of academic institutions. Auguste Comte and Herbert Spencer, two of the most influential sociologists of the 19th century, had little to do with universities, and Max Weber who came after them did much of his work outside the university. At the same time, sociology has been a recognised academic discipline in India for more than 70 years, and there has been a virtual explosion of the subject in universities and research institutes since independence. It may be useful to look at the work being done in these centres of study and research before enquiring into the relationship of the subject to the wider intellectual currents in society.

I wish to argue that for all its own unresolved, and in some cases unresolvable, differences, sociology is distinct from

common sense. It has a body of concepts, methods and data, no matter how loosely held together, for which common sense of even the most acute and well-informed kind cannot be a substitute. For one thing, sociological knowledge aims to be general if not universal, whereas common sense is particular and localised. Educated, middleclass Bengalis, like other educated or uneducated people anywhere, tacitly assume that their common sense is common sense as such or the common sense of mankind An important contribution of sociology has been to show that common sense is in fact highly variable, subject to the constraints of time and place as well as other, more specifically social constraints.

To say that sociology is distinct from common sense is not to suggest that it should seek deliberately to be areane or esoteric. Because it is so difficult to disengage oneself from common sense in the analysis of the human condition, and particularly in the study of one's own society, professional sociologists are frequently tempted to take recourse to needless conceptual and verbal sleight of hand. This is an occupational hazard that must be kept under constant scrutiny. N K Bose used to say that there are two kinds of scientists, those who make complex things simple and those who make simple things complex, and that his preference was for the former. We must surely deplore the mystification of the simple through the display of technical virtuosity. but we must also recognise that common sense is not always successful, by its own unaided effort, in making complex things simple. Let me make one thing clear: when I say that sociology should be pursued as a serious intellectual discipline, I do not mean at all that it should seek to trump common sense by adopting an inflated style. I am only too conscious of the fact that sociological writing tends to be cluttered with the needless use of heavy academic slang.

Thus, sociology has to steer an uneasy course between two equally unfruitful alternatives: submergence in the common sense of the scholar's own environment, and absorption in a narrow and self-satisfied technical virtuesity unconnected with the substance of social enquiry. I would like to emphasise that nothing will be gained by abandoning either common sense or the

cultivation of technical skills. Just as common sense is full of snares and pitfalls for the unwary sociologist, so too technical virtuosity becomes a distraction when pursued as an end in itself. In what follows I shall have little to say about technical virtuosity, my main concern for the present being with the inter-penetration of sociological knowledge and common sense

I

I would like to illustrate the nature of the problem by referring, very bacfly, to my experience as a teacher of sociology af the postgraduate level over the last three decades. The question with which I wish to start is why sociolo, y is such a difficult subject to teach. This may appear as an odd question since, compared to the natural sciences or even economics, sociology is regarded by the majority of students as a soft subject chosen thancipally by those for whom other. more attractive or more difficult options are closed. To be sure, the routine teaching of sociology at both undergraduate and postgraduate levels goes on throughout the country without much apparent exertion from either teachers or students. What I have in mind, on the other hand, is teaching as a serious and unremitting effort to open the mind to new facts and new arguments, and the unsuspected connections among them

Again, I have in mind not only teachers who are prepared to make the effort, but also students among whom a certain interest in the subject may be presumed to exist. The most serious obstacle to the concentration and deepening of the interest is that the better equipped students soon begin to wonder what there is to learn in sociology except a scries of terms and concepts; and, in the society of India, a variety of observations on sillage, caste, joint family, class, community, urbanisation, industrialisation, modernisation, and so on, with which they are already familiar to a greater or lesser extent. Sociology does not have the kind of formal theory that can be readily communicated by the conscientious teacher to an attentive studer!. It does not confine itself to a body of facts delimited by space and time, as do geography and history to a large extent. It deals with both arguments and facts, but the connections among them often appear loose, open and slippery.

In the absence of a clear and established framework, discussion and argument tend to wander in every direction. This may be a good thing in a research seminar, but it makes both teaching and learning extremely difficult in the classroom. In a research seminar, the discussion has to be confined at least within the boundaries of the topic specified. In MA or undergraduate teaching, on the other hand, one can expect a change of gear from one course to another and, even within the same course, from one topic to another. While students might easily comprehend, item by item, what is being taught or explained, it is often very difficult for them to grasp the connections among the items. It sometimes appears that every argument as well as its opposite is true; and facts can be marshalled, without too much trouble, to support contrary theories.

In my experience, students find it hard to cope with a subject in which the teacher is unable to provide that one correct answer to each important question, whether it is about class, or kinship, or religion, or politics. The laws of physics and, up to a point, the facts of history, no matter how complex or detailed, can generally be stated in terms that can be judged as either right or wrong. In sociology, the situation is often different. with greater room for ambiguity and disagreement. Students who can write fluently use their common sense and a superficial acquaintance with names and opinions to cobble together reasonably persuasive answers. Others who may have struggled with the subject but are handicapped by poverty of expression produce answers that are weak, confused and meandering. The examiner is often unsure whether he is giving credit for a wellwritten essay or for a good knowledge of the subject. Exactly the same problem arises in evaluating manuscripts for journal articles or books; many atrivial article gets published because it is written in good prose, where one with a more substantial argument, but badly presented, gets rejected.

Among students, the use of common sense (and fluency in language) is most in evidence in papers dealing with India. After all, every Indian student knows something about caste, class, joint family and Hinduism, and if he has some mental agility, he can write a plausible essay on any of these topics without being too far wrong. But such a student soon finds himself out of his depth when he has to deal with such topics as kinship in Africa, or religion in Indonesia, or social mobility in France. Hence I am ill at ease with the patriotic mal of those scholars who seek to confine the teaching of sociology to materials relating largely to India. No student can learn how to construct a proper sociological argument unless he is taught to handle empirical material relating to every type of

society, his own society as well as other societies.

The most acute pedagogical problem in university departments of sociology in India is to integrate what is taught under sociological theory with what is taught under the sociology of India, So far as I know, there are courses devoted to both major areas in all postgraduate departments of sociology in the country, and so far as I can judge, they are nowhere integrated in even a moderately satisfactory way. I point only to the gravity of the problem without seeking to propose any easy solution to it. The path chosen by most Indian sociologists as they move towards maturity is to steadily jettison the general equipment of sociological knowledge in order to give their undivided attention to the problems of Indian society. I, on the other hand, believe that by turning away from the accumulated concepts, methods and data of sociology in general, we will in the long run only impoverish and not enrich the sociology of India.

In the last 40 years there has been a slow but steady displacement of interest away from the general concepts, methods and theories of sociology towards an enhanced concentration of attention on the current problems of society and politics in India. Again, I would like to draw on my personal experience to make a point. Thirty years ago, when I went to lecture to students of sociology in universities outside Delhi, my hosts were quite happy to hear me speak on general topics: theories of evolution, types of lineage system, relations between status and power. and so on. Now they mostly wish to hear about reservations, caste politics, communalism and secularism.

Virtually the only active intellectual contact professional sociologists have with new developments in theory and method is through their teaching of students at the MA and to some extent the BA (Hons) levels; those who work in specialised institutes of research have largely to do without even that. Research seminars are generally, if not invariably, on topics dealing with India, and there is often a conspicuous absence of a broader comparative or theoretical interest. Then, there are the large annual conferences: these are now devoted almost entirely to current affairs, and the less newsworthy features of even Indian society and culture, and their underlying structures, receive scant attention.

I should now disclose the real reason for my anxiety. It is not only the civil servants, the bank managers and the engineers who present their common sense as sociology. Many professional sociologists do just the same, although they naturally try to give their common sense an air of authority by dressing it up in their own kind of jargon.

Sociology has always and everywhere maintained some concern for current affairs. but that concern does not necessarily drive out other, more academic interests in topics that are remote from the obsessions of newspaper editors and columnists. N K Bose maintained a lifelong interest in the distribution of material traits; G S Ghurye wrote on dual organisation, on 'gotra' and 'charana', on Indian costumes and on ancient cities; Irawati Karve wrote a book on kinship organisation in India. Such topics have a marginal place in the many regional and national seminars and conferences organised by sociologists today; they have largely been driven out by what are believed to be more socially relevant subjects.

There is no doubt that the preoccupation among Indian sociologists, regularly expressed at seminars and conferences, is with the appropriateness of the existing body of sociological knowledge to the understanding of Indian society and culture. These discussions are not so much about methods and techniques of investigation as about the presuppositions of sociological knowledge and about the nature of understanding and explanation. They tend to be presented in highly abstract and speculative terms, and rarely lead to any concrete or workable propositions. Alternative approaches to the study of Indian society can hardly produce results unless they are linked to the disciplined practice of a craft; no new approach has emerged in science and scholarship from the mere desire to have a new approach.

II

Today, at the close of the 20th century, it is impossible to practice sociology as a serious academic discipline without drawing on the vast reservoir of sociological concepts, methods and theories created by scholars over the last hundred years. This has been mainly, though not solely, the work of western scholars, and like any accumulated body of knowledge, it contains much that is mistaken, distorted and obsolete. Therefore, in the pursuit of his work, the practising sociologist, whether in the west or in India, has to maintain an alert and critical attitude to it. But that is far from saying that he can set it all aside in the hope that a completely new framework can be created ex nihilo by some as yet unrecognised genius nourished by the Indian air. Surely, there is room for an Indian perspective, or, better, several Indian perspectives, but to be viable, they have to address themselves to society and culture everywhere, and not just to Indian society and culture.

The builders of modern sociology, Emile Durkheim, Max Weber and others, took the whole of human society in its diverse and changing forms as their subject of study, even when their primary attention was devoted to their own society. To be sure, their observations on other societies were limited, one-sided and often misleading. But they believed, one and all, that the disciplined application of the sociological method would contribute much to the understanding of their own society; and that this understanding could be deepened and broadened by systematic comparisons between their societies and other societies. They were all convinced that common sense was not enough to reach the understanding they sought, and that they had to fashion new tools of enquiry and analysis to attain their objective.

The sociologist who did most to lay bare the illusion of understanding created by common sense was Emile Durkheim. He argued tirelessly that the systematic investigation of a subject was not possible unless the investigator freed himself from his preconceptions of it. These preconceptions, shaped by a limited experience, are what generally pass for common sense in a given society; they are not only often wrong, but act as impediments to the examination of the available and relevant facts.

Early in his career Durkheim gave a brilliant demonstration of the superiority of his approach over that of common sense through his study of suicide. His argument was that suicide was a social fact whose torms and patterns could not be explained by the known facts of human psychology Now that we have behind us Durkheim's study and the many others to which it gave rise. this perhans does not seem a great revelation any longer. But when it first appeared, it did seem startling to discover that social causes were behind what common sense might lead one to believe to be the supremely private or individual act. As is well known, Durkheim pursued systematically the distinction between the incidence and the rate of suicide. and brought together a wealth of data to show that suicide rates varied systematically between societies, and between religious, occupational and other groups within the same society. Further, while suicide rates were on the whole highly stable, they were also subject to fluctuations due to the operation of social and economic causes which he was able to identify. One of his remarkable findings was that suicide rates go up significantly not only after an economic crash but also after an economic boom

Not all of Durkheim's observations on suicide have stood the test of time, but that is not the point. The point is that when he had an important insight that appeared to go against common sense, he decided, as a sociologist, to test that insight by systematically assembling a large body of data, and applying to the data, concepts and methods that may also be applied to other domains of life in other parts of the world.

One of Mex Weber's most fundamental ideas by which sociology has been enriched everywhere is that the consequences of human action are rarely the same as the intentions of the actors, and that sometimes the two are diametrically opposite. One can say again that it is no great discovery that our actions often miscarry and end in ways that we least expected. But in science and scholarship what counts is not just the original insight, but the significance of the domain to which it is applied, and the methods and data by which the insight is tested. Weber's application of the insight in exploring the relationship between religious values and economic action has produced a rich harvest of detailed and systematic studies by generations of sociologists the world over.

Here I would like to make a brief observation on Weber's approach to religion, partly because of its intrinsic importance and partly because it has been frequently misrepresented. The prevailing view among social theorists until Weber's time was that. for good or evil, religion had served as a source of social stability. This was Marx's view, and because he believed change to be both necessary and desirable, he assigned a negative value to religion. Durkheim, on the other hand, assigned a positive value to the same phenomenon since he believed that stability was essential for social well-being. Weber's originality lay in his investigating, systematically and with a sharp eye for detail, the profound changes brought about in economic life by the breakthrough in religion. In his view, it was neither the commitment to ideal values nor the demands of material existence, but the tension between the two that was the true source of change in society.

#### Ш

What I have tried to stress so far is that sociology is a disciplined and specialised activity in which the role of originality should not be exaggerated. It is a craft that needs patience and care, and a long apprenticeship to acquire. Its concepts and methods are not things that any intelligent person can construct on his own in order to satisfy a passing intellectual urge. Having drawn attention to the empirical grounding of the discipline in the careful observation and description of facts, I would now like to make a lew remarks on two of the fundamental preoccupations of sociology. its rigorous search for interconnections among the different domains of society, and its systematic use of comparisons.

Sociology is not about economic life, or political life, or religious life, or domestic life; it is not about class, or about caste, or about community; it is not about the ideal of equality or the practice of inequality. It is about the interconnections among all these and other aspects of social life. This

constitutes what some have been pleased to call the 'functionalist bias' of sociology. While freely admitting to that bias in my own work, I must point out that it does not in any way rest on the presupposition that the interrelations in society are harmonious rather than inharmonious, or stable rather than unstable. It is for this reason that I speak simply of the 'search for interconnections' and not of a 'holistic approach'; for the latter incorporates ideas about a total social structure with which I am out of sympathy. Sociology in the last few decades has been invaded by a kind of mindless Marxism for whose adherents the word 'functionalist' has acted like a red rag to the bull. On the other hand, it is through a long chain of sociological arguments that the very fruitful distinction has emerged between 'social integration' and 'system integration'.4

The search for interconnections is laborious and time-consuming, and it has its own procedures, survey research, statistical analysis, participant-observation and case studies. It does not always or even generally lead to spectacular results, but meaningful and unsuspected connections can be reached only by sifting through masses of connections that are trivial and easily accessible to common sense. It is in this way that the great advances in sociological knowledge have been made, generally incrementally and only occasionally by a dramatic breakthrough.

The careful and detailed examination of interrelations has shown that sometimes economic factors were important where they were not suspected to be, and at other times the ties of kinship and marriage were seen to have unforeseen consequences for various areas of social life. However, the belief that one single factor or set of factors, whether economic or religious, holds the key to all the interconnections in society has been a hindrance rather than a help in sociological enquiry. Sociology has never been at peace with either the religious interpretation of the world or the materialist interpretation of history

Patient and systematic studies by sociologists have brought to light many aspects of Indian society where things are not what they seem. I can refer here to only a few examples, and that too very briefly. Shortly—tter independence a whole range of village monographs began to be published by trained anthropologists, and these have altered our perception of rural India and Indian society in general. M. N. Srinivas formulated the important distinction between the 'book-view' and the 'field-view' of Indian society,' emerging—the leading proponent of the latter, and ic,—atedly drawing attention to the errors of the former.

Srinivas's most seminal contribution was his exposure of the misrepresentation of caste among educate ! Indians. He attacked

inflexible system based on the division of Hindu society into the four 'varnas'. He maintained, "The varna-model has produced a wrong and distorted image of caste". He was able to show that far from being absolutely rigid and inflexible, the caste system accommodated distinct forms of social mobility. Further, by drawing attention away from varna to 'jati', he was able to see more clearly than the political commentators of the day that the role of caste was increasing rather than declining in Indian politics.

My own detailed study conducted in Tanjore district more than 30 years ago addressed itself to the view then widely prevalent that the Indian village was a 'little republic.' I had little difficulty in showing that the village in which I lived and worked for nearly a year was riddled with inequality and conflict; and my reading of village monographs by other social anthropologists, both Indian and foreign, and my general training as a sociologist convinced me that what I had observed and recorded was general rather than exceptional.

Similarly, the work of my colleague, A M Shah has exposed, through the systematic analysis of a wealth of empirical material, some common misperceptions about changes in the Indian family system." These misperceptions arise partly from a confused conception of the joint family, and partly from insufficient attention to the available evidence. Shah's work shows that the proportion of 'joint-family households' never greatly exceeded that of 'nuclear-family households'; that in most sectors of contemporary Indian society, urban as well as rural, there are still many joint-family households; and that the average size of the household in the Indian population has remained roughly the same in the last hundred years.

Despite the rich harvest of studies on practically every aspect of Indian society and culture, there is a striking shortage of studies by Indian sociologists of other societies and cultures. Not only that: in their empirical research, most Indian sociologists tend to confine their attention to their regions of origin: Bengalisto West Bengal, Gujaratis to Gujarat, and Tamilians to Tamil Nadu. It is unfortunate that Indian sociologists have taken so little advantage of the comparative method, because it is in the use of that method mainly that sociology scores over common sense.

Since I attach a great deal of importance to the comparative method to the discussion of which I have devoted time and effort, I cannot pass it by without a few brief observations. It is useful to begin with what Durkheim said on the subject. "Comparative sociology", he observed, "is not a special branch of sociology; it is sociology itself". 10

THE SOCIOIOGIST ACQUITES THE HAUIT OF comparison so that no matter which activity or institution he is examining, he brings to it insights from the study of similar activities and institutions in other societies and cultures. Nor is it merely a matter of habit; rules of procedure have been devised, tested and refined as an essential part of comparative study. There is nothing in the comparative method as such that requires every investigator to cover the entire range of societies, near and distant. As Durkheim put it, comparisons "can include facts borrowed either from a single and unique society, from several societies of the same species, or from several distinct social species".11

India, with its large and varied population, offers rich possibilities for comparisons within its own confines. I will conclude this section by referring to two examples of comparisons from my own work, one very restricted and the other very wide in scope. The first was a taluk by taluk comparison in Tanjore district of the relations between the cleavages arising from the ownership, control and use of land, and those arising from caste;12 it deepened my own understanding of the peculiar combination of factors that leads to class formation in agriculture. The second is a long-standing comparative study of positive discrimination in India and affirmative action in the US: it has enriched my understanding of the distinction between rights and policies, and of the relationship between distributive justice and institutional well-being.13

Common sense is not only localised, being bound by time, place, class, community, gender, and so on; it is also unreflective since it does not question its own origins and presuppositions, or at least does not do so deliberately and methodically. As an intellectual discipline, sociology cannot be a creature of common sense; but that does not mean that it should turn its back on it. Our sociology is influenced to a greater or lesser extent by the common sense which is a part of our social environment: to what extent is that common sense in its turn influenced by sociology? Sociology will count for little as an intellectual discipline if its insulation from common sense means that it merely reproduces itself, and sociologists write only for each other. Its success will be judged in the long run by its ability to act back upon comon sense and contribute something to its renewal and enrichment.

Common sense is based on a limited range of experience of particular persons in particular places and times. Where it relates to such matters as family, marriage, kinship, work and worship, people are inclined to believe that their way of doing things is the right way or the reasonable way. Other ways of acting in these regards strike them as being not just wrong, but contrary to common

sense. This is occause they observe or experience other ways of acting and thinking only in bits and pieces, and not in their entire context. Seeing alien and unfamiliar practices in their proper context often makes those practices appear quite sensible; familiarity with a wide range of practices occasionally makes one's own ingrained ways of acting and thinking appear peculiar if not quixotic. An old Chinese poem says:

When I carefully consider the curious habits of dogs,

I am compelled to conclude that man is the superior animal

When I consider the curious habits of man, I confess, my friend, I am puzzled.

Comparative sociology is a great help in acquiring and maintaining a sense of proportion.

I would like to avoid inviting the charge of making invidious distinctions between disciplines. At the same time, it is essential to draw attention to the peculiar preoccupation of sociology with the similarities as well as the differences among societies, with comparison as well as contrast. To be sure, historians have recorded diverse beliefs and practices among people at different places and different times over a longer stretch of time than have sociologists. But their characteristic tendency has been to study the diversity of beliefs, practices and institutions severally rather than jointly. It is the rare historian who does comparative history, whereas one cannot really escape from comparison and contrast while doing sociology.

Sociology not only deals with facts from the entire range of human societies, it seeks to place those facts on the same plane of observation and analysis. The educated layman can hardly be expected to master all the facts with which the sociologist deals. He follows at best the method of apt illustration, and no consistent rule of procedure for the selection and arrangement of facts. On the other hand, sociological practice develops a characteristic style of argument that does tend to filter through to wider and wider circles in the course of time. Over the long run, the sociological mode of reasoning has had some effect on thinking about education, about politics, about class and about inequality.

Where sociological reasoning acts upon common sense, it tends to moderate both the utopian and the fatalistic elements in it. Common sense easily constructs imaginary social arrangements in which there is no inequality, no oppression, no strife and no constraint on individual choice: a world in which society makes it possible "for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic". 14

Sociology is anti-utopian in its central preoccupation with the disjunction between ideal and reality, between what human beings consider right, proper and desirable, and their actual conditions of existence, not in this or that particular society, but in human societies as such.

Sociology is also anti-fatalistic in its orientation. It does not accept the particular constraints taken for granted by common sense as eternal or immutable. It provides a clearer awareness than common sense of the range of alternative arrangements that have been or may be devised for the attainment of broadly the same ends. No social arrangement, however attractive in appearance, is without some cost. Social costs and benefits are far more difficult to weigh and measure than the purely economic ones. A finelytuned judgment is essential for this, and that can be formed only through the disciplined and methodical examination of the varieties of actual social arrangements created, adopted and replaced by successive generations.

This leads to the question of valueneutrality or, better, the distinction between value-judgments and judgments of reality in sociology as against common sense. There is now a considerable body of literature, some of it abstract and technical, on this question, although this is not to say that all disagreements on it have been or can be settled among sociologists. By and large, there is agreement among them that questions of fact are distinct from judgments of value, and the two ought to be differentiated as clearly as possible by all the technical means available.15 The disagreement is about the extent to which the distinction can be consistently maintained in practice, and the best means to be adopted in achieving or approaching that end.

There is an influential tradition in sociological enquiry that views the methods and procedures of the discipline as being, at least in principle, the same as those of the natural sciences. Not only animals, vegetables and minerals, but also men and women and their social arrangements can be made subjects of science.16 In this tradition, which has generated much useful information and some fruitful analysis, all descriptions and all evaluations are suspect unless they are made in accordance with technical procedures that systematically exclude or at least minimise the investigator's bias; and common sense, in this view, is always a source of potential bias and error.

Not all sociologists view their discipline as a kind of natural science; today perhaps the majority of them view it as a moral science rather than a natural science. One of the problems is keeping values strictly separate from facts in the moral or human sciences is that values themselves are an important part, some would say the most

important part, of their subject matter. In other words, the sociologist has to treat values as facts, as a part of his data, whether he is studying his own society or some other society, or both. But even here, he has to distinguish as clearly as possible the different kinds of facts with which he deals, for instance, the demographic composition of a community as against the religious ideas of its members.

It takes a special kind of discipline - at once intellectual and moral - to insulate the values being investigated by the sociologist from his own personal and social values. In a sense, what the sociologist investigates and the means by which he investigates it are of one piece, more so where the study of one's own society is concerned. This makes the separation between the two particularly urgent on the intellectual plane and particularly difficult on the moral plane. As Max Weber had observed on this question: "Nor need I discuss further whether the distinction between empirical statements of fact and value-judgments is 'difficult' to make. It is."17 It is here, and particularly in India, that the sociologist is most frequently tempted to let go of his slippery hold over the resources of his discipline and to revert to plain common sense.

There is now an accumulated body of experience as well as reasoned discussion relating to the choices involved in the study of one's own society as well as the study of other cultures. The experience shows the significance in all cases of the standpoint of the investigator in the human sciences, there is no Archimedean point from which the investigator can examine his subject matter as a completely disengaged observer. The same subject reveals different aspects when investigated from different standpoints; but although different, the results of these investigations need not be contradictory. Indeed, the advance of sociological knowledge becomes possible only when investigations made from different standpoints make themselves available to each other for mutual correction. This is a slow, laborious process that does not, by its very nature, have any final outcome.

In conclusion, it is not true that the sociologist does not or should not express moral preferences. But his moral preferences are or ought to be formed on a somewhat different basis from what is given to each person by his common sense. It may not be possible — or even desirable — for sociology to acquire the intellectual authority to govern the moral choices of the individual members of society. Those choices are in the end matters of individual judgment and individual responsibility. Sociology can only help a little by giving the individual a better sense of the alternatives available, and of the likely costs and benefits of the available alternatives.

#### Notes

[This is the text of the N K Bose Memorial Lecture delivered in Calcutta on June 20, 1996 under the auspices of the Anthropological Survey of India on the occasion of its golden jubilee I am grateful to the Director of the survey, R K Bhattacharya for inviting me to deliver the lecture. I would also like to thank M N Srinivas for his comments on a draft of the lecture.]

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### **Agricultural Modernisation and Education**

#### **Contours of a Point of Departure**

#### Krishna Kumar

The English-speaking ruling elites of the 1960s were keen to propagate the US-inspired strategy of agricultural modernisation based on modern technologies. This was reflected in the Kothari Commission report on education, which sidelined the concept of basic education in favour of general elementary education for rural children intended to inculcate a scientific outlook.

THE year 1966 was an unusually important year in the history of independent India. As time goes by, it appears that 1966 might qualify to be seen as a turning point in postindependence history, or at least as a year when certain existing tendencies consolidated to bring about a virtual end of the earlier era and its contradictions. The broader contours of this year are familiar enough, but it may be useful to recall them briefly for the sake of easy reference later. The year started with the death of the prime minister Lal Bahadur Shastri, less than two years after he had succeeded Jawaharlal Nehru. His death came as a sudden end to the dramatic event of a war with Pakistan - a war which influenced not only India's economic and social priorities for a long time to come but also her placement in the political geography of her neighbourhood. Only three years earlier India had to fight a war with China. Though the outcome of the 1965 war was rather different from the one fought in 1962, both wars contributed to the self-perception of India as a country surrounded by hostile neighbours. The war with Pakistan was fought at a time marked by the shortage of staple food, mainly on account of the failure of the monsoon which was to be repeated in 1966. The perception of food scarcity being just as crucial a battle to be won as the war with Pakistan was reflected in the slogan that Shastri gave to the nation in his brief tenure as prime minister: 'jai jawan, jai kisan'.

This slogan served to give Shastri a sort of halo in the popular mind which he otherwise would not have had, given the brevity of his tenure and his unassuming personality. In both these aspects he presented a contrast to Jawaharlal Nehru. Shastri's image, or rather its contrast with Nehru's image, seems to have played a major role in shaping the internal politics of the ruling Congress Party and even the general political landscape of India in the post-Nehru interregnum, which concluded with the choice of Indira Gandhi as prime minister after Shastri's sudden death in early 1966. It has been said that Shastri's period represents a weakening of decision-making mechanisms in the Congress Party.' If it is true, at least a part of the explanation lies in the 'de-centring' that Nehru's demise implied, given his charismatic personality and his record as a fighter for independence. particularly in association with Gandhi. But 'weakening' is a word one sees repeated in Shastri's period and then, after him, in the context of social fabric and the economy. One sphere in which the social fabric was frequently reported to be showing signs of weakness throughout 1966 was that of youthadult relationships. An upsurge of student agitations seems to have taken the adult society by surprise.2 Crisis of values, decline of character, weakening of social control. and influence of politics were the conceptual tools with the help of which commentators of the period tried to explain why youth had become so restive and indisciplined. And if politics was among the factors affecting the young, it did not seem to be doing too well in its own world of organising state policy. The biggest challenges in political life had to do with ongoing resistance to land reforms and economic pressures from the World Bank and the United States on an already deeply indebted economy.3

Large landowners constituted a major component of the social forces which had been working for some time to undermine the weak but significant moves made in the 1950s towards making the distribution of land less iniquitous. These moves had two main objectives: social transformation and improvement of agricultural productivity. While more than 70 per cent of the population depended on land, one-third of this population was landless and nearly half the people who owned land had less than an acre. Abolition of the zamindari system and the imposition of land ceiling were the major steps which had been taken under Nehru to ameliorate this situation. The real value of these steps was greatly reduced by the time taken to put them into effect and the legal loopholes left in them which enabled the target groups to circumvent them.4 These groups had also succeeded in cornering the major share of the benefits provided by the state under the Community Development Programme and the schemes launched later to mobilise co-operative action and public credit for the poor. Yet, despite their success in manipulating the state's attempts to equalise material opportunities, the rich landowners, their political representatives, and many articulate groups in the urban intelligentsia persisted in their perception of the government's approach carrying signs of a 'communist' approach which needed to be resisted.

In order to appreciate the authenticity of such an apprehension it is necessary to step a little deeper into the atmosphere of ideas prevailing in India in the mid-1960s. The cold war had spread far enough to form social territories of intellectual influence wielded by the two super-powers, the US and the USSR. The former had a distinct edge as far as the Indian intellectual territory was concerned. Free enterprise and freedom of expression ('cultural freedom') were used as signposts of protection against the onslaught of communism. The contrary construction was struggle against American imperialism. With its small but influential English-educated elite. India was attractively placed to receive American influence in different spheres of its civic life, particularly in the spheres of higher education, administration and the media. Direct political influence was of course a matter of constant effort, and for this economic pressure, especially in the context of food scarcity and indebtedness, was a readily available instrument. In the background of India's external policy choices, the application of economic pressure, directly by America or through the World Bank, took increasingly crude forms even as America's feeling of its loneliness in its aggression against Vietnam grew. But cultural and intellectual means of building a domestic hegemony in favour of America's long-term interests was just as crucial as the relentless application of pressure on the food front and India's agricultural policy. The general presence of American names, topics and textbooks subsidised to attract the Indian student and teacher - in the syllabi of Indian universities was supplemented by provision of scholarships for research and professional work in America. The dominance enjoyed by American media, especially its news agencies, and the popularity of magazines like Time, Life, and Reader's Digest, provided yet another layer of support to the construction of an ethos favouring American involvement in India's civic life. No Soviet media agency could perform this function, given the nature of the Soviet press and the conditions of its operation in the home country. Subsidised popular magazines and children's books did slightly better, but the Soviet presence remained marginal to the public space occupied by the Englisheducated Indian intelligentsia. The same could be said of Soviet textbooks and student exchange programmes.

Besides the creation of an intellectual ethos, specific efforts were made to facilitate the penetration of India's fledgling industrial economy, especially the upcoming sector of industries involved in agriculture. Devaluation of the Indian currency and concessions for foreign fertiliser companies were the two major targets of American pressure. These were manifest pressures; far less visible were sustained research and promotion efforts to find the means of supplying technical solutions to food scarcity involving the use of American agrobusiness products. These attempts had begun in the 1950s, but up until the early 1960s ideas of technical improvement in agriculture had to compete with socio-political solutions involving redistribution of land and erosion of traditional structures of dominance. Wars with China and Pakistan, two consecutive failures of the monsoon, and Nehru's death were among the factors which could be said to have accelerated the pressures favouring technical solutions, but external conditions and forces undoubtedly played an important role too. The sequential structure of this drama in India was not very different from what had happened in Mexico earlier.5 What precipitated the pressure on India - her government, especially its food minister in the mid-1960s to fully embrace technical remedies was a dramatic development in the US. The publication of Rachel Carson's Silent Spring in 1962 had given rise to an unprecedented public debate on the degradation of the environment due to the use of chemicals in agriculture. The adverse publicity and legislative action generated by the debate made American fertiliser and pesticide companies intensify their search for foreign markets. The US department of agriculture - a "wholly owned subsidiary of the pesticide industry", according to Ehrlich (1978) - and the World Bank were directly leading this search.

India offered a highly suitable environment for the combined growth of American agrobusiness, including its interests in fertilisers, pesticides, and hybrid seeds. Here was a country with a growing population, prone to malaria, apprehensive of famines, and socially led by a westward looking class of post-colonial clites. And it had a huge body of professionally trained manpower in

the sciences and the social sciences which had been socialised to view desirable change and improvement in India in terms taught by western, especially American, experts. Above all else, India had a vast farming sector waiting to be penetrated by the countless meanings of the word 'modernisation'. Agricultural universities, set up after the model of American landgrant colleges, had initiated the process of shaping Indian expertise under American guidance. Although these universities were not in a position to provide the kind of opportunities of close interaction between industrialists, engineers and farmers as the land-grant colleges in America had been opened to provide [Noble 1977], they had nevertheless begun to perform the simpler role of propagating the virtue and means of profit-seeking among the bigger farmers. The inevitable image of the capitalist farmer as a model lay embedded in the new knowledge and attitudes that agricultural universities and research organisations in India were to provide with American help, both in terms of training of experts and financial help.

#### **EDUCATION COMMISSION**

The mid-1960s, and particularly the year 1966, are also important in the history of post-independence education in India. The Education Commission (EC), popularly known as Kothari Commission after the name of its scientist chairman D S Kothari, was appointed in July 1964, and it submitted its report two years later in June 1966. No other report has received as much attention in the context of education as the Education Commission Report (ECR) has over these 30 years since its submission. Its voluminous size - it runs into some 1,000 printed pages - justified by its all-encompasing frame of reference, and its association with J P Naik who served as its member-secretary, give it a unique place on the shelves of institutional and office libraries concerned with the planning and study of education. It constitutes a 'whole' perspective on education, in the sense that just about every stage and aspect of education is discussed by it, unlike the two major commission reports preceding it and the two others written afterwards. But what gives ECR its distinctive place in social history is its articulation of the agenda of modernisation. If one were to summarise its thousand pages in one word, the word would surely be 'modernisation'. The title of the report, in fact, reveals this single most important theme by linking 'education and national development'. Modernisation meant nation-building through development, and education was the prime instrument for this project in the discourse of the 1960s which the ECR signifies. Myrdal, an admirer of the ECR, summarised it by saying that it envisaged a change in the attitudes and values of 'the whole people' under a socio-cultural revolution oriented towards modernisation (1970).

The opening chapter of the ECR provides us with a hierarchy of national problems to which 'national development' must provide a remedy. Agricultural modernisation is the remedy for the first of these four key problems: self-sufficiency in food: economic growth and full employment; social and national integration; and political development. That this ordering is no coincidence or an editorial choice alone is clarified in the first sentence of the discussion: "The first and the most important of these (problems) is food". This is followed by a quotation from Gandhi: "If God were to appear to India, he will have to take the form of a loaf of bread." The paragraph then goes on to establish the importance of selfsufficiency by referring to the rate of increase in population. Using a 20-year perspective, the ECR says that even if the birth-rate is reduced by half, about 46 per cent of the 1966 population will be added by 1986. "On the basis of present trends", the report says, "in another 10-15 years, no country is likely to have a surplus of food to export". Precisely what trends the EC had in mind is not clear, but the rhetorical value of this statement is indicated in the next sentence which says: "Even if such surpluses existed, we would have no resources to import the huge quantities of food required, or even to import the fertilisers needed". The basis of giving top priority to food self-sufficiency thus stood verified: it is not "merely a desirable but a condition for survival" (p 4).

The theme of self-sufficiency in food finds recurring mention throughout the first chapter. It is emphasised time and again that self-sufficiency in food can only be achieved by applying the principles of science to agriculture. The concept of science is seen as being synonymous with that of modernisation. Science-based technology is said to define the difference between traditional and modern societies. "In a traditional society production is based largely on empirical processes, experience, and trial and error, rather than on science; in a modern society, it is basically rooted in science" (p 12). 'Science' is treated here as an institution rather than as an approach to knowledge, or else it would be difficult to see why the empiricism of the so-called traditional societies, based on trial and error behaviour and experience, does not qualify to be called science. In the structure of meaning that the ECR builds for its argument, science is apparently a symbol, or rather a synecdoche in which a symbol stands for something much bigger of which it is a part. It is meant to remind us of a complex set of values

These values include a secular outlook, freedom from traditional ways of thinking, and faith in change. The last item is recorded with reference to the irreversability of the steps taken towards the goal of modernisation. The text says: "If one tinkers with the problems involved or tries to march with faltering steps, if one's commitments and convictions are half-hearted and faith is lacking, the new situation (ie, the situation representing the outcome of our efforts to modernise) may turn out to be worse than the old one" (p 32) (emphasis added). One can hardly miss the threat embedded in these words and its use to counter all doubts and debates that might be raised in the context of modernisation. Thirty years later today we can notice how the discourse of scientific temper and modernisation was so dependent on the tenacity of faith in them. It is also clear that it was unable to accommodate the critics of modernisation despite according a place of honour to Mahatma Gandhi's words in the outset of the discussion on national development.

The details of the EC's strategy for applying education towards achieving the goal of agricultural modernisation appear in Chapter XIV which is titled 'Education for Agriculture'. Two major recommendations made in this chapter stand out. One concerns the promotion of specialised higher education in agriculture as a science by the establishment of an agriculture university in each state and a related ancillary institutional structure. The other major recommendation is to reject the Basic Education (BE) approach in favour of a general, academic elementary education programme. It is easy to grasp the rationale for the first, for it is consistent with the EC's overall perspective on modernisation of agriculture The ECR takes pains to elaborate on the requirements of modernisation in agriculture to the extent of projecting manpower requirements for trained 'agriculturalists', ie, graduate farmers, in the coming years. In this context, the ECR comes closer than in any other chapter to mentioning the ground reality or the socioeconomic conditions in which educational development was to take place. As Malcom Adiseshiah pointed out in his foreword to Naik's Education Commission and After (1982), the EC avoided the danger of falling between normative and positive positions by deliberately choosing the normative path. It is interesting to note that while projecting the manpower needs for agricultural modernisation the EC saw fit to take the positive route by noticing the prevalence of a highly iniquitous distribution of land in Indian society. It is another, and of course a highly significant, matter that the distribution does not disturb the EC. It recognises that "at present there are nearly

......vii tarriis vi 12 acites vi ilivite (vui vi 50 million farms)" (p 669). This mild and brief acknowledgement is made in order to explain the projected figure of farmers who might become graduates in the next two decades: "If we assume that ownership will change at 3 per cent a year, this means nearly 2,00,000 new farmers inheriting such farms every year. It seems reasonable to think that by 1986, 1 in 50 of these may be an agriculture graduate" (p 669). This statement should suffice to reveal what role the EC envisaged for education in the context of the severely inequal access to land in rural society. The role was to enable the bigger landowners to enhance their material opportunities.

This was the vision embedded in the new strategy of agricultural modernisation which was named a little later as the green revolution. That the ECR should be so happily reconciled to the green revolution strategy of rich landowners being given priority attention in order to enable them to act as pace-setters is hardly surprising. Members of the EC's agriculture education subcommittee included the representatives of just about every section of the establishment of agricultural research. The agriculture universities at Pant Nagar and Bangalore, the Indian Agriculture Research Institute, the Indian Council of Agriculture Research, and the Fertiliser Association of India were among the organisations represented in the sub-committee. The Rockefeller Foundation, which had been active in supporting agricultural modernisation research in Latin America and Asia, was also represented in the EC's sub-committee. Although the Indian agriculture research apparatus as a whole had developed under American guidance, the Rockefeller Foundation's presence in India at the time needs to be appreciated for its own sake. In collaboration with the Indian Council for Agricultural Research, the Rockefeller Foundation had been promoting research for the production of high-yielding varieties of staple crops in India, particularly wheat. By the time the EC was established, the foundation had reported exciting breakthroughs in similar programmes in Mexico and the Philippines The central theme of these success stories was the new wheat plant's ability to guzzle chemical fertilisers along with water without falling over. Only very resolutely neutral students of post-war economic history can doubt that the edifice of the new knowledge and research in agriculture was constructed at least partly to boost the interests of American fertiliser industry, and not just to protect the earth's poor from hunger. The final thing worth noticing in the composition of the EC's sub-committee on agriculture education was the complete absence of anyone representing Gandhian rural institutions. A liberal approach to education would surely have taken the existence of these institutions into account, especially when the group was going to deliberate on the fate of basic education as a model for elementary-level schooling. We can legitimately suspect that Gandhians were kept out of the sub-committee in order to avoid any dilution that might occur due to their presence in the course charted for rural education in general and agriculture education in particular.

#### BASIC EDUCATION

The EC's stand against basic education is recorded in the subsection entitled 'Agricultural Education in Schools (Classes I to X)'. This subsection starts by taking note of the prevailing position of agriculturerelated instruction in primary schools as a craft in Uttar Pradesh, Gujarat and Maharashtra. These three states are singled out as instances on the ground that in the remaining states the number of schools offering agriculture education as a 'craft' an essential part of the diction of basic education - is less than the proportion in Maharashtra. By choosing Maharashtra as the lower cut-off point for portraying the limited achievement of basic education, measured in terms of the introduction of agriculture as a craft, the EC is able to ignore all other states. Apparently, the EC chose this editorial device in order to make basic education look a minor development. Also, in the vocabulary associated with basic education, all rural crafts were perceived as being related to agriculture and rural life. The primary craft around which a great deal of the basic school curriculum was structured was weaving, which included spinning. By denying the relationship between weaving and agriculture, the EC achieved two sementic purposes, one, minimising the spread of basic education in the context of agriculture-related education; two, promoting the new, modern concept of agriculture as a craft unrelated to the diverse traditional crafts associated with village life.

Having demonstrated that the input made by basic education into direct training of children in agriculture as a craft was so limited, the subsection under discussion goes on to make its negative recommendation. The words used for this purpose are so remarkably indirect and carefully chosen that they deserve to be quoted in full. The quotation is also valuable for it records the thought processes involved in the withdrawal of official support for what was the only major attempt made in our country to move education away from its colonial legacy:

As has been made clear at several places in the chapter, massive application of scientific knowledge and skills is basic to the

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modernisation of our agriculture. We recommend, therefore, that the period which can be spent in schools should be utilised in imparting a sound general education, with particular emphasis on mathematics and the sciences. This, we feel, would be the best preparation for coping with the rapid changes that are bound to characterise our agriculture in future. It is because of these and other considerations that we have been unable to endorse the organisation of formal courses in the schools for educating the primary producer (p 659).

Why did the EC choose such heavily cloaked words? Indeed, 'being unable to endorse' is indirect enough, but "the organisation of formal courses in the schools for educating the primary producer" takes the cake for opacity in the history of official educational jargon. This long phrase has been used in lieu of 'basic education'. As a scheme of instruction, basic education did indeed represent an organisation of formal courses aimed at training the child in a productive craft, but the point could have been made more simple.

The reason for the EC's choice of an indirect, opaque reference to basic education is easy to surmise. It is simply the need to be politically acceptable. The association of Mahatma Gandhi's name with basic education had given it a halo and an extraofficial status. It is not that progress in introducing the basic approach had achieved extraordinary speed anywhere, but the effort had had consistent official support and access to Plan funds. All of the first three Plan documents had discussed basic primary education with enthusiasm and a certain degree of imagination. The Second Five-Year Plan document (1956-61), for instance, had mentioned the need to link basic schools with development activities taking place in the village. The Third Plan document (1961-66) repeats this and records the intention of converting all teacher training institutions into the basic approach. In contrast to this enthusiasm, the draft outline of the Fourth Plan, published in August 1966 - that is, two months after the submission of ECR - has just a one-line mention of basic education: 'Basic education will be strengthened by developing carefully selected schools and introducing in other schools work-oriented curricula and citizenship training' (p 314). This mention is consistent with the line taken by ECR in another section which we will presently discuss, namely, that of replacing basic education with 'work experience', suggesting that the two are the same. But even this brief mention of basic education disappeared in the final Fourth Plan document.

The dispensability of Gandhi and his approach to education had a wider context. By the mid-1960s the legitimacy of Gandhi's perspective on development was reduced to

the minimum. It is a well-grounded popular belief that Nehru's perspective on India's development was antagonistic to that of Gandhi. In a recent review of Nehru's policies, Parekh (1995) has argued that in the later part of his prime ministership, Nehru grew somewhat receptive towards the priorities and institutions associated with Gandhi. If this reading has validity, Nehru's death marked the end of whatever token presence Gandhi's recalcitrant legacy had in the highest decision-making structures. In any case, the war with China had given a strong impetus to these structures for moving towards untrammelled modernisation of defence and defence-related scientificindustrial infrastructure. Needless to say, the urban intelligentsia, including the bureaucracy, agreed on this matter with the leaders of industry and trade.

Many other changes took place in the early 1960s, symbolising the impending end of Gandhi's utility as a reference point for determination of policy. In education, the setting up of the National Council for Educational Research and Training (NCERT) in 1962 marked the closure of a period in which Gandhi's ideas in education were held as being important. The opening of central schools to cater to the needs of union government functionaries transferrable throughout the country, and the establishment of the Central Board of Secondary Education (CBSE), were in harmony with the emerging ethos. These steps had a functional rationale, but they also had latent symbolic significance. They marked the consolidation of a national elite and the grant of freedom to it to transcend the constraints of local or provincial socioeconomic realities. Their existence made the problems of decentralised planning in education - which had axiomatic importance in Gandhi's approach - look irrelevant to progress. The use of 'national' and 'central' in the naming of these organisations permitted a disproportionate amount of funds to be spent on a privileged section of society. The naming also allowed them to tighten their hold over the symbolic inheritance of colonial rule. This process of the final transfer of colonial symbolic assets to a national elite was most visible in the context of language. Contrary to the recommendation of every panel ever set by the government over the question of medium of instruction, the NCERT, the central schools, and the CBSF were able to patronise English whose continuation as an associate official language of the union was ratified in 1967. The use of English by these institutions had a functional justification, but the symbolic underpinnings of this justification were far more significant if seen against the background of the political and economic forces vying to shape the Indian nation in the 1960s.

Writing of the ECR was a part of this process of the creation of a national discourse on development. Its common-sense value lay in the fact that India needed a national system of education just as it had a national system of railways, postal services, and so on. What made the task in education somewhat inconvenient was the climate created by Gandhi's idea of basic education, although the Zakir Hussain Committee had tried to give a 'national' label to it at the time of its inception. Both as an ideology and as a scheme of instruction, basic education was not compatible with the demands that a nationally organised system might make Ideologically, it was supposed to be sustained by local communities, local markets and the local environment. As a scheme of instruction, it was rooted in the idea that learning arises out of children's interaction with the real world in their immediate vicinity. This interaction was supposed to be guided and enriched by the use of the local language, locally available material, and the teaching of locally practised productive skills. The teacher's active membership of the community was assumed, and where it was not possible (as in the case of someone brought in from elsewhere), a teacher was expected to achieve it by personal effort and participation. It was mainly due to this concern that housing for the teacher was considered an essential part of the school design.\* Clearly, the concept of basic education could not be an attractive proposition for investment of scarce resources from the perspective of the planners of 'national' development.

The phasing out of basic education is explained with a little less tight brevity elsewhere in the ECR. In Chapter VIII, which is about school curriculum, the reason why basic education needs to be substituted by the incorporation of work-experience in a general academic curriculum is mentioned:

The programme of basic education did involve work-experience for all children in the primary schools, though the activities proposed were concerned with the indigenous crafts and the village employment patterns. If in practice basic education has become largely frozen around certain crafts, there is no denying the fact that it always stressed the vital principle of relating education to productivity. What is now needed is a reorientation of the basic education programme to the needs of a society that has to be transformed with the help of science and technology. In other words, work-experience must be forwardlooking in keeping with the character of the new social order (p 351).

This commentary suggestion that basic education was deficient in two respects: in getting confined to certain crafts, and two, in being incompatible with the promotion of science and technology. The list of work

experiences given by the EC is indeed long, consisting of some 16 activities for lower and upper primary stages alone. The last item on this list is 'work in the farm' (p 364). The chapter on agriculture and education, which we have discussed earlier, also mentions the need to orient the school curriculum towards agriculture, even in urban schools. This was supposed to be done not by introducing agriculture as a subject, but rather by orienting the existing courses in general science, biology, social studies and mathematics towards the rural environment and the problems facing 'the Indian community' (p 660). These discussions do look a little incoherent, but the point conveyed is clear; that a curriculum structured around the ideological preferences of basic education will be replaced by a general academic curriculum in which the experience of productive work will be given a place of sorts. The image of learners implied in this new alternative is that of 'forward looking and progressive farmers' whose prototype, as we noted earlier, were to be found amongst "the third of the cultivators who now own more than half of the agricultural land" (p 661) They were to serve as the initial demonstrators of the many financial benefits of the package known as 'improved farming practices; which included chemical fertilisers, pesticides, hybrid seeds, and the new farming machinery

Our analysis implies that in the new climate of rural development priorities which the EC anticipated, the idea of equal opportunity was to be confined to education; in the material context, the decision to give greater opportunity to the richer farmers had been taken. Its justification lay in the rhetoric which projected self-sufficiency in food as an isolated objective, and the application of science and technology - both in the form currently recognised by American agrobusiness-research apparatus - as the sole means of achieving it. Thus, a sharp mismatch was enforced, planned deepening of inequalities in the material opportunity structure, and the projection of meritocratic equal opportunity in education. It is hardly surprising that the former plan made the latter thoroughly invalid. The green revolution strategy did indeed achieve selfsufficiency in one area of food supply, namely cereal, but it exacerbated the stratification of rural society, most glaringly in the parts of the country where it was applied most intensively, but elsewhere too. It pauperised the middle-range peasant and forced the smaller peasant to become a landless labourer, a likely migrant to an urban slum. The trend was clear within the first few years of the implementation of the agricultural modernisation strategy. By the time the 1971 census was taken, the proportion of agricultural labourers in the rural population had increased by as much as 11 per cent over the last census: from 18.8 per cent to 29.9 per cent. As a commentary by Mehta (1973) noted, India was witnessing a concentration of land rather than its redistribution.

Destitution of the landless and small peasants, and prosperity of the big landowners became the norm, leading to, and being reinforced by, the increasing dominance of the large landowners in politics. The changes introduced in agricultural policies in the mid-1960s made a critical difference to the means by which the richer farmers could exercise their hegemony over the rest of the village population. The changes that benefited them most included the provision of support prices by the government for agricultural products, availability of credit for purchase of hybrid seeds, chemical fertilisers, and farm machinery, and subsidies on the sale of fertilisers. The precise manner in which the bigger landowners (in many parts of the country they were the exzamindars and members of princely families) dominated the village political scene so as to corner the lion's share of state benefits and new commercial opportunities differed from state to state. The picture in the Vindhya-Gangetic belt of the north was close to the one Srilal Shukla portrayed in Raag Darbari (1968). The portrayal focuses on the absolute hold of a single family on the village cooperative society, the gram sabha, and the governing body of the local college. Drawing on a case study of a village in the North Arcot district of Tamil Nadu, Kurien (1992) has depicted the emergence of new dependencies even as old ones were getting eroded owing to the changes in agricultural prductivity. The new agriculture requires stable sources of water. Commercial selling of water by well-owners, according to this study, has sharply enhanced their power and status.

One other aspect of the ECR's support for agricultural modernisation that was being intensified in the mid-1960s is relevant to this discussion. In its opening chapter discussed earlier, the ECR had talked about the goal of providing every citizen with a balanced diet, without specifying what a balanced diet might mean. It appears that the concept of diet was changing in the 1960s. mainly on account of changes that were occurring in the culture of farming. Escobar (1995) has cited nutrition and balanced diet as important items of the post-war discourse of international development agencies, the World Bank, and USAID. Lack of scientific knowledge about nutritional requirements of the human body was projected as a major cultural deficiency responsible for poor socio-economic development in third world societies. A vast battery of adult education primers, school textbooks, extension services and media programmes was pressed into service in order to tell people what they must do to make their diet balanced. Inevitably, the exhortation revolved around the need to include eggs, meat and mitk so that the diet would have enough protein. Conspicuous

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Dy its ausence was the mention of pulses, and we can guess why. Even as the new, scientific 'knowledge' of balanced diet was spreading, the most important source of balance in the Indian diet was diminishing under the auspices of the green revolution. Bardhan has pointed out that in the postgreen revolution period the "production of pulses, a major source of protein for the poor, has largely been stagnant" (1984: 11). Between the early 1960s and the early 1970s the area under pulse cultivation declined by two and a half million acres, resulting in a drop in the per capita availability of pulses." To fully grasp the meaning of this phenomenon, we need to recognise that pulses facilitate the absorption of cereal protein by providing amino acids which complement the ones found in cereals such as wheat and rice. It is the combination that makes the protein available in a cereal-pulse diet balanced. Lappe and Collins (1978) have called it 'usable' protein and have treated it as an index of the quality of protein. They say:

Thus, if green revolution displaces legumes in the traditional diet, not only does the overall protein intake fall, since legumes have two or four times the protein content of grain, but just as critical, the *balanced combination* of grains and legumes that improves the biological usability of protein is also undercut (1978: 153)

From this perspective, we have not even begun to perceive the nutritional impact of the agricultural modernisation strategy associated with the green revolution. The reason why this strategy proved so detrimental to pulse production was at least initially the simple fact of farmers being coaxed to devote their best lands to high-yielding varieties of wheat and cash crops. With the increase of canal irrigation, seepage made a great number of pulse producing areas unfit for this purpose.

#### CONCLUSION

The EC had talked about a "larger way of life and a wider variety of choices" (p 33) as a major promise of modernisation. The changes brought about in people's dietary options - we have examined just one out of many - by the green revolution strategy of agricultural modernisation can be seen in that manner too, and the nutritional implications of these changes can be ignored or treated in a simplistic manner. That would be in keeping with the style of analysis customarily applied to India's agricultural modernisation in the context of the use of chemical fertilisers, pesticides, and hybrid seeds which depend on them and on heavy irrigation. Barring exceptions, 10 agricultural economists have treated an increase in fertiliser use per acre, for example, as an indicator of progress, completely ignoring on the natural fertility of the soil. Nadkarni (1991) has noted the recent trend of decline in the rate at which productivity of land had increased in the early phase of the intensive use of chemical fertilisers. It is a disturbing fact that economists have generally failed to show an interest in such obvious aspects of agricultural and economic growth as depletion of the physical environment, the misery caused by displacement of massive numbers of people due to large-scale irrigation schemes involving big dams and canal works, and migration to metropolitan slums as a result of pauperisation.

Given the narrow limits within which the process of India's agricultural modernisation has been examined, it is hardly surprising that its impact on children's lives has not been a subject of discussion or debate.11 This paper has made an attempt to show how the EC's wholesale espousal of the modernisation package involved the jettisoning of basic education in favour of a return to general, academic elementary education. It can be argued that the EC was advocating a new type of general elementary education for rural children, not a return to the old colonial mode which basic education had started to erode. It can also be argued that EC's modernist vision of an activity. centred academic education for rural children did not materialise because of inadequate funds and the lack of political will. A commitment to educational development by the state and central governments was one of the assumptions made by the EC; a stable political environment was another major assumption.12 If these assumptions proved false, we can hardly blame history for that; rather, we must ask if the purely normative discourse of educational planning, which the EC exemplified in such perfection, is a valid preparation for change. In the absence of a realistic estimate of what could be expected in the emerging socio-economic and political scenario in the mid-1960s, the general and academic elementary education programme recommended by the EC in place of basic education certainly proved detrimental to the spread of education in rural India. The persistence of a high dropout rate, with almost no change in over three decades which have passed since the submission of EC, is a proof of this conclusion, although its detailed verification must wait for further research.

#### **Notes**

- 1 See Frankel (1978) for a detailed discussion
- 2 For reports on student agitations, see Economic and Political Weekly, August 27, October 8 and October 15, 1966 For an editorial comment, see the issue of October 1, 1966
- 3 According to K N Sharma's 'Self-reliance

- and aid (*economic and routical weekly*, voi 2, No 50, 1967, pp 22(9-11), the total PL-480 assistance to India up to March 1966 amounted to more than one-third of the money supply with the public as a whole in India.
- 4 For a discussion providing a historical overview on post-independence Indian economy, see Kurien (1992).
- 5 The reference is to the agrarian reforms attempted under Lazaro Cardenas which were followed by a counter-revolution of sorts in the 1940s with the arrival of American agroresearch enterprise backing American agrobusiness
- An elaborate account is available in Frankel (1978).
- 7 G K Arora provide a counter-view in his review in The Book Review, August 1995
- 8 The only official committee to express anxiety about primary teachers' housing in postindependence educational history was set up some time in the 1950s. Its deliberations are documented in Report on Primary Junior Basic Schools (National Building Organisation, Ministry of Works and Housing, New Delhi, undated)
- 9 See Lappe and Collins (1978).
- 10 Three exceptions are Narindar Singh (Economics and the Crisis of Survival, OUP, New Delhi, 1976, and The Keynesian Fallout, Sage, New Delhi, 1996), M V Nadkarni (1991), and H M Desarda (see his 'Towards an Alternative Vision', paper presented at Indian Institute of Management, Ahmedabad, in a seminar on agricultural developmental perspectives, June 13-15, 1996)
- 11 For an early attempt, see my Raj, Samaj aur Shiksha (1978, rev ed Rajkamal, New Delhi, 1991)
- 12 Adiseshiah enumerates these and other assumptions in his foreword to Naik (1982)

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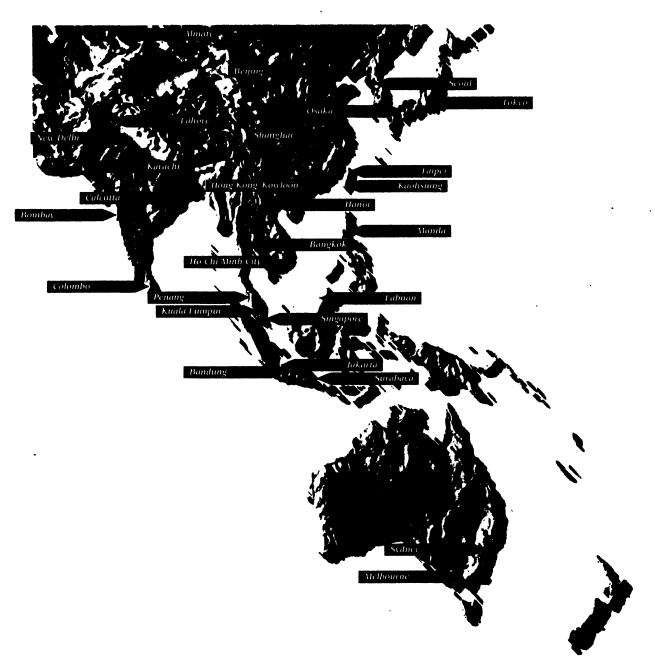
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#### **Savaging the Civilised**

#### Verrier Elwin and the Tribal Question in Late Colonial India

#### Ramachandra Guha

In the huge collection of the records of the All India Congress Committee, housed at the Nehru Memorial Museum in New Delhi, one is hard put to find a reference to tribals – this in contrast to the attention paid to women, untouchables and religious minorities. Curiously, this absence in the official nationalist archive is reproduced by the radical historiography of our times, which – like the Congress nationalists it sets itself in opposition to – has had scarcely a word to say about tribals, this in contrast to the dozens of exegeses, scholarly and polemical, it has provided on the prehistory of the communal question, the caste question, or the women's question.

In addressing this neglect, the present essay approaches the tribal question in colonial India through the work and writings of Verrier Elwin. By 1940 or thereabouts, Elwin had become the most important single influence through whom urban Indians had got to know of their tribal countrymen: their culture, their way of life, their poverty and their vulnerability. His work for the tribes was widely known and widely discussed, fervently praised as well as vehemently attacked. This essay outlines Elwin's invention of the aboriginal and his forgotten but not necessarily irrelevant debates with social workers, anthropologists and missionaries working on or with adivasis.

I

N 1932, a radical English priest and writer noved to a village in central India to commence social work among Gond tribals. A dissenter within his Church, an admirer of Mahatma Gandhi who saw himself as a British-born Indian', Verrier Elwin had come to serve the most disadvantaged and east visible of India's poor. In an early essay rom his new home, Elwin called attention o the neglect by the national movement of he predicament of the tribes. 'Hill and forest ribes', he remarked, were a 'despised and callously ignored' group. Their problem was as urgent as that of the untouchables: society and sinned against them as grievously, and vet

the one has become a problem of all-India importance: the other remains buried in oblivion. Indian national workers and reformers – with the exception of the heroic little band associated with the Bhil Seva Mandal – have neglected the tribes shamefully. The Congress has neglected them. The Liberals have neglected them. The Khadi workers have neglected them.

Two years later, the British parliament passed the Government of India Act of 1935. This act was designed to hasten the transition to self-government, in the first place through the constitution of provincial legislatures and ministries based on a limited franchise. But the act also contained two provisions whereby certain tracts, with predominantly tribal populations, were to be known as 'Excluded' and 'Partially Excluded' areas. These areas were to be insulated from the control of the Indian legislatures and ministries, and left in direct charge of the governor of the province (always British, usually an ICS officer).

Some British politicians saw the provisions as vital in protecting the tribals from their Hindu neighbours. Conservative MPs, supporting the clauses in the House of Commons, said they would save the tribes from 'being converted from good Nagas or whatever they are into had Hindus'. But the tribals were not to be deprived of the 'decencies of Christian civilisation'. As one member, Colonel Wedgwood, put it, "the best hope for backward tribes everywhere are the missionaries. The missionaries and the British government together give these people a chance". Winston Churchill, that doughty opponent of freedom for subject peoples, made common cause with these MPs. "I take as much interest in the fortunes of the white people in India", he remarked, "as I would in these backward tribes. I feel just as disturbed about their police and security being handed over to a Government which I do not trust as the anthropological party represented here... are about the handing over of the backward areas to a Government they do not trust, so that we are almost in the same party in this respect".2

The creation of excluded areas, with their motivations thus made explicit, raised a storm in nationalist circles. A meeting of the Congress, held at Faizpur in September 1936, condemned it as "yet another attempt to divide the people of India into different groups, with unjustifiable and discriminatory treatment, to obstruct the growth of uniform democratic institutions in the country". When the Congress formed provincial ministries in 1937, it tried hard to abolish or dilute these provisions. The Bombay legislative assembly, in a unanimous resolution, said it was "outrageous to suggest that a constitutionally irresponsible Governor, almost certainly a non-Indian, can better adminster these areas than a responsible Indian Cabinet can". The concept of excluded areas was even mocked as a device of anthropologists to protect aboriginals as museum pieces for their science.

Without perhaps intending it, the Government of India Act was thus to spark a wideranging debate on the future of aboriginals in a free India. How could one appropriately define aboriginals and understand their culture and way of life? How were their interests to be best protected? At what pace and in what way should the state allow the contact of aboriginals with the outside world? What were the respective roles in this regard of administrators, politicians, anthropologists, missionarics and social workers?

These were the questions that lay behind Verrier Elwin's own work between 1935, when the government of India Act was passed, and 1947, when India became an independent nation. They are most evident perhaps in The Aboriginals (1943), a polemical tract directed at a wider public, yet Elwin's more scholarly studies also close with appeals to the future rulers of free India. The Barga (1939), a book that passionately defends the rights of tribals who practice 'bewar' (swidden agriculture), asks 'those who believe in Home Rule' to 'see to it that the original owners of the country [i e, the aboriginals] are given a few privileges'; in this case, the full freedom of the forest. The last paragraph of The Agaria (1941) - a sympathetic account of a tribe of charcoal iron-smelters crippled by high taxes and the coming in of modern steel - commends to Indian politicians the compassion shown to forest tribes by the great Emperor Ashoka. Even The Muria and their Ghotul (1946) unlike the other two books, in its theme far

removed from matters of state policy—suggests that the Indian ideal of human love lies equally behind the tribal dormitory (ghotul) as it does behind ancient Hindu sculpture and painting—the hills and forests where the ghotul held sway "hold a rich human treasure, natural to [India's] soil, part of her great culture".5

But in the run-up to Indian independence, it was not Elwin alone who was concerned with the tribes. After the elections of 1937, Congress governments, while urging the scrapping of 'Excluded Areas', commissioned a series of reports on the condition of the tribes, in belated recognition of a long neglect. Christian missionaries and university anthropologists also contributed to this spurt of interest, while in Bihar a militant movement to distinguish aboriginals from Hindus was taking shape under Jaipal Singh, a tribal who had been up at Oxford at the same time as Elwin. Here were many different points of view with regard to the tribes, and many different social agendas. It was a situation that lent itself to conflict and controversy, as Elwin was to find out.

The controversies of the 1940s were to bring to centre stage the predicament of a people till that time ignored by social workers and politicians alike. In the huge collection of the records of the All India Congress Committee, housed at the Nehru Memorial Museum in New Delhi, one is hard put to find a reference to tribals - this in contrast to the attention paid to women, untouchables and religious minorities. Likewise, Pattabhi Sitaramayya's golden jubilee History of the Indian National Congress (published in 1935) contains no more than a fleeting reference or two to tribals, although the problems of women, lower castes and communal harmony are covered in depth. Curiously, this absence in the official nationalist archive is reproduced by the radical historiography of our times, which -like the Congress nationalists it sets itself in opposition to - has had scarcely a word to say about tribals, this in contrast to the dozens of exegeses, scholarly and polemical, it has provided on the prehistory of the communal question, the caste question, and the women's question.

In addressing this neglect, the present essay approaches those old, forgotten but not necessarily irrelevant debates through the work and writings of Verrier Elwin. By 1940 or thereabouts, Elwin had become the 'most important single influence' through whom urban Indians came to know of their tribal countrymen: their culture, their way of life, their poverty and their vulnerability. His work for the tribes was widely known and widely discussed, fervently praised as well as vehemently attacked. In one of those paradoxes in which the history of anthropology abounds, it fell to this one-

time Oxford don to formulate the tribal question in its most striking and contentious fashion.

#### II

"The noble savage of North America is a very different character from the poor squalid Gond of central India: and not even the genius of a Longfellow or a Fenimore Cooper could throw a halo of sentiment over the latter and his surroundings". Thus wrote James Forsyth, the soldier, forester and amateur ethnologist who roamed the hills of the Central Provinces in the middle decades of the last century.7 Verrier Elwin, who travelled in the tracks of Forsyth and often quoted him, was at first inclined to go along with this assessment. His early sketches of village life are conspicuous for their absence of sentiment, their stress on what the aboriginal\* lacked rather than what he possessed. Take these verses from a poem written in the early 1930s, about a four-yearcld Gond girl who cannot go to school but must work from dawn to dusk in the fields:

The luscious sweet she cannot taste, No joy she'll ever see; A scanty rag about her waist Is her sole finery.

And once I saw her stagger home Beneath a load of wood Laid on her back, so burdened that As though upon the Rood

Before that little child I saw The form of one who bowed Beneath another load, and walked Amidst an angry crowd.

Elwin's first writings from Mandla are marked by this Christian belief that the meek shall inherit the earth. The Gonds are dignified, if at all, by their suffering and quiet courage in the face of adversity. For this Englishman had come to the forest as an Improver, attempting to 'teach a primitive group the best things about civilisation'.10 His agenda borrowed freely from Gandhism and from European traditions of social work, incorporating temperance, education, health and sanitation - premised on the belief that the Gonds had all to learn and little to teach. But the more he lived with and among tribals, the more Elwin came to view their culture in positive terms. Behind this transition lay a growing familiarity with their language, a fuller appreciation of their life and thought, and perhaps most decisively, his marriage, in April 1940, to one of them. Within a decade of his move to Mandla, Elwin had put in place his incisive critique of modern civilisation - and corresponding regard for tribal values - that was to become his trademark. Although he remained deeply pessimistic about its future, there is little doubt that in his later portrayals of aboriginal tite he succeeded in throwing a halo of sentiment over it. His personality also underwent a transformation: once a moralising ascetic, he came to absorb the gaiety and zest for life of the people he lived with. The creeds of the Anglican Church and the Hindu Mahatma were both rejected in favour of a whole-hearted identification with the culture of the tribes.

A self-taught and self-trained anthropologist, Elwin ranged widely over the Indian heartland, studying and writing about tribes in the British-ruled territories of Orissa, Bihar and the Central Provinces, as well as the large tribal chiefdom of Bastar. His travels bore fruit in a series of ethnographies and folklore collections for 'academic' consumption, and in numerous policy pamphlets, reports, and newspaper articles for a more general audience (he also published two novels). Through all of this work runs a contrast between the 'pure' and the 'decayed' aboriginal, the latter corrupted by contact with civilisation. Elwin himself does not offer, in any one place, a succint definition of the first type, whom he both admired and identified with. In constructing a picture of Elwin's 'pure' aboriginal, I have relied almost exclusively on his writings in the years leading up to Indian independence (roughly, 1939 to 1947). This was a time when he came to regard himself as a spokesman not merely of the Gonds of Mandla, but of the 20 million tribals of central India.

#### Ш

Mr Verrier Elwin Deserves and may well win Renown in the world of letters For recording the life of our moral betters.

Bombay journalist, c 1940

Perhaps the first thing that distinguished Verrier Elwin's aboriginal was his love of Nature. The forest provided him food, fruit, medicine; materials for housing and agriculture; birds and animals for the pot. The significance of the forest was economic as much as cultural, practical as well as symbolic. All tribals had an intimate knowledge of wild plants and animals; some could even read the great volume of Nature like an 'open book'. Swidden agriculturists, for whom forest and farm shaded imperceptibly into each other, had an especial bond with the natural world. Both the Baiga and the Muria liked to think of themselves as children of 'Dharti Mata', Mother Earth, fed and loved by her. The forest was also a setting for romance, the ideal trystingplace for lovers. The Gond's idea of heaven was 'miles and miles of forest without any forest-guards'; his idea of hell, 'miles and miles of forest without any mahua trees'.11

Elwin's ethnographies are peppered with

reterences to the aboriginal's love for the forest, a 'world which is as varied as human life'. Contact with the abundance and variety of nature might, indeed, still human feelings of competition and envy. In one of his novels, a group of villagers go on an expedition to pick wild mangoes from the jungle. At day's end, 'half the village was sucking mangoes; the voice of envy and scandal was hushed; there were no quarrels that day; the witches rested from their labours; they were possessed by the wild free spirit of the forest, filled with delight in the most precious of its fruits'. 12

The high place of their women also set the aboriginals apart from more civilised societies. Among the Mandla Gonds (whom Elwin knew best of all), the woman was 'the real ruler of the house'. As for the Baiga woman, "she generally chooses her husband and changes him at will; she may dance in public; she may take her wares to the bazaar and open her own shop there...; she may drink and smoke in her husband's presence" – freedoms all generally denied to the caste Hindu woman.<sup>13</sup> Here the Baiga were no exception, for in most tribal societies

the woman holds a high and honourable place. She goes proudly free about the countryside. In field and forest she labours in happy companionship with her husband. She is not subjected to early child-bearing: she is married when she is mature, and if her marriage is a failure (which it seldom is) she has the right of divorce. The lamentable restrictions of widowhood do not await her: should her husband die, she is allowed, even enjoined, to remarry: and in many tribes she may inherit property. Her free and open life fills her mind with poetry and sharpens her tongue with wit. As a companion she is humourous and interesting; as a wife devoted; as a mother, heroic in the service of her children.14

This. apparently, was a feminism almost fully realised. It explained in turn the open, unaffected attitude of the aboriginal towards sex. Working with the Baiga, Elwin was struck by the absence of sexual dreams. He traced this to the culture of the tribe, where 'the fine and delicate perceptions and delights of a moderate sexuality are preserved', this in contrast to the 'middle class, Puritan European atmosphere in which Freud formed his theory of repression and the interpretation of dreams'.15

These themes are developed more fully in the 700 pages of *The Muria and their Ghotul*. Here the anthropologist presented the village dormitory – to civilised eyes a bed of sin and promiscuity – as the ideal preparation for stable, adult marriage. In the ghotul, sex was playful, the best of all games; neither too intense, nor defiled by possessiveness and jealousy. Unlike in more complex societies where many marriages

fell apart on the first night, among the Muria both husband and wife, finely trained by the ghotul in the sexual arts and virtues, were fully prepared when they crossed the threshold. Moreover, tribal practice tended to confirm the position of the woman. Where in Europe sex was regarded as the man's privilege and the woman's duty, in aboriginal India sex was more often the man's obligation and the woman's right, her 'compensation for the embarassment of menstruation and the pains of child-bearing'.

The exuberant love of children also marked out the aboriginal from the Hindu and the European. 'The child is the God of the house', said a Baiga woman. 'The greatest love in the world is the love of children', said a Baiga man. Fathers were often to be seen carrying a child in their arms, kissing and fondling it. The child of the forest grew up to dread not the father (who was no kind of tyrant) but forest guards, police officials, and ghosts. The tribals' demonstrative love for children, and their tolerance of misbehaviour, were in contrast to the austere aloofness of the European adult. Nor did the tribals have any of the Hindu's passionate longing for boys, adoring, equally, babies of either sex. As for the children themselves, they exhibited, early on, the absence of the acquisitive instinct. Arriving in a village with a box of toys, the anthropologist found that "none of the Gond children show signs of wanting to possess toys for themselves, but the more sophisticated Hindu children, however, weep vociferously on finding they can't have them'.17

The anthropologist was also attracted by the fundamental longing for unity and solidarity which permeated aboriginal life. This was expressed in the great festivals where the tribals ate, drank, sang and danced together, and in other ways too. The Baiga village, where all houses were built around a common square, exemplified for Elwin the 'friendly, open-hearted, honest communistic nature of the tribe'. The Muria ghotul was a 'compact, loyal, friendly little republic', its members united by a 'large, generous corporate romance'. For the aboriginal, tribal solidarity was the 'supreme good', individualism the 'great sin'. Thus the absence of theft, adultery, quarrel or the shirking of work, of anything that might threaten or undermine the unity and collective interests of the community. is

In the aboriginal India of Verrier Elwin's presentation, fraternity went hand in hand with equality. "In the spirit of economic fellowship and the tradition of communal living', he once remarked, "some primitive villages are a hundred years ahead of the modern world". Economic assets like land were, in general, equally distributed or held in common. More striking was the spirit of political equality, with decisions affecting

the village or tribe taken by consensus rather than by a single spokesman. Here too the ghotul was a microcosm of a wider belief, where "everyone is equal, rich or poor, the son of priest, headman or landlord, all are one in this fellowship which knows no wealth-distinction or privilege of inherited rank". 19

Equality, yes, but not a dull uniformity. The cultural richness of tribal life was manifest in their varied forms of recreation - numerous games of their own devising, story-telling, poetry, art, and, above all, music and dance - all of which "enliven village life and redeem it from the crushing monotony that is its normal characteristic in other parts of India". The Muria of Bastar might appear poor to the outside eye, but in fact they had a "full rich life: every day brings its delightful and absorbing pursuits; at least twice a month there is a sharp break in the monotony, the colour and music of a festival, the excitement of a hunt, the romance of a dancing expedition - and all the time, if you are young, there is the ghotul which you would not exchange for any offer of material wealth".20

The gaiety of aboriginal life came through most vividly in their love of the dance. The dance was in itself an index of the vitality of tribal life: without it, wrote Elwin,

tribal life sinks into utter monotony. The tribesmen like their recreation to have a kick in it, and they find small consolation in missionary tea-parties of Congress meetings to discuss agricultural reforms. Without the dance, the tribesmen is overwhelmed with boredom, he is swallowed by his work and his anxieties, there is no tower into which he can escape. 21

These are then the core elements in Elwin's celebration of tribal life: the identity with Nature, the honoured place of women, a joyful attitude towards sex, the love of children, a strong sense of community and equality, gaiety and variety in forms of recreation. This celebration was at the same time an indictment both of modern Western civilisation and Hindu caste society, cultures characterised by the oppression of women, social hierarchy, the spirit of competitiveness, aggression, and sexual repression. As Elwin wrote in 1943, Indian tribesmen

do not cheat and exploit the poor and the weak. They are mostly ignorant of caste and race prejudice. They do not prostitute their women or degrade them by foolish laws and customs. They do not form themselves into armies and destroy one another by foul chemical means. They do not tell pompous lies over the radio. Many of their darkest sins are simply the result of ignorance. A few of them are cruel and savage, but the majority are kind and loving, admirable in their home, steadfast in their tribal loyalties, manly, independent, honourable 22

this is in fact the last paragraph of a book on murder and suicide among the Maria Gonds of Bastar. When dealing with the darker side of tribal life, Eswin liked to put matters in perspective, by contrasting aboriginal practices with civilised ones. For him, the rigour of the witch-hunt or the punishment for witch-craft among the Baiga (usually a beating) could not 'match the savagery of the Middle Ages in Europe'. Likewise, the punishment for violating the rules of the ghotul merely involved the loss of dignity with only a little discomfort: absent was the 'sharp, abrupt sting of corporal punishment so familiar to the European schoolboy', intolerable to the gentle Muria would be 'the catastrophic decisiveness of a flogging'. Again, where in modern society murders were overwhelmingly for gain, among Indian aboriginals they originated in disputes over rights and privileges (whether over land or women), 'rather than as a desire for possession'. In a characteristic comment on the hypocricy of the civilised, he notes: "We today regard it as a great crime to kill our own fathers and children: but even the most civilised European nation - whichever that might be - regards it as rather glorious to kill the fathers and children of others in war".23

To the civilised mind, primitive society is violent in the extreme - plagued by endemic strife, lacking the orderly rules of conduct and humane values believed to be the hallmark of our own society. Writing in the midst of the most savage war in human history, Elwin could neatly turn conventional wisdom on its head. In his view the aboriginal was more likely to be peaceful and uncontentious, modern man more predisposed to killing and brutality. Thus the Nagas shared with the advanced nations of Europe the customs of head-hunting and human sacrifice, with this difference: 'that the poor aboriginal sacrifices only one or two human beings in the name of his gods, while the great nations offer up millions in the name of empire and enlightenment'. In his study of primitive iron-smelting, published in 1942, Elwin contrasted the 'millions of tons of death-dealing steel employed in modern battle' to the 'few thousand tons smelted annually in the clay furnace, of central India, used to make ploughs and harrows that raised rich crops in the Markal Hills. "This aboriginal iron has brought the law of plenty to the jungle", he remarked, while "that civilised iron is bringing the law of the jungle to the lands of plenty".24

The Baiga, remarked Elwin in his great book on that tribe, 'know little of civilisation and think little of it'. He himself knew a great deal about civilisation, and yet thought little of it. In this sense he might be said to exemplify the ideology of 'cultural primitivism', defined by A O Lovejoy and

George Boas as the 'discontent of the civilised with civilisation, or with some conspicuous and characteristic feature of it'. 25 Primitivism has of course been one of the most enduring strands in European thought; in the words of a recent commentator, Tzvetan Todorov, it is 'less the description of a reality than the formulation of an ideal'. 26

Elwin's own espousal of cultural primitivism was not, of course, wholly an invention. For one thing, the Gond, the Baiga and the Agaria all believed that the past had been better than the present, that there had truly once been a Golden Age when their kings ruled, their powers of magic and healing were unimpaired, their beloved bewar and iron smelting freely pursued. Elwin's attack on civilisation was also splendidly timed, for with the long shadow of Nazism cast across the warring nations of Europe, the primitivist could effectively challenge a view of human progress in which savages in the forest were placed at the bottom of the hierarchy and modern European society at the apex.

Most of all, Verrier Elwin is to be distinguished from other primitivists in that he actually lived with the communities whose culture he so vigorously celebrated. For the narrator of primitivist reveries has always had the choice 'to return, at the end of his sojourn, to the highly civilised countries he came from'. From Vespucci to Chateaubriand down to the anthropologists of the 20th century, the European traveller in search of the exotic invariably goes back to where he came from.27 But Elwin was a different type altogether, who lived with the primitives, loved with them, and therefore defended them. Strikingly, Elwin recognised both the tradition he came from as well as his departure from it. He once remarked, with regard to the fascination for the primitive of European poets and philosophers, that "not many of those who wrote so eloquently of the return to nature were prepared, however, to take the journey themselves, at least not without a return ticket".28 He was one of the very few who did.

#### IV

The undermining of old-established authority, of tribal morals and customs tends on the one hand completely to demoralise the natives and to make them unamenable to any law or rule, while on the other hand, by descroying the whole fabric of tribal life, it deprives them of many of their most cherished diversions, ways of enjoying life, and social pleasures. Now once you make life unattractive for a man, whether savage or civilised, you cut the taproot of his vitality. The rapid dying out of native races is, I am deeply convinced, due more to wanton interference with their pleasures and normal occupations, to the marring of their joy of

life as they conceive it, than to any other cause.

#### Bronislaw Malinowski

At the time of which I write, the 1940s, the 'primitive' and the 'civilised' were not merely two alternate worldviews, but two social systems coming into continually closer contact. This was a hopelessly one-sided encounter, in which the aboriginal stood to lose his lands and his forests, his culture and his self-esteem.

Wherever he roamed in Bastar, the Central Provinces or in Orissa, Verrier Elwin discovered deep differences between tribal communities relatively untouched by the outside world and those that had been radically affected by it. In the Orissa districts of Ganjam and Koraput he found one class of aboriginals who were "poor, miserable and diseased... They have lost their standards; they no longer have the beauty and dignity of an ordered coherent culture to support them; they are adrift in a modern world that so far has done little to afford them anchorage". But travelling in the interior hills one got "a very different picture. Here we find living in almost unfettered freedom and in the enjoyment of ancient and characteristic institutions some of the most ancient people of India... These people have maintained their morale and their will to happiness. Geographical factors have protected them and still contribute much to their well-being".

Sometimes one found this contrast amongst different sections of the same tribe. Thus among the Baiga it was

most instructive to go straight from a bewarcutting jungle village in the wilds of Pandaria to a village by the roadside in Mandla or Niwas. In the former, tribal life and organisation still retains its old vitality; you enter the village and at once you feel the stir and throb of communal energy; tribal life is an integrated whole, it makes sense, there are no gaps in it, it has no insulated spots, everything is related and functions in its proper place. The people are vigorous, independent, happy. But go to a semicivilised Baiga village in Balaghat, Mandla or Niwas. The people might belong to another race. Servile, obsequious, timid, of poor physique, their tribal life is all to pieces. Parts of it, like the right to hunt and practice bewar, have been torn out by the roots. Some of their simple and innocent dances, under Hindu influence, have been given up. The souls of the people are soiled and grimy with the dust of passing motor-buses. In the village, you are in the midst not of a living community but of a collection of isolated units. Tribal life and tradition appear slightly ludicrous, even to the tribesmen themselves. And once that point is reached there is no hope for the tribe. 40

It was only the tribal isolated in the highlands who really lived; his religion

haracteristic and alive, his social rganisation unimpaired, his traditions of art nd dance unbroken, his mythology still ital. "It has been said", wrote Elwin in July 943, "that the hoot of the motor-horn would ound the knell of the aboriginal tribes as uch; but now petrol rationing has stepped n to delay the funeral". In the "old days when there were neither roads nor motorars", he was told by a Bastar tribal, "the Auria were honest, truthful and virtuous"."

Even where their souls were not soiled vith the grime of passing motor-buses, the boriginals were assaulted by civilisation in numerous other ways. British economic olicies, favouring individual titles to roperty and creating a market for land, had elped dispossess thousands of tribal families ind placed many others in a position of ondage to money-lenders. Forest and game aws had sharply reduced the access of the boriginal to the fruits of nature, and in some nstances (as where shifting cultivation was anned) deprived them of their livelihood ltogether. The suppression of the home listillery, forcing the tribal to buy alcohol iquor only from outlets licensed by the tate, had brought him into contact with a nost 'degraded type of alien', the liquor ontractor. The Indian Penal Code and the ndian Forest Act formed two pillars of a nassive, alien system of jurisprudence which an counter to tribal custom, subjecting them o endless harassment at distant courts, at he hands of lawyers, lawyer's touts, and illnformed judges. 12

Where colonial policy worked thus to mpoverish the aboriginals, Hindu society, where it did penetrate tribal areas, attacked heir culture with equal ruthlessness. Extended contact with Hindus crushed the iboriginals' love of art, music and dance; aught them to worship alien gods and have ontempt for their own; introduced childnarriage; constricted their 'generous hearts' with the practice of untouchability; and incouraged them to put their free and happy women in purdah."

This collective deprivation had resulted in in acute psyschological trauma, a 'loss of nerve'. Facing economic decline and the nostility of the state, the Agaria dreamt that when he dug for iron he came up with stones nstead. The Baiga attributed the decline of nis powers of magic to having to take, forcibly, to the plough and 'settled' cultivation. Most cynically of all, the Mandla Gond believed that when the railway came. 'Annadeo, the God of food, ran away from he jungle. He sat in the train and went to Bombay, and there he makes the [city] people fat". This was a world in which the livelihood of the aboriginals had been taken away, their culture crushed, and where even the gods nad turned against them. 'Abika raj kalau, arka larki malau' (The world of today is black, our boys and girls are like monkeys, degraded) remarked a Muria of Narayanpur, a comment that sums up Elwin's own view of the clash of cultures in aboriginal India.

#### V

But how tired I get of this abominable civilisation. I often read that the next war will mean the end of European civilisation Well, will that matter!

Verrier Elwin, in a letter to his mother, August 22, 1935

By the early 1940s, Verrier Elwin had emerged as an eloquent spokesman for the tribal communities of the Indian heartland. He had by now realised his own untittedness for social work. Providing education and medical relief was not his line; these were best left to his colleague Shamrao Hivale, who ran on his own the schools and hospital they had set up in Mandla. "The pen is my chief weapon with which I fight for my poor", Elwin had written to an Italian friend in March 1938. He had just completed his book on the Baiga, with its daring and controversial proposals for creating a National Park to protect the tribe from the corruptions of civilisation,34 That work was only the first in a series of rich ethnographies and pamphlets through which Elwin fought for his poor, the voiceless tribals of central India. His mission is best explained in the preface to the most famous of his books, The Muria and their Ghotul. It was A E Housman's ambition, wrote Elwin,

that one day a copy of *The Shropshue Lad* taken into battle should stop a bullet aimed at a soldier's heart. I have a similar desire for this, as for all my other books, that in the battle for existence which the Indian aboriginal now has to wage, it may protect him from some of the deadly shafts of exploitation, interference and repression that civilisation so constantly launches at his heart. If this book does anything to help the Muria to continue as they are today, free and innocent, I shall be content. 35

The Muria themselves were one of the tribes Elwin felt to be in most urgent need of protection. At this time, he divided Indian aboriginals into three broad groupings. The smallest class comprised the tribal clite: aristocrats, lawyers and legislators, who had effectively won the battle of culture-contact, assimilating themselves into civilised life without degradation or loss of dignity. At the other end of the spectrum were the isolated communities, the pure aboriginals who retained the characteristic elements of tribal life - these were the people who knew little of civilisation, and thought little of it. In between these two extremes lay the vast majority of tribals, long subject to the inroads of civilisation yet unequipped to come to terms with it; plagued by economic loss, moral degradation, and psychic despair.

Elwin's position with regard to this last, most numerous class is never very clear: whether to turn the clock back, or allow their fuller assimilation into the dominant culture. At any event, he saw his work as being the protection of the 'real primitive' from the inroads of civilisation. Thus, in the closing pages of The Baiga he proposed the creation of a National Park, where the Barga would have the freedom to hunt, fish and practice bewar, with the entry of non-aboriginals prohibited The term 'National Park' was unfortunate, for it led critics to immediately accuse him of wanting to put the tribe into a zoo, to which the anthropologist, alone among outsiders, would have privileged access. As this criticism has dogged the appreciation of Elwin's work right down to the present, in his own answer is worth taking note of "One of the more foolish things that has been said about us recently", wrote Elwin in March 1942.

is that we want to keep the aboriginal in a zoo. This is particularly ungenerous in our case. For what is the meaning of putting an animal in the Zoo? You take it away from its home, you deprive it of its freedom, and you tob it of its natural diet and normal existence. But my whole life has been devoted to fighting for the freedom of the aboriginals, to restore to them their ancestral jungle and mountain country which is their home and to enable them to live their own lives, to have their own diet, and to refresh themselves with their traditional recreations.

Elwin's plea, then, was for civilisation to allow the aboriginals to live their lives in the way they knew best. This meant providing them security of land, the freedom of the forest, and protection from landlords moneylenders, and subordinate officials. He quotes with relish an Orissa aboriginal who told him "We love our hills, we have always fed on fruit and roots and we don't want to change. We care nothing for hospitals and schools, all we want is our hills" "This was a freedom demed by the British and the Congress, but not by the more sympathetic of Indian princes. The anthropologis, 's model was the chiefdom of Bastar, whose officials were respectful of tribal custom, where forest laws were liberal, and where local selfgovernment (as in the village panchayat system) was firmly in place. For Elwin, the prophylactic and temedial measures taken by the Bastar administration had kept their tribesmen 'a dignified and noble people'." He himself found at "most refreshing to go to Bastar from the reform-stricken and barren districts of the Central Provinces". Everytime he entered the state from British territory, he seemed to hear the whole countryside bursting into song around him 10

Elwin's theory of the state was simple and straightforward: all governments are bad, although some of their officials might be good. It was by keeping out the state, and puritan reformers, that Elwin hoped to protect his beloved aboriginal from the shafts that civilisation continually thrust at him. Here the pen was his chief, perhaps sole weapon; his life with the tribals, his justification. Others, then and now, might question his authority to speak for 20 million Indians. One who acknowledged it fully was his friend and fellow anthropologist, W G Archer. The poem which follows nicely captures Elwin's own contrast between the world of the primitive and the world of the civilised, and his preoccupation with protecting one from the inroads of the other:

For Verrier Elwin by W G Archer Beyond the white fantastic mountains The war is fracturing the foreign cities. The Western style makes toys of the dead And in the little brittle churches. The girls are praying with long hair For the hours of the future and the sexless houses.

Among your burning hills, the lonely jungle Roars in the summer. The sterile land Rests; and news comes up like clouds While you are active in the needs of peace Saving the gestures of the happy lovers The poems vivid as the tiger Faced with destruction from the septic plains And with your love and art delay The crawling agony and the death of the tribes 41

#### VI

Convinced that humanity and variety are synonymous, Elwin has always condemned the busybodies who, be it in the name of religion or at the behest of politics, would impose on primitive innonence the standardised sophistications of modern civilisation, and just as in the old days he aroused the active hostility of many a British official by his open association with the movement for Indian independence, so now his disapproval of cumulative encroachments on the integrity of primitive culture may seem suspect to champions of militant nationalism

Sudhindranath Dutta

Verner Elwin's indictmen', in November 1933, of Indian nationalists for their neglect of the tribes had allowed for one exception: 'the heroic little band of workers associated with the Bhil Seva Mandal'.

The Bhil Seva Mandal was started by Amritlal (A V) Thakkar in 1923. Thakkar, who was born in 1869, two months after Mahatma Gandhi and in the same state of Gujarat, had first been trained as an engineer. In 1914 he left his job in the Bombay municipality to join the Servants of India Society, the social welfare organisation

founded by the great Poona nationalist, Gopal Krishna Gokhale. Here Thakkar worked on various tasks assigned to him by the Society, especially famine relief. An extended tour of western India in 1921-22 brought him face to face with the poverty of Bhil tribals. Soon afterwards, he founded the Bhil Seva Mandal, a welfare organisation run and staffed by Indians. It ran schools and dispensaries for the Bhils, interceded on their behalf with moneylenders and officials, and promoted khadi and temperance.<sup>42</sup>

Mahatma Gandhi, when once asked why he had paid little attention to the tribes, replied: "I have entrusted that part of our work to A V Thakkar". "Universally known as 'Bapa' (Father) Thakkar was undoubtedly a man of great integrity, courage and commitment. Thakkar Bapa, wrote an admirer in 1928, was

a friend of the poor, the untouchable and the aborigine. The cry of torment, anguish and torture attracts him from one remote corner to the other Whether it be a famine calamity or a flood devastation, official persecution or temperance work, khaddar organisation or opening wells and tanks for untouchables, you cannot miss the mark and the guiding and unerring hand of Amritlal. The theatre of his activities is among the depressed and the oppressed in out-of-the-way places or among forest tribes in the hills.<sup>44</sup>

It was Thakkar who was to be the 'first inspirer' of Verrier Elwin's mission to the Gonds. In the beginning, his Gond Seva Mandal followed the Bhil Seva Mandal in its programme of khadi, temperance work and basic education, but over the years the divergences became more apparent. A skepticism of Thakkar's philosophy and a high regard for his person come together in a speech delivered by Elwin at a public meeting in Bombay to mark his mentor's 70th birthday. He first honoured Thakkar as an angel who "attended to everything whether it was a Prime Minister, a hungry child or a broken bridge", but then proceeded, in a more two-edged, ironic mode, to recall

the famous pronouncement of Sam Weller regarding Mr Pickwick that he was a 'regular thoroughbred angel' though he wore breeches and garters. If there could be an angel in breeches, I do not see why there should not be one in a dhoti or a Gandhi cap, though I have no reliable information that the wearing of khaddar had been made compulsory in heaven. It may not be quite proper too, to compare Thakkar Bapa to Mr Pickwick because of the latter's opinion on Prohibition, but they had certain angelic virtues in common, such as being good to people in every way without being pompous and patronising. The only difference between an angel and Thakkar Bapa in this respect was that while an angel flew on wings, Thakkar Bapa did a good deal of his flying in motor buses and third-class carriages.<sup>45</sup>

This was spoken in November 1939. Within the year, Elwin and Thakkar were embroiled in an heated exchange of letters. A private disagreement at first, this was to go public in the columns of *The Times of India*. His affection for Thakkar notwithstanding, 10 years in central India had convinced Elwin that his friend's philosophy, if not his practice, was deeply misguided.

Thakkar's own views are summarised in his R R Kale memorial lecture, delivered in September 1941 at Poona's Gokhale Institute of Politics and Economics. Here he defined two distinctive points of view with regard to the tribes, 'Isolation' and 'Assimilation', that were to gain wide currency. Isolation was characteristic of anthropologists and ICS officials, who wished to keep the aboriginals 'untouched by the civilisation of the plains', fearing that culture-contact would undermine tribal solidarity and expose them to the evils of caste and purdah. Thakkar rejected isolation, hoping instead that a 'healthy comradeship' would develop between tribals and non-tribals. By a policy of assimilation, he wrote

The aborigines should form part of the civilised communities of our country not for the purpose of swelling the figures of the followers of this religion or that, but to share with the advanced communities the privileges and duties on equal terms in the general social and political life of the country Separatism and isolation seem to be dangerous theories and they strike at the root of national solidarity. We have already enough communal troubles, and should we add to them instead of seeing that we are all one and indivisible? Safety lies in union not in isolation. 46

For Elwin, of course, 'assimilation' merely spelt 'degeneration'. On questions of practical policy too he found himself at odds with his one-time mentor. Where Elwin gloried in their joyful attitude to sex, Thakkar upbraided the aboriginals for their "crude mantal relations and promiscuity in sexual matters" (he had been horrified by what he read in The Baiga). Where the anthropologist defended the tribal's love of drink, the reformer wished gradually but firmly to introduce prohibition. And where Elwin wished for protection to be given to shifting cultivation, Thakkar prescribed that the plough everywhere replace swidden, which he condemned as a 'wasteful' form of cultivation which only encouraged the tribal's 'proverbial' laziness.

These differences first surfaced in September 1940, when Elwin received a letter from Thakkar proposing the creation of a non-political, all-India association to be called the 'Indian Aborigines Friends



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Society'.47 The provisional aims of the Society were

I To study the living conditions of the members of the Hill and Forest Tribes who live an isolated life, to bring them nearer to their own tribals living in the plains and to be familiar with their customs and manners 2 To organise, co-ordinate and assist welfare work conducted for their benefit, such as schools, dispensaries, sanitation and hygiene, which, it is always understood, is conducted on humanitarian lines only [that is, without a view to religious conversion]

3 To represent to the Provincial Governments concerned their disabilities and to suggest schemes for their moral, cultural, economic and political uplift with a view to bring them on a par with the advanced classes in the community. 48

Elwin welcomed the idea of a countrywide association for aboriginal welfare, yet worried that it might come to be dominated by 'Congress minded Hindus'. He saw a deep divergence of opinion emerging between what he called the Interventionist and Protectionist points of view. Himself an 'out and out Protectionist', Elwin wanted to safeguard the Indian aboriginal from the fate of aboriginal peoples in other parts of the world. For in Africa, Australia, and the Americas, degradation had everywhere followed the rapid contact with civilisation through the collapse of tribal religion and social organisation, the extinction of village industry the weakening of moral fibre, and, very often, extermination itself

The Protectionist was also distinguished by his love and reverence for the aboriginal. He does not regard him as being on a lower level. He recognises that his honesty, his courage, his simplicity, his truthfulness are fair superior to the normal level of honesty and truth in civilised society. He regards as intolerable, the suggestion that he should tuplift, him. He admires his culture and religion and would like to preserve all that has "survival-value".

The Interventionist on the other hand "is all for uplift". "In his heart he looks down on the aboriginal" regarding him "as being on a lower social and cultural level than himself". The Interventionist had strong ideas of what was good for men, applying them universally regardless of cultural differences.

That the two men had sharp differences is clear, although the intensity of Elwin's reply was not unrelated to his mairiage, but six months previously, to a tribal girl quite proud of her own culture—a culture which he saw no reason to change (still less 'uplift') at all. But Elwin was also contesting the belief, pervasive in 19th century anthropology and in 20 century social work, that cultures could be arranged hierarchically, in an evolutionary sequence. In some respects he even tried to invert this hierarchy, in

suggesting that the civilised had much to learn from the primitive. He was thus 'profoundly shocked' by Thakkar's suggestion that the proud, free aboriginal of the hills be brought nearer to the decayed, degraded, Hinduised tribal of the plains.

Elwin went on to suggest an alternate set of six aims for the new association. Three clauses are versions of those drafted by Thakkar - the need to study tribal life, undertake welfare work, and intercede on their behalf with government - but taking care to remove all phrases smacking of 'uplift'. A fourth called for the devising of means of economic progress with the minimum of dislocation and distress. A fifth asked for special protection for the aboriginals from their traditional exploiters "oppressive landlords, grasping moneylenders [and] corrupt officials" - as well as from "ignorant politicians [and] proselytising missionaries of any religion. .' His own preferences were expressed most clearly in the last clause, which asked the association

To do everything possible to revive and encourage all that is good and that has survival value in the traditional tribal culture. This will include the revival of aboriginal village industries, restoration of hunting rights, stimulation of dancing and singing and the worship of ancient gods. 30

Thakkar's reply to this letter is lost. But a few months later, in June 1941, he sent Elwin acopy of a report that he had submitted to the Orissa government on tribal policy Elwin disagreed with most of the recommendations, and focused on what was (from his point of view) the most drastic the curbs on swidden cultivation or bewar His response, once again, was vehement, in a letter written with "my whole life, all my interests, my bones and my blood behind it" For years, he told Thakkar,

I have been striving to get the Imperialist Government to allow a few human rights to the aboriginals. First and foremost among those rights is that of shifting cultivation lust as a certain impression has been created, the fruit of hour after hour of patient and often weary work, you come and cut the ground underneath my feet.

And in whose interests would you stop bewar? The forests belong to the aboriginal I should have thought that anyone who was a Nationalist would at least advocate swaraj for the aboriginal! It is a sad and grievous thing for someone like yourself arguing in favour of taking away from the poor yet another of their treasured tights. I am absolutely convinced that the policy you have set in the Orissa Report will lead to nothing but the degradation, the decay, the demoralisation of these poor people, and children yet unborn will curse your honoured name. So

Thakkar chose not to reply to this 'long sermon'. 31 But echoes of the exchange are visible in his Poona lecture of September, where his categories of 'Isolation' and 'Assimilation' are merely transpositions of 'Protection' and 'Intervention', the categories originally used by Elwin to distinguish their respective positions. The two sets of terms accurately reflect each man's set of values Isolation implies the keeping away of tribals from the modern world and what it had to ofter, Protection a heroic defence of the pure aboriginal from the shafts civilisation continually thrust at him. Likewise, Intervention connotes an aggressive and unwarranted tampering with tribal culture, Assimilation a gentle easing of that culture into the bosom of its mother civilisation

The debate went public in October 1941, when The Times of India carried a unsigned. joint review of Thakkar's Kale lecture and Elwin's recently published pamphlet, Loss of Nerve, a review in which the comparison was all to the anthropologist's favour. Where Thakkar presented his material ex cathedra. wrote the critic, without much supporting evidence, Elwin made practically no statement unsupported by fact. And where the reformer was beset with prejudice against sex, the 'drink evil', and shifting cultivation, the anthropologist countered these illinformed criticisms of tribal life with a body of scientific evidence. Writing in a newspaper owned by Europeans and long hostile to the Indian national inovement, the reviewer could not resist this last, telling crack.

It is peculiar that Mr Elwin, representative of the 'exploiting foreigner', should produce a thesis which is instinct with liberalism against Mr Thakkar's authoritarian nostrums, well-intentioned though the latter undoubtedly are 50

Thakkar had previously been subject to a hostile editorial in the same newspaper, attacked once again, he was moved to respond. In a letter to The Times of India, he drew attention to the different angles of vision from which the tribals were being viewed. Anthropologists like Elwin, he remarked, might even countenance adultery, witchcraft, human sacrifice - in the belief that the 'original culture' of the tribals should not be "tainted by the so-called alien culture of the Indian nationalists". Other Indians wished to copy the 'good customs' of the tribals (truthfulness and simplicity of life) while at the same time "educating the aboriginals to the level of the rest of the population". But the anthropologists "evidently desire to keep them isolated and untouched by civilisation, as if they are ashamed of their [own] civilisation".53

Replying from his field station in Bastar, Elwin would not accept that there was any conflict between his science and nationalism Indeed. "since the anthropologist is

concerned to record many phases of national ulture and to reveal it in its true synthesis and beauty any intelligent national movement will use him to the full". Alongside this defence of anthropology went a defence of aboriginal life that was (as Thakkar had noted) proof of Elwin's misgivings about civilisation. The 'real problem' in his view was "not the possible defects of primitive culture, but the very obvious defects of our own". The Congress would be making a profound mistake' if it were to disregard the warnings of anthropology and follow a reactionary policy of oppression and interference' in tribal areas. If it did, there might even be rebellion and bloodshed. Elwin claimed that the Konds of Orissa, bearing the burden of Thakkar's report, had "threatened to offer a human sacrifice to the 'New God Gandhi' so that they will not be deprived of any more of their elementary human rights" 11

In his final letter to The Times of India. Elwin wrote of his reluctance "to continue any controversy with my old and honoured friend, Mr A V Thakkar". By now the debate had acquired a momentum of its own, to be carried on by other people in other forums Evelyn Wood, a Bombay businessman and friend of Elwin's, wrote a sharp and personal attack on Thakkar, accusing him of 'misinformation', 'infinite condescension', and of being isolated by "a retinue of chelas from the people among whom, no doubt, he used to work in close contact" 55 A more considered intervention, this time from the side of social reform, appeared in the January 1942 number of the Social Service Quarterly. a Bombay journal linked to the Servants of India Society This charged Elwin of hiding behind the cloak of science. Thus his defence of drink, as a tonic and relaxation to the aboriginal's otherwise comfortless existence, was characterised as "neither science nor common sense, but sheer poetry". More generally, Thakkar was described as a 'hard' headed practical social reformer', Elwin as one who was "simply sentimental and sees the primitive culture and life of the aboriginal with a poet's eye and imagination".56

This was intended (at least in part) as a compliment. Replying in turn, Elwin acknowledged the work for aboriginal welfare of the Servants of India Society With that kind of disinterested work, the aboriginal could indeed be assimilated without loss of livelihood or self-esteem Sadly, for the most part culture-contact was a process over which the aboriginal had little control. Elwin went on to compare, under 18 heads, the condition of the 'isolated' aboriginal with the 'assimilated' one This was an elaboration of his familiar contrast between the pure and decayed tribal, in which the former was found superior in every respect: with regard to his truthfulness. independence, community spirit, morality, treatment of women, and so on 57

Here were two quite distinct angles of vision regarding the tribes. The vulnerability of Elwin's own position, its moral force and basis in experience notwithstanding, was underscored in some comments on the exchange by the social worker and nationalist. P Kodanda Rao, Rao acknowledged Elwin's 'unrivalled knowledge' of tribal life, his deep devotion to their cause. Nonetheless, he charged that the Englishman was "more than a descriptive anthropologist, he is a politician with a policy to propound and propagate" - indeed, his proposals amounted to nothing less than the creation of an 'Aboriginalisthan', a special protectorate to be ruled by anthropologists like limself 38 The reference was chillingly clear. With the Pakistan movement for the partition of India gaining ground, Elwin was being accused of hastening the further division of India on communal lines

#### VII

The universalism of the assimilator is generally a thinly dispuised ethnocentricism

— Tzyetan Todorov

In 1942, his arguments with Elwin just concluded, A V Thakkar was visited by a young anthropologist from Bombay University. The scholar had finished a dissertation on the blafs, and wished to work with Thakkar. The old man, by now heartily sick of anthropologists, told him. "You can join me if you drop your science. I don't want science but humanism and morality."

Science had been Elwin's trump card in his exchange with Thakkar and his ilk it also provided the underpinning of his tract The Aboriginals, published in July 1943, which presented protection as the 'scientific' solution to the tribal situation in Two months later was published The Aborigmes Called and their Future, a scholarly, 240page book by the foremost Indian sociologist G S Ghurye of Bombay University Elwin is the often named and sometimes unnamed antagonist of this work. Ghurye's title was very likely a riposte to the recently printed The Aboriginals, although his critique is directed primarily at The Baiga and Loss of Nerve, the two studies of which that pamphlet was a distillation. A masterful blend of learning and polemic, Ghurve's attack was to mark Elwin for life

Churye's background and orientation were very different from Flwin's. Born in 1893, a saraswat brahmin from the west coast of Maharashtra, he was first trained as a Sanskritist, earning a gold medal in his M. A. He then came under the influence of Patrick Geddes, the great Scotch educationist, baologist and town planner, who was at the time holding a chair in sociology at the

University of Bombay With Geddes' encouragement Ghurye was awarded a scholarship to England, where he earned a Ph D in social anthropology at Cambridge. On his return he joined Bombay University's department of sociology, a department he presided over with stern authority for more than 30 years <sup>61</sup>

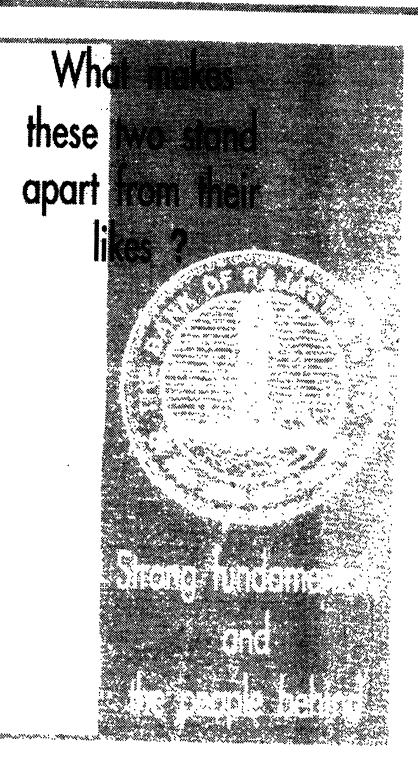
Where Elwin's writings diew abundantly on his life among the tribals, Ghurye abhoried fieldwork, hardly ever leaving Bombay. But he was a formidable textual scholar, with a capacity to synthesise materials collected by other writers. He was also an able polemicist, with a lawyer's skill in systematically and telentlessly arguing his case.

The arguments of *The Aborigines So Called and their Future* are developed in three, closely related stages. Ghurye first demonstrated that, strictly speaking, the aboriginals are not aboriginals at all. For Elwin it was an article of faith that his tribals were autochtones. *The Aboriginals* concluded with these words.

The aborteinals are the real swadeshifproducts of India, in whose presence everyone is foreign. These are the ancient people with moral claims and rights thousands of years old. They were here first they should come first in our regard.<sup>67</sup>

This was at the time an uncontroversial position even A V Thakkar accepted the tribals as the 'original sons' of the soil, 'older and more ancient' than the Hindus. But in Ghurye sopinion "to adjust the claims of the different strata of the Indian society on the ground of the antiquity or comparative modernity of their settlement [was] a formidably difficult task". For Indian history had been characterised by a great deal of internal migration within the subcontinent Many tribal groups had come to their present habitat from elsewhere for instance, the Paharia of Bihar very likely came originally from Karnataka, the Konds of Orissa from the Tamil country and could not properly be called the "original owners of the soil" Chattisgarh, the home of the Gonds had itself been dominated by Hinduism before the emergence of the great Gond kingdom in the medieval period. Nor could the arbes as a whole be regarded as the autochtones of India, for studies on the peopling of the subcontinent suggested that the speakers of Dravidian and Kherwari tongues (who included numerous tribal groups) were an immigrant people as much as the Indo-Arvans "

If tribals were not autochtones, argued Ghurye they were not so culturally distinct either. He demonstrated, through a range of examples, the adoption of Hindu customs by tribal groups, and the close parallels between Hindu religion and belief systems that colonial census officials had erroneously classified as "Animist". Thus tribals widely





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Ghurye next looked at the process of inture-contact, which, again, he viewed quite ifferently from Elwin. He accepted that ibal encounters with Hindus sometimes led distress, but disputed the claim that conomic loss was followed by p vehic espair, an alleged 'loss of nerve. At the ime time, contact with Hindus might also enefit the tribals; by exposing them to etter methods of cultivation, or curing them t drunkenness. Noting that "everything avouring of the Hindu upsets Elwin", thurve disposed of the four reasons why Jwin wished to restrict Hindu influence on ibal life - namely, that it would mean the cceptance of the status of untouchables, a wering in the position of women, the stroduction of child marriage, and the ippression of their song and dance. For the evalent mood was one of equality popular ovements among Hindus themselves, rainst untouchabitity and for the nancipation of women, would not nuntenance tribal entry at the bottom of the iste hierarchy or the exploitation of their omen. Likewise, the growing interest in 4k culture and folk dance might even work protect at least some aspects of tribal song ad dance, which would come to form part "the total complex which is arising called dian culture". On the question of child arriage, Ghurye was not convinced that it ould be harmfu! in the tribal context, on e contrary, it might temper their sexual ence, check the spread of venereal disease. id enhance marital stability.

In Ghurye's view, British imperial rule as the larger, so to speak structural cause tribal discontent. For it was the intoads the British system of law and revenue that id, in the first place, created the conditions if the crossion of tribal solidarity. The tablishment of individual property rights land, the creation of a land market, stringent rest laws, and an exploitative excise policy id all worked to impoverish the tribals. Ishing them into the clutches of landlords, oneylenders and liquor contractors. As the conomist, D. R. Gadgil (like Ghurye, a ambridge man but passionate nationalist)

noted in a perceptive foreword to the book. Hindu exploitation of tribals was a secondary phenomenon, enabled precisely by the primary phenomenon of British dominion. It was the establishment and consolidation of British rule that had "brought about a revolution in the nature and extent of the contact with the aborigine". The problem of tribal poverty was inseparable from the larger history of colonial exploitation, a connection which had escaped Isolationists like Elwin "

In a sustained critique of the National Park idea. Ghurye dismissed Elwin as a 'nochanger' and 'revivalist', one who wished to see "the aborigines' reinstated in their old tribal ways irrespective of any other consideration" in Ghurye's own values emerge at various points in his book. He had a strong aversion to drink, which he saw as acurse on tribal life—leading to insteadiness, dissipation of energy and indolence—as well as a distaste for pre-marital sex. Ghurye was both a puritan and an 'improver', whose interpretation of tribe-Hindurelations flowed logically into an enthusiasm for reform

Ghurye's polemic was extended by his pupil M N Srinivas in a review of The Aboriginals, Elwin's invocation of 'loss of nerve' was dismissed by the young scholar as a 'conveniently vague expression', a misleading application in the Indian context of the idea of a loss of interest in life, which the anthropologist W. H. R. Rivers had developed in Melanesia - where it had a solid and verifiable basis in depopulation. disease and starvation. String a slice exposed Elwin's claim that the policy of protection was based on the authority of science. To the argument that the importation of plough cultivation would prove fatal to the bewarfoving Baiga, Srinivas responded "Edwin here forgets a fact which every tyro in Anthropology knows cultures are never static, but dynamic. Old traits are thrown off or modified and new ones adopted. And that is life. Of course a certain immigrant trait may be disastrous to the group. But that has to be proved in every case. There is nothing to prove that the Baigas are incapable of taking to [plough] agriculture. We may have to do it with special caution and slowness. but that is quite different from maintaining that it can't be done at all" "

In an interview with this writer, M N Srinivas recalled that he was specifically asked by his teacher to take on *Thi Aboriginals* (a best-selling pamphlet which appeared too late for Ghurye to take account of in his own book). There is little question that Ghurye had a deep animus against Elwin He was jealous of Elwin's popularity and, as a puritan, deeply disapproving of his personal life (or what he imagined it to be). Ghurye never forgave one of his students, Durga Bhagwat, for taking Elwin's advice before doing fieldwork with the Gonds. When

he found himself in the same room as Elwin, in a seminar at the Asiatic Society, he turned to a friend and whispered "Do you see his face" He has the mouth of a sexual pervert" \*\*

Were this a scholarly debate conducted in (say) 1920 in the pages of a journal of anthropology, Elwin might well have shrugged it off as a dispute between Oxford and Cambridge, the Protectionist and the Interventionist, the Aesthete and the Puritan, the Fieldworker and the Library Worm, But this was India in 1943, a nation on the eveof independence, struggling to come to terms with the problems of its vast and diverse population. This was a time of rising patriotism, but also of a growing confusion and division within the ranks of a once united national movement. The claims of the Congress to represent all of India were being strongly challenged by the Muslim League. which accused it of being a party of the Hindus and a little less successfully by untouchables and socialists, who charged it with representing the interests of upper castes and capitalists. The thesis of tribal autonomy and distinctiveness put forward by Flwin appeared, in the circumstances, to be yet another blow to the unity of a nation in the making. Faced with the prospect of Pakistan and growing tension within Hindu society the national movement could ill afford the merest thought, let alone the creation, of an 'Aboriginalisthan' Like Mohammad Ali Inniah of the Muslims and B.R. Ambedkar of the untouchables, Elwin was being cast as a 'betrayer' of the cause of a greater, united India

It was here that Ghurye's attack was at its most telling. With A. V. Thakkar, the Bombay sociologist spoke in the name of a) intary stream of nationalism, while Edwin appeared to be on the other side of the fence. politically speaking, forcing wide open through his work the cracks in the Indian social fabric. The sociologist also pointed to the convergence between the views of Elwin and the work of ICS officials with a special interest in the tribes. Lar more effectively than in Thakkar's Kale lecture. "Isolation" was identified as a quintessentially English, even colonial project. And these criticisms came from the pen of a highly regarded scholar, not a social worker whom Elwin could dismiss as being unfamiliar with the methodology and findings of 'science'

Elwin most keenly felt the force of Ghurye's attack Two comments inhis friend Shamrao Hivale's book Scholar Gypsy are revealing One refers to a "very unfair book" by a "Bombay scholar", the other, identifying the scholar by name, talks of Elwin's admiration for Ghurye's intellect and power of stimulating research in his pupils, but continues—"unhappily he lacks the social gifts" <sup>66</sup> But it was in a letter to W.G. Archer

mai ne most runy revealed ms reemigs. Ghurye's book, he told his friend, was an "odious book written by [an] anthropological Quisling": were it not refuted, it might do "incalculable harm to the aboriginals and to our whole cause". He wanted to set aside an issue of the journal Man in India (which the two of them then edited) to "putting Ghurye in his place", with reviews of The Aborigines So Called and their Future commissioned from W V Grigson of the ICS, the Austrian expert on the tribes, C von Furer Harmendorf, and the Indian anthropologist B S Guha all men likely to come down on Elwin's side. On Archer's advice, though, Man in India took the more prudent and politic course of simply ignoring the book.10

#### VIII

It is well known that Mr Verrier Elwin has a bee in his bonnet. The bee gives the wax of anthropology with the honey of romance and it has a sting which is specially reserved for Missionaries. The wax and the honey are welcome, but all fair-minded people must object to the sting, particularly when it turns venomous.

Father F Correia-Afonso, S J. July 1944

The debate with Thakkar had pitted one style of social work with another: Ghurye's attack, one style of anthropology versus another. In a third controversy Elwin, a lapsed Christian priest himself, took on a group of Dutch Catholics who still zealously pursued their faith

Elwin's hostility to the Dutch priests was an indication of how far his identification with the tribals had distanced him from Christianity He had of course been opposed from the first to conversion work. In 1933, soon after he moved to Mandla, CF Andrews admonished him for not proselytising the Gonds, to thus help free the primitive mind from fear and superstition. Four years later, by which time Elwin had left the Church of England, he was invited by the World Missionary Conference to contribute an essay on aboriginal tribes, with special reference to 'the menace of Hinduism'. In a sharp response, Elwin pointed out that "there can be little doubt that Christian civilisation is more destructive to primitive tribal life and morals than any other form of culture" "

In 1940, just before he left for Bastar, Elwin had a brief and indirect skirmish with the Catholics. W V Grigson, then writing a report on aboriginals for the Central Provinces government, asked Dutch priests working in Mandla for their opinion of Gond culture. Their teply combined a concern with gond poverty with a low opinion of their morality. The priests were especially worried by the looseness of the marriage tree.

among the iviandia tribais, the freedom wan which the Gond woman could change partners. They wanted the government to pass a law which would provide. "(a) an easy and inexpensive way of restitution of conjugal rights, both for men and women; (b) quick punishment of the man a married woman runs away to". The priests claimed that the love of the Gond for the 'karma' dance was instrumental in the break-up of tribal marriages. For the missionaries, the first reason why women deserted their husbands was "the excessive sexual excitement caused by frequent singing and dancing of karma with its obscene songs and drink throughout the night".72

Edwin, married to an accomplished gond dancer himself, was to react sharply to these judgments. He defended the karma dance as being a marker of the high social status of the gond woman. The torbidding of the dance, in his view, might actually lead to more rather than less adultery, for it would make life intolerably dull for the woman. Karma was "the sole surviving instrument of gond culture, it is a symbol of the freedom and independence of the gond woman; it is a source of a living art and poetry, in Mandla especially its tunes and rhythms are some of the most beautiful in India". He urged Grigson to be "very cautious about publishing missionary allegations against the morals of the aboriginals", which, if made public, would lead to "considerable and very proper indignation among educated Gonds of this wholesale and partly false indictment of their community".13

The argument resumed when Elwin returned from Bastar late in 1943, after spending close to three years in that chiefdom While he was away, the Catholics had been making steady progress among the Gonds There were now 35 Dutch priests in the district, working with a large body of Christian clerks and teachers brought from Ranchi in Bihar, an old centre of missionary work among tribals. Their activities expanded enormously in the war years, helped by massive, if covert, government funding. To his horror, Elwin counted more than 100 schools run by the Catholics, schools that bore "little resemblance to educational institutions" but were "simply centres of proselytisation".21

In a polemic circulated for support early in 1944, Etwin criticised missionary work on three counts. First, it was an anachronism: no one could believe any longer that salvation was to be found only in the Catholic Church, an institution that had fathered the Inquistion and had a long history of supporting dictators. Free countries did not permit their populations to be proselytised, and India, on the verge of its own independence, was not a 'savage' or 'heathen' country but had religious traditions far older than Catholic

Europe. The aboriginals of mula themselves had "their own life, their own art and culture [and] their own religion, to which they are deeply attached and which is by no means to be despised".

All over the world, wrote Elwin, conversion of tribals by missionaries had undermined traditional political institutions, intensified personal rivalries, and implanted a false sense of prudery and sin. The change of religion, in India as in Africa or Melanesia, "destroys tribal unity, strips the people of age-old moral sanctions, separates them from the mass of their fellow-countrymen and in many cases leads to a decadence that is as pathetic as it is deplorable"

Moreover, the methods used by missionaries in Mandla were quite unacceptable. These included the exploitation of aboriginal poverty and of the great wealth of the Catholic church to bribe tribals into being baptised; the terrorising of Gonds and Baigas through threats, abuse and beatings, and the use of the prestige of the dominant race and of state power in support of their activities — for instance, by interfering in court cases and fostering the belief that their schools were government schools.

As ever, Elwin resorted to his favourite trope—the analogy across cultures—to drive home the point—Suppose, he wrote,

a Hindu mission went to England, spread itself over the peaceful villages of Cornwall, threatened the people with prosecution and beating it they did not attend temples, interfered in the civil and criminal cases before the courts, indulged in vicious propaganda against the local Christian leaders—for how long would the British Government perint them to remain? But today in Mandla this is exactly what is happening, not only with the compliance but with the active support of the authorities?

Elwin's most effective attack on the Catholics was an essay which appeared in the *Hindustan Times*—on June 14, 1944. Both the timing—months after Ghurye had midded him—and the place of publication—the foremost nationalist newspaper—are significant. So too is the imagery, an uninistakably Hindu one. The priests in Mandla, claimed Elwin

are the Chindits of the Christian Aimy Compared to them, most other missionaries get to work like Italian infantiymen. These Fathers are from Holland. Fortified by the philosophia petennis, inspired not only by a divine love of souls but by the remarkable. Dutch instinct for colonial expansion, they are busy turning. Mandla into a Dutch colony. Within 10 years Mandla in the ancient home of the Rishis, former kingdom of the Gonds, whose fields are blessed by the sacred Narmada in will be virtually a Dutch colony with a hundred thousand Catholic converts. The

Three weeks later, Elwin sent in an update on the situation in 'the occupied territory of

Mandla', with more evidence of conversion through coercion and bribery. His , omparisons were characteristically focused and most carefully chosen. The priests, he reported, had given the tribals medals to kiss morning and evening. On one side of each medal was embossed the image of the Queen of Heaven, on the other "the unprepossessing features of the Italian potentate who blessed Badoglio's armies on their way to the rape of Abysinnia. It was not indeed, a bad symbol for the conquest of Mandla - for the aboriginals and Hindus of the district are as simple and as defenceless against foreign aggression as were the ill-armed Abysinnians"."

Elwin's attack brought forth a wideranging response from his adversaries. In three separate replies in the Hindustan Times, the priests acknowledged their intention of making converts, but denied any coercion 78 A well-attended meeting, held at the Catholic Institute in Nagpur, recorded the protest of the Christians of the Central Provinces at Elwin's challenge to "the inherent and tundamental Christian right of absolute treedom to propagate the Gospel of Christ in any part of India". One speaker warned "Hindu friends that any move to restrict freedom to propagate religion would come back on them like a boomerang" 19 was mere bravado. The Dutch Catholics canvassed far and wide, but the tide was against them. A tribal convert from Ranchi published a rejoinder to Elwin, which seems to have tallen still-born from the press \*0 The priests even made contact with Leo Amery, the secretary of state for India, arch Christian and arch imperialist, asking him to deport Elwin to Britain Amery wrote hopefully to Lord Wavell, the viceroy, who answered that to interfere in the 'unedifying dispute' between Elwin and the priests would only "arouse suspicion both between the various communities and against the British" kt

Meanwhile, Elwin had also been seeking help. By his own admission, he had been out of touch with the 'Gandhi-people' for years, but with the transfer of power at hand, they now appeared as his natural allies in "the deliverance of the aboriginal from political, religious and economic exploitation ... Among those whose support he sought were the industrialist, Purshottamdas Thakurdas, the veteran Congress leader Bhuiabhai Desai, and his old mentor and more recent adversary. A V Thakkar. After visiting Mandla in March 1944, Thakkar deputed his associate P G Vannikar to organise a Gond Sevak Mandal in co-operation with Shamrao and Verrier They were soon joined by a Hindu service organisation, the Arya Dharma Seva Sangh. In a short while, the three groups were able to close down 25 mission schools. By the end of 1946, Elwin could report with satisfaction that the advance of the Dutch missionaries in Mandla "had been halted and their work greatly constricted".<sup>82</sup>

The struggle with the missionaries thus allowed Elwin to patch up with Thakkar and beyond that, to reaffirm his Indian identity, an identity that had sharply been called into question by Hindu social workers and by sociologists. Elwin was in principle opposed to both Catholic priests and 'Congress minded Hindus', but asked (or forced) to choose, there was little doubt which side he would come down on. For one thing, he saw the Congress as a slightly less intrusive force, he acknowledged aboriginal religion to have some affinity with Hinduism, none at all with Christianity. For another, he was keenly aware of their rising influence with the coming of Indian independence

Elwin's moves were tactical and opportunistic, but not in a narrowly personal sense. By allying with the nationalists, he thought he might more effectively protect his tribals. The aim of the movement against the missionaries, he wrote, "is to awaken the Hindu community to its duty towards the aboriginal." He thus urged "on all Hindu organisations interested in this problem to pass resolutions accepting the major aboriginal communities as Kshatriyas which is what they are and what they claim to be, to stop talking of them as 'backward' and 'depressed' [and] to drop the horrible word 'uplift' from their vocabulary." 83

#### IX

The three controversies I write of here were all omitted from Verrier Elwin's autobiography, a book, published in 1964, in which the author would not allow old arguments to disturb the smooth recounting of a life spent in and for India. "In the story of my life", he was to write, "I have deliberately played down its difficulties." The arguments of the 1940s are dismissed in this solitary sentence. "A lot of people were down on me in those days and, for an ordinary person, I had a rather disproportionate volume of notice in the press, some of it extravagantly kind, some bitterly hostile". "

An autobiography is to be studied both for what it contains and for what it leaves out; thus Elwin's silence might be linked to his desire, as an Englishman in newly independent India, to distance himself from a past that had at times called into question his fidelity to his adopted land. For the patriotism promoted by the ruling Congress would not easily allow partisan stances on behalf of any one segment of the nation; while calls for mobilisation according to class and (at a pinch) language were grudgingly tolerated, the claims of caste.

religion and ethnicity were reckoned as spurious and illegitimate. Through the 1950s and 1960s, ideologists of dalit resurgence and Hindu militancy were on the retreat; so, by the same token, were detenders of the aboriginals. Ambedkin had been assimilated into the government of India (his last defiant gesture towards Buddhism being regarded, at the time, as symbolic tather than substantial). Jaipal Singh had joined the Congress, the RSS had been driven underground, its ideology finding few takers.

In an atmosphere suffused by a unified and unitary nationalism. Elwin was further constrained by his official position, for between 1954 and 1964 he was the adviser on tribal affairs to the north-east frontier agency. Prudence now demanded a more carefully guarded advocacy of tribal rights. Deeply marked by the fights of the 1940s. Elwin was in his later work to reject the two extremes of 'Protection' and 'Intervention' in favour of the middle way of 'Integration', defined as a process whereby tribals would not be submerged but integrated with full, honour and respect into the new nation Even this cautiously euphemistic formulation was attacked as divisive of national unity. added reason for Edwin to banish the battles of the 1940s from the pages of his autobiography 85

Sofaras I cantell, the only printed reference to those old, debates occurs in an essay written for the Delhi journal, Seminor—In 1959, G. S. Ghurye brought out a revised edition of his book, which retained almost all the original (and derisive) references to Elwin, but without once referring to his writings in the interim. Elwin now accused the Bombay scholar of "flogging a dead horse". By this he meant that the times had changed, and he with them, Elwin went on to refer. Ghurye to his espousal of 'Integration as an effective and acceptable alternative to the old polarities they had once disagreed upon. 86

Thirty-five years later, in a political (and intellectual) climate that is radically altered. one might think that the horse is not so dead after all. When the claims of unitary nationalism are being as sailed from all sides, when sectarian identities of dalits, backward castes and Hindus are being aggressively crafted, the tribal question is once again emerging in its most starkly polarised form. For the encounter between tribals and the outside world is yet conducted on grossly unequal terms, the loss of land and forests being joined by the loss of the adivasi's living space, as tribals come to form a very large proportion of the millions displaced by steel mills, coal mines, and dams. In cultural terms, movements that assert tribal autonomy and distinctiveness (as in the reinvigorated Jharkhand movement) have been met by counter-movements, helped along by the Sangh parivar, which hope to more fully assimilate tribals into the Hindu way of life. Meanwhile, competing valuations of adivasi culture, as well as bitter conflicts over resource access, have been vividly brought to the surface by the long struggle over the building of the Sardar Sarovar dam.\*

The Elwin-Ghurye, Elwin-Thakkar, and Elwin-Missionary arguments might constitute a largely forgotten chapter in the intellectual history of modern India, but their echoes are still being heard. Consider, last of all, the report of the Bhuria Committee. the most recent and in some ways the most authoritative statement of the renewed movements for tribal self-rule. Tribal societies, suggests the report, "have been practising democracies, having been characterised by [an] egalitarian spirit" this "communitarian and co-operative spirit visible in many undertakings like shifting cultivation [and] house construction". And again. "Tribal life and economy in the not too distant past bore a harmonious relationship with nature and its endowment. It was an example of sustainable development. But with the influx of outside population it suffered grievous blows". To reverse this process the committee recommends that "tribal communities should be respected as in command of the economic resources", with gram sabhas placed in charge of land. forests, and minerals, with larger tribal regions given 'sub-state' status, and with "traditional tribal conventions and laws [to] continue to hold validity".\*\*

In its understanding of what tribals are, in its identification of their main enemies, in the solutions it offers for their protection, the Bhuria Committee follows the trail laid down by Verrier Elwin in his writings of the 1930s and 1940s. Some may see this as an unconscious echo, others (in my view more accurately) as a revival and reaffirmation of a strand of adversarial thought suppressed by the world-view dominant during the first-decades of Indian independence. For, as the poet Wallace Stegner once pointed out,

The tracing of ideas is a guessing game. We can't tell who first had an idea; we can only tell who first had it influentially, who formulated it in some form, poemor equation or picture, that others could stumble upon with the shock of recognition 30

In this game, the tracing of the intellectual origins of the popular movements of contemporary India, Verrier Elwin would be placed alongside Jotiba Phule and B R Ambedkar (two other defenders of the rights of subordinated peoples) as the man who first articulated – influentially – the idea that tribals might not be wholly or fairly represented in the (once) hegemonic ideology of Indian nationalism.

#### Notes

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- 1 Verrier Elwin, 'Gonds', *Modern Review*, November 1933 pp 547-48.
- 2 House of Commons Debates, March 22, 1935
- Bombay Chronicle, November 12, 1938.
- 4 Vertier Elwin, Lovy of Nerve A Comparative Study of the Contact of Peoples in the Aboriginal Areas of the Bastar State and the Central Provinces of India (Bombay, 1941) pp 5.9
- 5 The Barga (London 1939), p.519; The Agarta (Bombay, 1941), p.270, The Muria and their Ghotal (Bombay, 1946), pp.663-64
- 6 See S. C. Dube, review of The Tribal World of Verrier Elwin, in The Eastern Anthropologist, Volume 12, No. 2, 1964, pp. 134-36. Dube, one of the most distinguished of Indian anthropologists, had in the 1940s come to study the tribes through Elwin.
- 7 James Forsyth, The Highlands of Central

- India (London, 1871), p 182
- 8 This essay uses the terms 'aboriginal' and 'tribal' interchangeably. The former term has been rather discredited by later anthropologists, but since it was preferred both by Elwin and his adversaries (with but one exception, as explained below), I have let it stand here.
- 9 Verrier Elwin, 'Window'd Regardless', typescript in Mss Eur D 950/26, India Office Library and Records (hereafter IOL) 'Rood' is a synonym for the Cross
- 10 Clipping from News Chronicle, London, undated (probably 1933 or 1934) Mss Eur F 950/6, IOL
- 11 See Verner Elwin, The Baiga, pp 58, 65, 81, 257, The Agaria, p 121 The Muria and their Ghotul, p 181, Maria Murder and Suicide (Bombay, 1943), pp 14-15; Leaves from the Jungle (London, 1936), p 22
- 12 Phulmat of the Hills (London, 1937) pp 91-102.
- 13 The Baiga, p 235
- 14 The Aboriginals (Bombay, 1943), pp 18-19
- 15 The Barga, pp 215, 418-21
- 16 The Muria and their Ghotal, pp 419, 440, 615-16, 635-36
- 17 Ibid, p 324, The Barga, pp 223, 230, 419
- 18 Ibid, pp 22, 383, The Muria and their Ghotul, pp 222, 400, 431.

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- 18-19: The Baiga, p 201
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- 21 The Dance in Tribal India, Part 1', The Illustrated Weekly of India, May 22, 1955
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#### The Politics of Ecology

#### The Debate on Wildlife and People in India, 1970-95

#### Mahesh Rangarajan

If the older preservationist agenda looks like it is in deep trouble, it still has a lot of life left in it. The preservationists' shortcoming was their reliance on the state machinery, in particular on the legislative and executive power of the union government. But neither a technocracy or bureaucracy acting as the arbiter of conflicts nor a free market system which may tilt towards privatisation of open access resources would address ecological issues adequately, whereas the assertion of people's rights has the potential for a different kind of conservation-oriented control of their lives and lands. The question then becomes one of working out a new set of relations with the forest which will be enduring both for the people and the natural world. How this will be done at a time of demographic growth and agrarian intensification will be a major challenge and site-specific approaches will play a vital role

#### Introduction

IN 1979, in a lecture delivered in Delhi, the naturalist M Krishnan referred to the choice before the conservation movement in India as one between Vedanthangal and Asoka.1 The metaphors used require some explanation. Vedanthangal (Tamil for hunter's tank, a misnomer if there ever was one) is a bird sanctuary near the city of Madras where oral tradition has it that nesting water birds have been protected for nearly two millennia. When British soldiers shot at the storks in 1798, the residents marched off in protest to the collector, who issued a proclamation that no one would be allowed to harm the birds again. Krishnan acknowledged the efficacy of such conservation attempts growing out of religious custom or tradition but then turned to another precedent. The emperor Asoka in the third century BC had in his pillar edicts decreed certain animals and birds as protected. There was also evidence in the Arthashastra that reserves known as Abharanyay had been set aside especially to safeguard elephants. The historicity of these references need not concern us here as much as the conclusion drawn from history. The past was invoked to suggest a strategy for the future. There was a choice between local efforts from the grass roots and state-sponsored schemes from above. One was founded on voluntary participation and the other on the coercive ability of the government. Krishnan warned that there was no time to try the Vedanthangal way. The pressures of demographic and economic expansion left no option but relying on state machinery to save India's wildlife from certain extinction. If there was a tradition to be followed, it was the Asokan one. Krishnan had served in several fora, the advisory body known as the Indian Board for Wildlife set up in 1952 and on the steering committee for Project Tiger. Launched in 1973, the latter was at the time the world's largest single wildlife conservation programme. The basic philosophy of the project was identical to the one championed by Krishnan in his lecture and in his other writings. It was essential to set aside some land, preferably 5 per cent to be preserved 'free of all human activities' (except for protection).2 A country could be lost otherwise than by invasion or conquest, by 'dissipation of its entity from within', and for its own cultural biological identity, it was essential for an India of the future to retain representative patches of fauna and flora in their original state. While the precise quantum of the area to be set aside was specified differently at various times, the nub of the argument was clear \(^1\) Total environmental preservation in a few selected areas was central to a strategy for conservation. It is also important that the key instrument of change was to be the union government. State governments were seen as hostages to special interests that would prevent any long-term programme from getting off the ground. It necessary, additional areas could, it was suggested, even be leased by the centre for 99 years and administered for posterity.4

Krishnan's observations seem especially striking if we examine the present debate about the fate of the protected areas. These wildlife sanctuaries and national parks now cover 4.3 per cent of the land area of India while their core areas constitute about 1 per cent of the land mass.5 While their number and area have expanded considerably, there is little disagreement on one basic point. they are in peril. Encroachment by various industrial and commercial interests on their borders and even within their precincts is not new but it has grown rapidly since 1991. In the new climate of liberalisation, sanctuaries have been de-notified to facilitate the location of extractive industry (mining). tourist resorts, manufacturing plants and other development projects.6 Secondly, in several areas, the administration of protected areas is under attack from local residents living either within or on the perimeter of parks. They point to the double standards that deny them access for livelihood needs while allowing commercial forestry and other allied activities 7 The line taken by Krishnan is still very much the core of official policy In contrast with the significant, if limited, steps in direction of joint forest management, the appeals for participatory or joint management of protected areas have made little headway. This is so despite the fact that the number of people living in and around the latter is now provisionally estimated at 4.5 million and removal of all such populations or closure of all access is neither administratively nor politically feasible 8 The rights of the future generations and of non-human inhabitants of the planet are seen by wildlifers as being under threat from pressing human demands of the present day.9 In contrast to the 1970s, some proservationists are willing to invest in ecologically sound development around the sanctuaries in return for further curbs on resource use within the tracts 10 In common with their predecessors, they see the continued survival of such areas in their natural state as an insurance and an investment in terms of protecting potentially useful species. The moral and ethical aspects are stressed equally forcefully 11 The implication of all this is to retain intact the present structure of bureaucratic control of protected areas under the forest department. This congruence of interests, of ideologically charged notions of preservation and the specific interests of the foresters is striking 12

At the same time, the once-unified ranks of middle class groups are now divided. There is discord even on central issues such as the mechanisms and aims of wildlife conservation. Who is to conserve what and for whom? The wildlife movement has been seen as having two distinct levels, one with a middle class constituency and another in tural centres. This is really a re-working of Krishnan's classification, though the sympa-

thies of analysis are now in a reverse order... While useful, the two-way split between wilderness preservationists and 'popular conservation' misses out on the several shades of grey that he between such extremes. Even in a limited sense, it cannot account for several consequences of the preservationist projects that transcend the specific aims of their proponents. Even supporters of statist projects could be active proponents of voluntary village-level efforts, even if in a very limited way.14 Further, the specific interests of wildlife enthusiasts should not blind us to the wider issues of ecologically sound development or of humankind's ethical responsibility to nature that they put on the agenda.

Secondly, I will try to show how even a narrow and limited social group can, over time, generate fresh initiatives and ideas that break up old alliances. Analysts have often written wildlife enthusiasts off as flamingo-lovers and fans of tiger cubs. Guha is appreciative of how they extend the concept of equity from across classes and nations to other species and generations.15 The question of how to actualise this vision has given rise to new sensibilities that try to take account of the human dimensions of the wildlife question. Even key actors in the drama have changed their views and their constituencies.16 These ideological debates cannot be divorced from the wider context of the environmental questions in India today and their linkage not only with the ecological problem but with the political and social order that may be conducive to addressing it. A brief look at the preservation agendais necessary

#### PRESERVATION: FROM ASCENDANCY TO CRISIS

The India of the early 1950s had important continuities in the attitudes and lifestyles of the elite. Hunting continued to be both a privilege and a pastime for officials, princes and the landed classes as it had earlier in the century. In the Madras presidency, S K Chettur joined the rulei of Venkatagiri in hunting sloth bears from specially constructed towers.<sup>17</sup> When the civil servant Yezdi Gundevia was posted to Mirzapur in 1939 he suspected that no Indian had held the charge till then on account of the excellent opportunities for shikar in the area! Much of his time was spent following up tigers in the jungles and shooting geese in the ponds and lakes 18 Even after 1947, going out to bag a tiger was considered a 'must' for any aspiring forester. 'Bag your first tiger in your first year' was the motto of the first Indian inspector general of forests, who himself accounted for as many as 50 animals.19 Visiting heads of state could travel out from New Delhi into the hills of Rajasthan to try their luck. Prince Philip, for instance, hunted in Ranthambore as a guest of the Kaja of Jaipur in 1901, a fact ne was prudent enough not to mention in his foreword to a recent book on the area. 20 Till the abolition of privy purses in 1969, many rulers retained shikar rights in their former princely hunting reserves. There were efforts to protect endangered wild animals and birds, but the continuities in the personnel are again striking. The Indian Board for Wildlife had its first meeting at Mysore in 1952, with the Maharaja being the host. Among the key personalities in policy formulation in the early years were English tea and coffee planters like Randolph Morris and E P Gee, foresters such as PD Stracey and the Princes of Bhavnagar (in Gujarat) and Sandur (Karnataka).21 It was no great surprise that even the attempts to control shooting of tigers in the breeding season in Rajasthan were shot down. As the author of the proposal later recounted, virtually all the members of the advisory board that considered the issue were keen hunters.22

The legal continuities were equally significant. Most of today's wildlife parks have been carved out of either princely hunting grounds or reserved forests. The latter were part of the vast network of government forests taken over mainly for revenue and strategic reasons from the late 19th century onwards. The appropriation of forest wealth was accomplished by outlawing or severely restricting hunting and other kinds of forestuse by tribals and other forest-dependent peoples Though these efforts were often resisted by both overt and covert means, the legacy of the game laws was to be very significant for the early Indian middle class wildlife enthusiasts. They often uncritically identified with efforts to penalise quailtrappers and deer-catchers, even when the latter were mainly engaged in activities essential for livelihood.<sup>23</sup> As keen hunters themselves, they felt obligated to control those who were competing for the same resource. This extended beyond the human world to certain categories of wild animals. Thus, Randolph Morris and Salim Ali called for increased rewards for killing Himalayan black bears to help build up the numbers of the Kashmir stags. They aimed to save the deer from extinction, not shoot it for trophies. but this was to be achieved by imposing their own rule over nature 24 Similarly, Stracey praised the killing of jackal cubs to help game birds and of the eradication of wild dogs 'by every possible means' in order to help herbivores.25 The notion that predators had a role to play in nature's system and would not wipe out a prey species only acquired full official sanction with the launch of Project Tiger. For them, perservation of wildlife was equated with the protection of game birds and animals, whose natural enemies ought to be wiped out or controlled through intrusive measures.

restnetic sensibilities towards wild animals in general and to the much-despised large carnivores were on the horizon though this may not have been realised at the time. In 1961, a young Indian and her two sons recounted the scene in the Kenyan reserve of Amboseli in a letter home with the words, "It was fun to drive around and come across that comic, supercilious creature, the giraffe, the prosperous and plump zebra, fleet-footed gazelles of various kinds and the lordly and kindly (looking at least) lion and his family... Earlier we had seen a most captivating lion family: two lionesses and cubs". 26 Even two decades later, now as a keynote speaker at a UN conference in Nairobi, the same Indian would make the journey this time to the Masai Mara reserve on the Tanzanian border.<sup>27</sup> Already, in the 1960s, before her critical role in facilitating and pushing through the preservationist project, Indira Gandhi was perhaps symbolic of a new generation of Indians who related to nature not through the barrel of a gun but with binoculars and field guides. Even as a child, she lost the fear of snakes that is so common to many people. Her mother's youngest brother Ranjit Pandit, was 'passionately interested in all sorts of animals and at one time, 'anything you opened in the house' was likely to have a snake in it.<sup>28</sup> In her letters to the imprisoned Jawaharlal in the winter of 1943, she wrote of how the winter birds were arriving and she had seen two new species in the garden.<sup>29</sup> Living in the Teen Murti house when Nehru was prime minister, the family kept a variety of pets, including two tiger cubs, a young leopard and two red pandas.30 The first red panda was presented to her on a visit to Assam and was only identified with the aid of a book in a library and the injuries sustained by one of her tiger cubs was a cause of great anguish even for a busy prime minister, Jawaharlal Nehru. 31 At a public level Indira Gandhi hosted the first meeting of the Delhi Bird Watchers Society She was on its executive committee and also served as president for a brief period. The society itself was a very low key group, with talks and meetings at the Teen Murti house.32 Though politicians are often given to hyperbole, she was perhaps not exaggerating when she later claimed that she was, "one who had been interested in this subject long before Lever heard the word 'ecology'", 33 Aesthetic sensibilities were always central to her notion of a different relationship with the natural world: there were visits to the Himalayas which she compared to "Wordsworth's daftodils, an ever-refreshing memory". 34 These romantic overtones were perhaps also to do with a city-dweller's idealisation of the world of pastures, forests and hills. The idea of the oneness of life and a fascination for the powers of modern sciences also recur in her wntings.35

While Jawaharlal Nehru wrote the foreword to the book on India's wildlife by the naturalist Edward Gee a few weeks before his own death, it was only under Indira Gandhi that the wildlife issue began to receive attention from the head of government.36 One critical feature of this new development was the close personal equation she developed with a variety of wildlife enthusiasts. These included officials with a keen interest in conservation, most notably Kailash Sankhala who as director of Delhi zoo turned up on her birthday with three tiger cubs in a basket 37 He went on to serve as the first director of Project Tiger from 1973 to 1977. The hunter-turned-conserva tionist, Arjan Singh, a gentleman farmer from Lakhimpur Kheri in UP also received support from the PM who even asked the chief minister to assist the former who had been, 'ploughing a lonely furrow' 38 Salim Ali, the famous ornithologist who personally appealed to her to save the Silent Valley rain torest enjoyed a close rapport over decades and later praised her for having, "lent her full support to the movement" 19 Thus, both within the bureaucracy and in the middle class groups whoo took up the cause of vanishing wildlife, Indira Gandhi could draw on a core of support. The relationship was a complex one, with her drawing on them for ideas and extending support to their projects. In return, she cultivated a small constituency that saw her as being above petty politics. The importance of such links in the western world where eminent scientists and public figures expressed admiration for her is not to be underestimated 40 This was even more so during critical periods during the emergency and after her return to power Support for conservation could tide over her human rights record

Her own role was to be entical at several junctures, though this also points to the extent to which this set of issues both reflected and helped legitimise the central lisation and personalisation of decisionmaking power 41 The run-up to the Project Tiger saw her play a crucial role at virtually every step. In 1969, at the meeting of a leading international conservation body in Delhi, she won encomiums for her support to the ban on tiger and leopard skin trade Foreign exchange was important but "not at the cost of the life and liberty of some of the most beautiful inhabitants of the country" 42 The international conservation community, in particular the World Wildlife Fund (WWF), headed by members of European royal families and scientists had a hand in the process. Its trustee, Guy Mountfort, an expert negotiator personally lobbied her to constitute a committee that would report to her personally. Such a reliance on single heads of government also extended to dictatorial regimes. Thus, Salim

All regarded it as 'unfortunate' that Ayub Khan fell from power in Pakistan just when he was becoming pro-conservation. 43 Inside India, diverse groups would also directly approach the prime minister for action at a local level. In 1982, the Coast Guard was deployed to protect nesting sea turtles on the Orissa coast following a study by the Snake Park biologist J Vijaya. 44 Such a rapport did not exclude the Gandhian environmentalist Sunderlal Bahuguna who got an ancient oak tree in Naimtal saved from the army by writing to the prime minister 45 Even this brief list shows the variety of conservationists with close personal links with Indira Gandhi They included a forester (Sankahala), a dedicated wildlife lover (Arjan Singh) and a grass roots leader on forest issues (Bahuguna). At an organisational level, both old and new groups were represented. Salim Ali headed the Bombay Natural History Society (BNHS) founded in 1883 and the reptile specialists were from the Madras snake park founded in 1971. The centralisation of powers was at both an executive and later at a juridical level. Her letters to the Bihar chief minister in July 1972 did not mince words. She referred him to a complaint on the release of forest lands and said "Please look into it and stop it".46 In the 42nd amendment to the constitution in 1976, forests and wildlife were annexed to the concurrent list instead of the states list. This gave the union the formal right to overrule state decisions and laws on these subjects What is important is the fact that the small but influential wildlife lobby had won significant gains in a short span of time due to support from the PM 37 Her powers, even when in office, were not unlimited especially in the face of pressures for fresh development projects. This became clear in the case of Silent Valley in Kerala where the state government wished to build a dam in one of the last areas of wet evergreen forest. The green light had been given by Morarji Desai in 1979 Though his successor, Charan Singh leaned in favour of cancellation, it was Indira Gandhi who defused the issue by appointing two central review committees and eventually scrapping the project in 1983. In doing so, she also proposed alternative ways of generating power and irrigation water, as she told a senior UN official, "Each province or region gets emotionally attached to some schemes" 48

New initiatives included the end of all tiger-hunting, the creation of core zones in the tiger reserves where commercial forestry was halted and the expansion of the protected area system in 1980-84. The number of national parks alone increased from 19 to 52.49 In the process, however, the wider human dimensions of wildlife conservation, especially the vexed issue of local rights, received little attention. The eloquence of

Indira Gandhi in her speech to the Stockholm conference on the need for measures sensitive to people was often not matched in actual decisions.50 She admitted that people who fived in and around forests could hardly be urged to preserve wildlife unless their own conditions of living were improved.51 Pressure on the lifestyle of tribals was "causing her great distress". But power has its own logic and she pressed for more stern measures to ban tree-cutting in ecologically sensitive areas in the very same speech. But het ire was targeted at contractors rather than at the process of commercialisation itself. The attempt to enact a new forest law which would be much more stringent was given up because of tribal protest against a measure which seemed to reduced their own rights while not reining in industry 53 In Indira Gandhi's case, the key point was that her own personal awareness of the need for conservation has to be set against the structure through which she sought to achieve these aims. While she did refer to popular religious traditions like those of the Kashmiri saint Nand Rishi on the protection . of trees, she was cast in an Asokan mould 51 There was a major transition in terms of aesthetic sensibilities and often more so in a realisation that the ecological question had its own relevance for developing countries in an unequal world. But the emphasis on equity was absent in the world of realpolitik It is also elgar that wildlife conservation issues helped Indira Gandhi cultivate a small but influential lobby in the western world. even as her Stockholm speech affirmed her role as leader of the developing countries

The salient features of the preservation model evolved during her first spell in power were clear. Recovery centred on the extension of conservation areas, and on intensified protection wherever possible. The latter was attempted in the 'core areas' of Project Tiger and in any other national parks where the political circumstances permitted. All bounties for vermin were scrapped, and even removal of dead trees halted in the core zones. The maxim of 'do nothing and don't let anybody do anything' did not stop with forestry, but included local resident people The continuity lay not in ecological terms but in a wider social sense. The environmental heritage was to be saved through bureau cratic intervention in selected tracts. Wider environmental deterioration was a concern for preservationists but it was not prominent on their agenda. The uniform model of preservation was applied to lands with diverse ecologies. But biological conservation was founded on the premise of the exclusion of resident peoples. Even when the latter were tolerated in the 'buffer zones of Project Tiger, they were seen as a necessary evil.

But by now there were other voices in the debate. The new currents questioned not

only the glaring inequities that often accompanied the statist model but went beyond in advocating alternatives. What follows is an attempt to sketch out the evolution and basic features of the alternatives. The first group are the 'pragmatic conservationists' who hope to retain the existing system but making it much more sensitive to specific grievances. Next are the 'constructive workers' also close to the government apparatus, but much more geared to generating employment through more efficient use of natural resources. The third are members of the 'urban intelligentsia' often more forceful in their criticism of the existing administrative system as well as of market-driven strategies The last but the most politically crucial are 'rural activists' who often see local control as the starting point for change. While each of these strands has its roots in the past, my attempt here is to focus on the last two decades. The critics are drawn from a variety of backgrounds and, in turn, approach the issue of people and wildlife from very different standpoints. They all agree that the dominant mode of wildlife preservation is in a crisis. Where they differ from the preservationists is in their perception of what constitutes the problem. In particular, they draw distinctions between different groups of human beings and different kinds of ecologies. Many of the issues they raise are of wider importance. In particular, the kind of role they envisage for market forces and for the bureaucracy on the one hand and for rural producers on the other, is of much wider interest for students of social change

The categories are used here not as 'ideal types' but as classifications that will help tease out the rich and complex processes at work. They have been grouped together in terms of their responses to four critical aspects of the wildlife-people debate, their view of state control, their view of commercialisation, the importance attached to livelihood and their interests in maintaining biological diversity. As will become evident, their attitudes to these issues vary widely but still fall into a pattern. Two caveats are in order. None of the groups of critics subscribes to the prevalent model of growth. Most would agree with the preservationists that the reworking of the people-nature relationships is integral to a vision of a different society. The overlap goes even further; often, as in case of opposing the denotification of sanctuaries to make way for industrial exploitation, they may all find themselves on the same side of the fence. In fact, many of the critical voices of today are those of people who were hardline preservationists until quite recently. But that is to jump ahead of the story. The second caveat is a simple but crucial one. These are not water-tight categories and are not meant to be mutually

exclusive. It is possible that the activities of a person or activist group have undergone considerably shifts over time. The interaction between different groups, like the urban and rural activists, has often gone so far as to make a division between them difficult, But distinctions are indispensable in identifying patterns and processes of change.

#### PRAGMATIC CONSERVATIONISTS

The pragmatic conservationists share many of the premises of the preservation lobby but seek to attain the objectives in a very different way. Their main disagreement is not with the creation of protected areas or with totally protected core zones, but with the way in which officials exercise their powers. Their view is shaped by their own experience as field biologists, which often leads them to advocate a more proactive policy to control marauding animals or to intervene in natural processes. Livelihood issues concerning the rural poor are important to the pragmatic conservationists who see no future for wildlife without informed and sensitive steps to reassure cultivators or stock-keepers of their own security and prosperity. In March 1977, Indira Gandhi lost the elections and Morarji Desai headed the first non-Congress government in India since independence. A worried Salim Ali was impolitic enough to remind Desai that, 'Whatever little success' they had achieved had been because Indira Gandhi was a dedicated nature-lover. But Morarji set the wheels turning when he urged the ornithologist to consider afresh that he was only "preaching to the converted" in the cities. It would be so much more difficult to persuade a villager "to preserve the tiger or leopard that has deprived him of his sole worldly possession". The veteran scientist promptly wrote an editorial in the popular magazine, Hornbill, urging 'an earnest all out effort to tackle the problem at the grass root level.55 There was no longer any point in looking at the issues in isolation and the 'wider polity which utilises resources' had to be understood more clearly to achieve success.56 Salim Ali's brief article sums up the potential and the limits of the pragmatic conservationist approach, but its worth was only about to be realised in the years ahead.

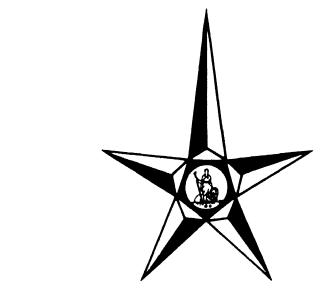
A year later, one of his own associates in the BNHS helped approve a grant to a young doctoral student at Bangalore who wanted to study the dynamics of elephant-human conflict in southern India. <sup>57</sup> Raman Sukumar's findings gave teeth to a new perspective on wildlife management. Saving the Asian elephant was the major objective underlying the research project but besides detailed field surveys of the species, Sukumar set out to look at the question of cropraiding by the huge animals. His main finding

was that a disproportionate amount of cropdestruction was by a relatively small number of male elephants. The herds led by females dubbed 'matriarchs' also did some damage but it paled by comparison. In order to alleviate the sufferings of the ragi cultivators, he favoured culling those male elephants that were certified crop raiders. Of course, the study itself weighed up various other factors, such as the fragmentation of the natural habitat by plantations, fields and dams, but it was the pattern of rogues and raiders that stood out. Interestingly, when these findings were first sent to a biology journal, they were not published as it was anathema to recommend the killing of a threatened species. This 'ivory tower attitude' to conservation (pardon the metaphor) missed out on the dual significance of the study.58 It sought to ensure the protection of biological diversity and to address pressing human concerns. This dual emphasis was not entirely unique. Others also urged decision-makers to pay attention to fears of people on the periphery of wildlife parks 59 Harjot Singh, a resident of Sampurna nagar on the outskirts of a national park in Uttar Pradesh was quoted as saying, "The law is a cruel joke. If a man kills a tiger he has to pay a fine of Rs 50,000 and undergo 10 years imprisonment. If a tiger kills a man, the compensation paid is Rs 5000. If the government wants to protect tigers, then why should it be done over our heads 2000 In West Bengal, some forest officers came up with innovative solutions to ward off tigers from attacking fishermen and woodcutters in the mangroves of the Sundarbans.61 But Sukumar's work was presented in a scientific study in a verifiable format. It may not have been evident at the time but it was only the first in the line.

The wider problem his work pointed to was the need to craft a solution to issues that continued to bedevil many areas in India with large populations of mega-herbivores or carmvores. The general picture of the retreat of wildlife under human pressure at the subcontinental level had to be squared with the realities at the local level. It was possible for a species to be rare at the macrolevel but to be present in large numbers in certain regions. The problem was to weigh which kind of human land-use was exacerbating conflict and to identify particular aspects of the behaviour or ecology of a particular species that made it or people prone to conflict. While elephants are crea tures of relatively wetter forests in South Asia, another large mammal living in more open, dry areas in northern and central India had been reduced to one relict population in Gujarat. The Asiatic lion, protected by the Nawab of Junagadh from around 1900 went through two population bottlenecks but by the 1970s was recovering under

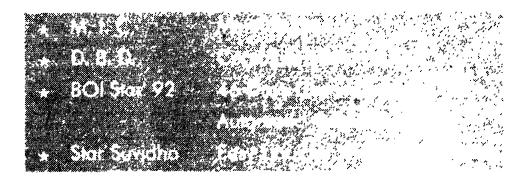
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protection. Studies by the American scientists, Berwick and Joslin and lobbying by the WWF had got the state government to shift many of the local buffalo-keeping Maldharis out of a core area of the Gir.62 Maldharis remained in the rest of the 1.500 square kilometre sanctuary but the objective was still "the 'restoration' of the rest of the reserve by the progressive withdrawal of the remaining cattle".63 As the lions, the prey and the vegetation recovered, a new problem surfaced: after nearly a century, the Gir had a spate of attacks by lions on human beings. A new study by Ravi Chellam from Saurashtra University overturned much of the earlier logic.64 He pointed out that the lion population in the reserve had built up and the territorial nature of the prides forced a spillover into adjoining areas. Here, the lions came into conflict with people and with cattle. Saberwal, then working on a project for the Wildlife Institute of India, followed up the details of lion kills of people and found that scheduled caste labourers who worked on pump sets at night were the most vulnerable. The policy suggestion was similar to Sukumar's remove the excess lions by capture or shooting. Further, there was no need to remove Maldharis from the rest of Gir. He still favoured curbs as on cutting down of the riverine forests, but in this new view, they could co-exist with the lions if they were given prompt compensation for cattle losses. Pastoralism and a large carrayore could co-exist because the forest cover in the area was still intact. To relieve pressure from incoming cattle, fodder reserves elsewhere ought to be built up. The rehabilitation efforts had been a failure with many of the relocated families being in a much worse state. The policy of relocation was held to be sound but its implementation seen to be tardy and insensitive.65

Pragmatic solutions also appeal to another genre of researchers who worked with wildlife outside forested areas. The birds and animals of scrub and grassland often live in the proximity of villages and setting aside large areas for protection is simply out of the question. The extension of cultivation over the plains regions and river valleys has advanced so far as to make it impossible to locate large stretches of land that are uncultivated The Aligarh biologist Asad Rahmani, an associate of Salim Ali, advocated a flexible strategy to protect the great Indian bustard. This ground living bird, the second heaviest on earth returned to certain patches for courtship displays and nesting. The key was to ensure the protection of such patches often only a few dozen hectares large. As these areas were often in revenue lands and on village grazing grounds, Rahmani favoured a mix of preventive and participatory measures 66 A similar but more conflictual situation emerged in studies on the wolf, unlike the tiger an inhabitant of the countryside in tracts with dryland farming and sheep or goat-rearing. The wolf has not only been known to lift children in areas like Palamau in Bihar but often lifts stock animals.67 The picture put together is a complex one. The wolves in western India actually gain from dryland farming as they can take cover in the field before the harvest with their young cubs. The extension of perennial irrigation, as in the case of the Rajasthan canal, will transform the situation.68 At another level, in areas like Nanaj near Pune, the shepherds despised the animal for raids on stock but cultivators saw it as the key to controlling the antelope numbers.<sup>69</sup> Clearly, survival for the wolf required an approach that took account of basic facts about its biology and behaviour. As a wideranging animal living in low densities, it perforce comes into contact with human settlements. Many shepherd communities regularly kill the cubs to protect their herds: the only answer would be to provide the wolf with a system of 'perpetual care'. The continued existence of vanishing species required sustained attention to the problems of those people who shared their habitats. 70

Certain basic features about the pragmatic conservationists are worth further attention. The conflicts between people and animals were broken up and viewed in a disaggregated way. Neither lions nor elephants were inherently dangerous, but certain individual specimens were prone to come into conflict with people. An understanding of their life cycles and the vulnerabilities of different groups of human land-users was crucial. In one case, the grain cultivators and in the other labourers and cattle-keepers were the most vulnerable group. Here, we see a widening of sensibilities towards different groups of humans. At the same time, the preservation of a species is critical but they feel, they do not have a duty to conserve 'each and every individual of the species'.71 The efficient management of a resource rather than an ethically driven campaign to make all human-animal relations equal marks the attitude of the pragmatic conservationists. The emphasis is less on the malienable right of all living things to life and there is a candid openness about the possibilities of earning more revenue or generating better incomes. The element of pragmatism is crucial. In the absence of strict measures against aberrant carnivores, the result would be a 'backlash'. None of these scientists sees an alternative to a role for enforcement agencies of the state, but they advocate exercising power in a very different way. For one, knowledge would not only be gathered through the official machinery which is often incapable of flexible responses because of a lack of information or research capabilities.

Sukumar's own initiation into wildlife biology had begun as a bird watcher in a small forest then at the edge of the southern Indian metropolis of Madras. By this time this forest, the Guindy park was already the site of innovative approaches to reptile conservation that were harbingers of change. It was here in the Madras snake park that Rom Whitaker and his team first saw that the organisation of wildlife economy based tribals as a step towards controlling the trade in Indian wildlife. His biographer is correct in observing that this idea was still ahead of its time, but in retrospect this was a step in a new direction 72 Constructive work may be the best category in which to fit the activities aimed at creative solutions around existing skills and within the exchange economy. In the process, such groups have often widened the terms of debate from one about preservation or total protection to one about possible sustainable long-term use Whitaker's own group worked in close conjunction with the Irulas, adivasis who once trapped small game animals, rodents and snakes for a living but were being marginalised by urbanisation and the clearance of scrub forests on the southwestern coastline. The effort was to draw upon Irula skills, to which the exchange economy was not alien, but to provide means by which they could get better terms of trade without depleting the numbers of reptiles These two broad features: of pushing for change by improving the bargaining position of 'losers' in development and of augmenting the resource base remain the hallmark of constructive work groups.

In the case of the Madras snake park, the origins lay in a protection venture centred on captive-breeding of reptiles. The small plot adjacent to the Guindy park was a beehive of activity, but the dilemma facing the Irulas soon became evident. The snake skin trade was of the order of thousands of skins a year, and the tribals found it profitable to catch the reptiles. The poem quoted by Zai Whitaker summed up the attitude in the Snake park, 'Russels viper, burning bright, Do not hiss and do not bite, We are trying to save your skin, From hand bags, wallets and their kin'. But the flip side of the coin was that snake venom was highly valuable, the poison from a krait being worth as much as Rs 3,000 a gram. By the late 1960s, the Irulas were not only the 'backbone of the snake skin trade' but were also catching snakes to extract venom for making antivenin. The bid to form a snake-catchers cooperative made only slow progress but the organisation was registered in 1978. Every Friday, Irulas from the areas surrounding Madras would make their way to the park with their deadly quarry, which would be milked for venom' and released a few weeks ater in the wild. The ban on snake skin exports and the curbing of the trade had vorsened the plight of the Irulas but the renom trade provided fresh opportunities. Amendments in the Wildlife Protection Act, 972 also allowed the capture and 'milking' if the snakes, in contrast to the normally strict ban on killing or trapping species that were endangered and under schedule I of the ict. 73

But it was not with snakes but with rocodiles that the break with preservation obbies came. The three species of crocodiles n India were rescued from almost certain extinction through a programme of captive natching and breeding in which the Snake ark and the Food and Agriculture Organisation played a critical role. Nationvide surveys showed a decline in numbers lue to variety of factors including dams on ivers, killing for skins and for bounties. Crocodile eggs were gathered and hatched or captive rearing, especially in the newly reated Crocodile Bank near Madras. The notion of a 'bank' was a deliberate one: except this would be a bank where crocodiles and not money would multiply.74 By 1994, here were over 20,000 animals in captive collections, both in the bank and in forest lepartment collections. However, the original purpose of the project was to supply skins to the market using captive-bred specimens. The idea was to harvest a resource in captivity, while the wild population would be augmented through protection and the release of captive-bred specimens. The part of the programme relating to marketing skins has never been realised, as the necessary legal changes have not been brought about. There is virtually no public record of criticisms of marketing crocodile leather, but there are two points often raised by preservationists. One is the problems of enforcement, for poachers could start a parallel trade. The other is the belief that such a trade would mark the triumph of an instrumentalist and exploitative attitude and would undermine the ethical notion that all organisms have a right to life. In recent times, such views impelled Maneka Gandhi as environment minister in 1990 to order confiscation of a dancing bear from its owner.75 The upshot of this is clear: the preservationist lobby has defended its stance. The problem is that such a view of nature, however moral it may be, Joes not often provide much by way of alternatives. The Irula co-operative itself is only a small pilot venture. But the principle of combining traditional skills with modern management techniques is a significant one. A recent proposal is to permit controlled harvesting of the turtle eggs in the great nesting grounds of Garhimatha on the Orissa coast not for trade but for local consumption. As several

hundreds of thousands of eggs are destroyed by the tides, this would not affect reproduction rates. Until the sanctuary was created in 1975, the local zamındar collected an anda kara or egg tax from fisherfolk and the foresters took the rest of the eggs for sale! The proposal is not to revive the old hierarchies or the trade but to give people 'a vested interest' that will create a socioeconomic base for conservation. Similar sustained use systems have been proposed for as many as six reptile species: these include captive-bred populations as well as wild ones. 76 The point about cruelty is acknowledged but as Indraneil Das asks; if domestic animals can be used why not wild ones?<sup>77</sup> The observation is of wider significance: nature does not occur in its pristine and pure state and the practices of capture or consumption by tribals or other direct resource-users seem 'cruel' to middle class people.

The 'constructive work' programmes concerned with forest revival are both better developed and more widely known. There are important parallels as well as contrasts with the debate on faunal resources. The struggle over control over forest lands in the colonial period have had their echoes in independent India, where the broad parameters of legislation and executive practice, have if anything, become even more stringent. Foresters have often seen trees in terms of their worth as timber, while across much of the peninsula, peasants and other villagers have drawn a wider variety of usufructbased products from the forests. These include nuts, fruits, leaf manure and twigs. The commercialisation of non-wood products, such as tendu leaves and harra fruits. sal seeds and mahua flowers has not been matched by better terms of trade for those who gather them. This exploitation of produce-gatherers by mercantile capital and governmental agencies is paralleled by an exclusive focus on regeneration of tree species critical for timber such as sal, teak. pines or eucalyptus. The constructive work initiatives in the forestry sector have moved beyond the agenda of employment towards regeneration through entitlement rights for direct resource-users.78 The orientation of such projects, towards multi-species forests. rather than monoculture stands, is conducive to a wider variety of bird and animal life The reafforestation programmes of the Dasholi Gram Swarajya Sangh over the last two decades have not only seen a very high rate of success in terms of survival rates but also focused on broadleaf tree species that are central to livelihood. This is in contrast to official programmes in Uttarakhand that have historically been oriented to plantation of coniters that are of limited use in the agrarian economy. The forest protection initiatives in three districts of West Bengal, Midnapur, Purulia and Bankura are perhaps the best known, but they have their counterparts in Orissa and Bihar. A share of forest products for villages in return for protection of the forests on a voluntary basis has enabled extensive regeneration of the sal forests. This itself marks a major shift in terms of technologies of forest management away from production of wood (from the tree trunk) to a host of products taken (from the crown) like twigs seeds and leaves. The relative success of joint forest management (JFM) in comparison to government forestry has to be seen in perspective: over 75 million hectares are under the forest department. and only a small fraction of the land is under JFM.79 There is also evidence that these practices may not be extended to the reserved forests.80 But the broad principle of joint control has been given a due place in rhetoric. Such efforts are significant both because they expand the ability of people, whether peasant women in Chamoli or adivasis in West Bengal to control their own lives. Such efforts should not be dismissed as 'reformist' as they are often a highly creative response to difficult conditions and have positive consequences at a wider level.81

More recently, there have been efforts to extend such an approach of Joint Management to the Protected Areas (JMPA). This effort seeks to build on existing arrangements while lobbying for legal and administrative changes. The central premise is that the long-term future of sanctuaries and national parks rests on co-operation of local people with any open-minded forest officer willing to be more accommodative of their needs 8 The arguments used are out of the book of the pragmatists as the claim is that this will help meet long term objectives of conservation. As Ashish Kothari writes, "I do not believe the Forest Department can exercise control even if it wanted to. It is not a question of whether we should try such alternatives or not; we have no choice but to".83 While he refers to several cases where popular action has stalled development projects, Kothari points to constructive efforts at conservation around the sanctuaries. Forest protection committees formed with the help of a voluntary organisation are helping check timber poaching in Ranthambore tiger reserve <sup>84</sup> In Nagaland. the Naga Mothers Association has campaigned against indiscriminate hunting Unlike government agencies, such groups can motivate people through educational efforts and can mobilise their energies. In official eyes, they play an auxiliary role and not a central one. The provision of basic services via voluntary efforts is also seen by some preservation groups as integral to their own objectives: by relieving pressure on the forests, they create alternatives for people living near parks 85 Yet, it is not on issues

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AMAN LLOUR LETISTICE ON ROVER HITTERING COURTOL owards a more locally rooted system. But it was far from complete. Uncultivated lands were important for rural subsistence, while unchecked commercialisation was undermining the basis of survival of wildlife and poor people alike. Gadgil and Malhotra still advocated the creation of nature reserves in three per cent of the land area which would ne 'totally free' of human interference and levoted to the preservation of biological liversity.99 But the seeds of change were contained in the field work which pointed o a long history of human use of even supposedly 'pristine' lands. Critical interventions in public debates on dams and on orest policies by scientists also prepared he ground for more sustained critiques not only of forestry itself but of the wider systems of resource access that were weighted in erms of resource-extensive use by elites. 100

Events on the ground moved ahead at a aster pace. Unlike the government which ittempted to enact a more stringent law on orests in 1982, a section of urban researchers and activists veered towards the view taken by tribal groups. There were signs of this even earlier as in the support extended to he Chipko movement in 1974 by botanists rom Delhi and in the integration of ecoogical issues in local-level studies of levelopment. 101 But these did not have the wider resonances of the great debate over he 1982 bill. Deforestation and the decination of wildlife was seen as the outcome of commercialisation and of the degree to which forest-dependent people had no direct ole in the control of natural wealth. The survival of diverse multi-species forests was seen as linked with the struggle against commercially oriented monoculture plantaions. The mixed forests were seen as crucial n both ecological terms (as they harboured several plant and animal species) and for social reasons (as tribals and non-tribal peasants and artisans used a multitude of species). 102 The battlelines were drawn much more clearly when a student group from Delhi took up the issue of firing on cattlegrazers in the Keoladeo Ghana national park near Bharatpur in November 1982. 103 The former hunting reserve of the local ruler, the park had become a bone of contention between cattle-owners and the wildlife authorities. The Indian Board for Wildlife meeting in October 1982 (with Indira Gandhi in the chair) decided to close the area to all cattle. The decision was implemented overnight, and in the ensuing tension, the police shot and killed nine people. The report by the Kalpavriksh team had much in common with civil liberties team reports: it blamed the government for not giving adequate warning to the crowds. The patients were interviewed and the issue of compensating deaths was raised. But equally significant was the stance of the group, which was an environmental action group not a civil liberties forum. The closure of the sanctuary was held to be unjust as no alternative had been provided by the authorities. The report had a dual agenda of local rights and of wildlife conservation. It also quoted a BNHS researcher who felt that cattle access was not harinful to the water birds as it controlled the acquatic grasses. <sup>104</sup> Such findings did not receive much attention at the time but subsequently became important.

The next question was inevitable. Was it possible that conservation did not require areas totally free from human presence? Even where these were necessary, local level decisions might suffice. In any case, the core areas of wildlife parks were being reserved for scientific or aesthetic use, but this was a political point. The issue still remained of whether it was at all valid to search for a natural space that would be free of biomass extraction in toto. The legitimacy of schemes like Project Tiger from the very outset was in terms wider than aesthetic sensibilities. The creation of inviolate natural areas free from any human presence other than protective umbrella of the authorities was justified in terms of its contribution to protecting the spectrum of living things. By safeguarding these core areas from human beings, preservationists had argued they were ensuring that biological diversity was kept intact at least in these few oases. They could be baseline areas for research into the working of natural ecological systems. In addition to potentially useful plant species in the wild, researchers could document the complex inter-relation between water, soil and the fauna and flora. The view of these tracts as relict natural areas and their value in terms of biological diversity was central to the case. It is on both these counts that fresh perspectives soon began to emerge. Even in the Amazon basin, this notion of a nature free of human presence has increasingly come under critical scrutiny. The great basin supported large populations before the Spanish conquest and even now is critical to the livelihood of not less than 2 million people!<sup>105</sup> Similarly, in eastern and southern Africa, the notion of a primeval Eden was itself central to a notion of the continent as an uncivilised domain awaiting conquest. The same idea was adopted by many modern conservationists 106 The notion of a 'wilderness' could have even less validity in a subcontinent like South Asia with a much larger human population and many millenia of agrarian civilisation. The problem would not be one of discovering nature in its pristine state but of working out which kinds of human activity significantly reduced or enhanced biological diversity. But to do this it became necessary to see the forests, scrub lands or marshes as existing

inside of human history. In the struggle for control of these areas, the notion of creating a wilderness was a means to ensure control by preservationists at the cost of competing land-users. The issue was not one of nature versus people and became one of certain groups versus others. The idea of an inclusive idea of conservation meshed very well with innovative research in other parts of the world, particularly in Latin America, and even in some of the American Indiancontrolled areas in the southern US  $^{107}$  The keynote was not a romantic idealism about such communities but hard-headed scientific work about what kinds of biodiversity could co-exist in and around areas subject to continuing but regulated human use. The survival of rare plants in the sacred groves of the Western Ghats no more seemed like an isolated or unique case, but part of a wider pattern. Unlike state systems which had, till recently focused mainly on large mammals, these practices encompassed a wider spectrum of diversity. 108 This struck deep at the older stereotype. In recent work in the alpine regions of the Western Himalayas, other writers have also suggested a much more nuanced view of rural relations with the natural world 109 Not only do they eschew a romantic harmony', but they show how specific patterns of use may not be as damaging as was once believed. For instance, decades of Gaddi pastoralism in Himachal have not degraded the forests, unless the degradation is seen merely in terms of the density of timber trees. Similarly, mountain ungulates seem to be able to co exist with the Gaddis provided there is a degree of tolerance by the armed men who accompany the flocks on the trails. It is notable that the debate about levels of diversity has been posed by scholars in terms of extensive forms of land use such as pastoral production and swidden cultivation 110 The levels of plant diversity in various systems of traditional agriculture or of the local breeds of livestock can only be maintained if stock keepers and cultivators have a central role to play in the process of conservation. Not only are researchers not monolithic and united in support of exclusionary policies, the work in India parallels that in other regions 111 Scientific work parallels and complements efforts of social scientists to study the dynamics of collective action systems, of how they work and why they break up 112

The major break then is on the causality of the erosion of genetic diversity and the best way to conserve and enhance it. Gadgil and Rao argue the case in a recent draft bill on nature, health and education <sup>113</sup>. The bureaucracy is ill-equipped to meet the emerging problems of the ground, be it in terms of shifts in species abundance or diversity, or fresh threats due to pollution

OF VITOR BUSINESS FRANCISCO CONTRESSORY, THE diversity of resource-use systems that vary so enormously even over small stretches of the Indian countryside are simply not amenable to efficient or just bureaucratic land control. The rich regenerative potential of local systems of resource-use may not always be evident to a distant mandarın. More seriously, the information-gathering system at the disposal of the land managers as well as their skills may not register major changes fast enough. In contrast, local users have several practices that could be the core of a new strategy for conservation. They would be backed up with technical assistance and co-ordination but would have a central role in the process. The present protected areas as well as sacred groves and ponds, patches of grassland and desert scrub outside the PA system would be managed as 'safety sites'. Unlike the supply sites which would include the 23 per cent of the land area now under the forest department and the 6 per cent now under the revenue departments, the criterion of control would be 'safety' rather than 'supply'. The foresters and other technical personnel would remain in the picture but their role would be akin to that of the agriculture department in terms of providing support, services and incentives, not direct management. The PA system would not be managed in isolation but be treated as part of a wider regime of control.

There are many possible problems in this alternative model, but it is ideologically significant as it marks a break with a statist system of control. The early work on sacred groves or on rural lifestyles in the Deccan was much more limited in scope and suggestions but carried the seeds of these proposals. Incentives to protect diversity of cultivators were suggested in the case of the Nilgiri Biosphere Reserve. The Second Citizens' Report on India's environment also took a step in this direction. 114 This surely represents a politically significant development because a section of the skilled and educated literati is making common cause with disadvantaged groups. Such work brings together specialist knowledge with the emerging ground-level situation and offers a critique. At an international level, both biologists and social scientists are presently engaged in a debate over such issues and the Indian experience is not an isolated one. The bill draws together these findings and seeks to articulate elements of an alternative structure. The actual problem in such models is their treatment of market forces. The community is to serve as a line of defence against corrosive impact such as species extermination to meet market demand or to mediate in case of conflicts over resource use. But it is not at all clear what is to stop a hamlet from cutting down a forest or draining a wetland as long as

mere are minimulate economic retarns possible. Many collective action systems in montane and semi-arid areas where they are probably still the most resilient, are in a transitory phase. They were never static in the past but the levels of internal differentiation and the external pressures today are of an unprecedented nature. The question is not whether such devolution must take place. There is little doubt that many of the points made by the urban intellectuals are valid: these systems are more flexible than a bureaucracy and involve people with more direct stakes in the viability of forests or wetlands than in the case of distant administrators. But the issue is a more complex one, of designing a structure of incentives that will enable such initiatives as exist on the ground to endure the impact of pressures. This, in turn, will only be possible in the context of wider changes in the system of land-use. The insights provided by the urbanbased researchers and activists still have considerable relevance. The challenge is to try and work out a system of control that combines local control with tangible benefits that enable a better livelihood but also enhances the resource base. This is easier said than done. But it is a vast improvement on a tunnel vision that solely concentrates on a few protected zones protected by guns and guards. Over two decades, the urban intellectuals have gone from studying alternative systems to favouring a radical shift in the power structure to meet the dual demands of conservation and human livelihood. They have taken a step towards a notion of empowerment of disadvantaged groups, a programme which has often been integral to many movements of political assertion, but which is now being supported on new grounds: its ability to conserve biological diversity.

#### RURAL ACTIVISTS

Of the above mentioned groups only the constructive workers have any direct material stakes in the outcome of human-wildlife conflicts. The rural activists are directly engaged in efforts to secure a direct participatory role for resource-users in the control of open access or common property lands, government forests, ponds, pastures and wildlife sanctuaries. The improvement of rural livelihood and of living conditions is central to their perspective and the recent attempts to defend natural areas from developers have to be seen in this light. The creation of wildlife sanctuaries seems to such groups to be simply one in a long line of events that have deprived them of their land rights. In the past, this loss of entitlement often entailed a deeper sense of cultural loss. Rural activists, obviously, do not work or exist in isolation from wider networks of protest groups that include those in towns

they share the consequences of ecologica deterioration or social dislocation with those affected by wildlife conservation, big dams or commercial forestry. What matters less are the social origins of a particular activis group, and much more the kind of issues r focuses on. They take up mobilisation agains dominant groups to a greater extent than the constructive workers. In fact, tribals petitioned a government committee in 1960 against the creation of a wildlife reserve ir Andhra Pradesh. Their complaints were explicit and clear: the creation of a game sanctuary in the Narasampet meant tha "They cannot hunt. They cannot even ge wood from contractors; they cannot extrac kopi grass which they have always used for making ropes. The once proud Koyas hunters and lords of the forest...are today forbidden even to enter the forest and are deprived of all rights and privileges they formerly had. They cannot even remove a few stones from the area to pave the path: of their villages."115 Yet such concerns remained at the margins until they were again taken up in the 1980s.

The new wave of social movements did not often directly take up the wildlife question but the implications were clear a in the case of Chipko. The Valley of Flower sanctuary was not tar from the hamlet o Reni where the village women stopped a sports firm from felling trees in 1974. Thi movement or 'Chipko Andolan' soon wor wide acclaim, and by 1980, some of it leaders were vocal in their criticism or restrictions on usufruct rights in the Valley of Flowers. The area had long been importan to nearby villagers who harvested wild tuber but this limited use was seen as destructive by the forest department. This marked. wider agenda inclusive of plant diversity than has been the hallmark of officia strategy.116 These form a parallel to the drive by the preservation lobby to hal commercial forestry in the core areas o tiger reserves. The difference was crucial the activists saw the survival of the mixe forests as essential for the sustenance of rural people. The displacement of village to make way for wildlife, though not withou precedent, was taken up under Project Tige areas and in the Gir forest by this time. Sinc then, the terms of resettlement and th question of how far displacement is essentia have been a major bone of contention. A the time there was little sustained protes But such strategies of creating 'people-free zones at the core of wildlife sanctuaric were attempted in many other areas. Th issue became especially tense when it wa linked up with the much wider problem of the restriction of usufruct rights. Under th Wildlife (Protection) Act of 1972, there wer no rights of access in national parks. I

many areas, this led to protests. The Bharatpur firing in 1982 has already been taken up. In this case, the investigators were drawn from a metropolis and could not make much headway as the villagers were intimidated by the local authorities. Since then, the degree of mobilisation in and around the PAs and the kind of links, this time with the small town intelligentsia, have caused a seachange. The expansion of the network of protected areas and the intensification of protection measures have provoked a strong response from resident peoples in many areas.

This pattern emerges clearly in case of the Rajaji park near Hardwar. Carved out of the governor-general's old Shooting Blocks, the park is home not only to diverse wildlife including UP's largest population of wild elephants, but also to several people. The local Gujjars who are allied to the group Vikalp, rebut the forest department's charges that they are overgrazing the area. In 1979, the government decided to move out the Gujjars and resettle them in a housing colony. Their case has wider significance. Firstly, they point to the shrinkage of lands along their old travel routes due to extension of cultivation and forestry: confined to a smaller area, they see themselves as the victims of the process of development. Secondly, they refer to the extensive encroachment on the forests of the area by an irrigation channel, an army ammunitions depot and several public and private sector industrial units. In addition to mass protests in 1991-94, they also challenged the administration to hand over the park to them for direct management.117 More recently, in conjunction with the Bombay-based Indian People's Tribunal for Human Rights, they organised public hearings by a retired chief justice of a high court. Among other issues, Justice Potti also enquired into possible alternatives to defuse tensions while protecting forests. The report itself is a complex one: it offers a critique of the existing arrangements for rehabilitation and calls for a more acceptable package that addresses the needs of the Gujjars. Justice Potti raised the issue of compensation for victims of animal attack and suggested they be made equal to those given to airline crash victims. In the longer term, Vikalp argues that the survival of Rajaji and nearby forests is not possible simply through sacrifices by the resident population. The diverse groups in the area: the Gujjars, the inhabitants of the forest villages who are tenants of the forest department, taungyacutters who were brought in to raise tree crops, artisans who collect buan grasses from the forest for rope-making, all took part in the consultations. This itself was significant as the diversity of interest groups 18 often held as a reason against local control. No easy panacea emerged but the very existence of the process was significant. 118 The destruction of the forest is the consequence of wider processes of social and economic change that need to be taken up. This is illustrated with reference to the firewood demands of the nearby town of Hardwar which powers denudation of substantial areas. In fact, travelling to Hardwar from Delhi, it is impossible to miss the multi-storied flats that are creeping up towards the river, cutting off the route for the few bull elephants still courageous enough to make the journey. 119 The Gujjar and the elephant are both hanging in the balance and the former are fighting back.

Nor is this an exception. The general impact of industrialisation and the double standards adopted by the administration to forest dependent people led to the organisation of the Jungle Jeevan Bachao Yatra ('Save the Forests, Save our Lives' march) in 1995. In the recent past, this technique of processions criss-crossing the countryside to bring together affected and concerned citizens has been a favourite of environmental movements. There have been many yatras like the Askot-Arakot march of Chipko students in 1974. Sunderlal Bahuguna's Kashmir-Kohima trek in 1982, the fisherfolk march along the sea coast in 1989 and the long march of the anti-dam protestors in the case of the Narmada project in 1992.120 But this was the first time that the wildlife-people issue was taken up through this medium. At the end of the 15,000-kilometre march the organisers issued a statement denouncing the creation of 'sarkari sher aur sarkarki ped' (governmental tigers and trees). 121 In most places on the route, at the Gir forest in Gujarat or at Rajaji, the tale was a similar one. The deprivation of access to the forests or natural areas had deprived people of sustenance but opened up the area to contractors and other rapacious developers. It is noteworthy that groups like the Tarun Bharat Sangh in Sariska have done more than protest against closure of access. They have planted indigenous trees on common lands, fought mining interests to a standstill until the state government stepped in on the other side. This consciousness is also evident in the revival of protected forests known as rhoonds, and deobanis that are protected by the villagers. 122 As in Rajaji, the 'petty oppressions' by the forest department have been a major grievance. They only illustrate the wider dilemma of a department with rights over residents and usufruct right holders. 123 The upshot of the Yatra of 1995 was itself mixed and it attracted criticism from some quarters for not being strident or radical enough. 124 The debate continues but the significance of the event is easy to miss out on. The Yatra was designed to act as a stimulus for further contact and dialogue and in the six months that followed it, grass

roots groups in three states have organised their own networks to continue contact and exchange of information. What are the main contributions of the rural activists involved in the Yatra and elsewhere in the country? Firstly, it will now be difficult to use coercive powers to relocate or displace people in and around protected areas. Unlike urban intellectuals or pragmatic conservationists, most rural activists live and work among the communities whose cause they espouse. Their strength is also linked to a significant change: the willingness of politicians to be more sensitive to rural protests. 125 Such changes are due to executive action and rural activists demand legal rights. At present, the collector may grant concessions under an amendment in the wildlife act made in 1991.126 Livelihood issues are paramount for the rural activists, who see the bureaucracy as having failed to improve the living conditions in these areas. Commercial interests in particular non-tribal traders and large industry are regarded as exploiters of both people and nature. If these terms seem ambiguous it is necessary to reiterate that unlike the other groups studied here, the rural workers are not attached to institutions. of higher learning and are engaged in mobilisation often against heavy odds. Their view of nature and the question of biodiversity requires more elaboration and attention. One approach has been to see them as standard-bearers of traditions that are more in harmony with nature than the industrial mode of development, socialist or capitalist. Since wildlife is not always central to the agenda as in the case of preservationists, the rural activists are often pilloried for not being sensitive to long-term issues. In fact, the point can be tuned around. In several cases, certain projects which would be deeply damaging not only to wild animals or plants but to the ecology of vast areas have been stalled only because of rural protest by disadvantaged social groups. What is valid is the fear that a successful movement for assertion may not be able to control deeper market forces that may corrode the resource base. But bureaucratic regimes have hardly done very well on this count and have facilitated and assisted such corrosive forces.

The preservationists are strident against claims of rural activists who advocate continued use of the protected areas. Surely something is seriously wrong with a system that cannot provide for the disadvantaged from 96 per cent of the land area. The rural activists reply that they were not involved in demarcating the 4 per cent and in any case, this struggle for control is by no means restricted to these areas. The other problem, of providing safe havens for plant and animal life free from all people, does not appeal to the rural activists in the same way that it does to the preservationists. The activists

feel that tribals or pastoralists have a better record of living with natural systems than urban or rural elites. Sacred groves and religious taboos on harvesting wildlife are cited to buttress such claims. If at all, core areas are to be set aside, the activists would claim that the residents have to play a part in delineating the zone. Such areas can possibly be created elsewhere, but the nub of the problem will lie in participation and control which cannot be left solely with the authorities. The emergence of networks of the action groups working on the periphery of protected areas is a major landmark. As with the forest question, local experiences are now being discussed at a wider level, not only in terms of solidarity and joint action, but also to evolve a common platform The actual evolution of institutions and mechanisms for rural control has a long way to go, but the process has begun. Local control cannot, in itself, resolve issues: the wider institutions of governance can often be more than willing to bend over to industrial interests.

#### A PROCESS OF INTERACTION

The critics are largely united by their disaffection with the prevalent mode of preservation. They do not believe in a policy of total environmental protection. Their grounds for criticism and their levels of alienation from the dominant model vary and there is also room for mutually contradictory views among them. In their own ways each is questioning the forest department's monopoly of power and knowledge in the protected areas. Though their concerns and prescriptions vary, the critics stand for changes of strategy and policy viva-vis the conservation of biological diversity.

This is most clearly evident in case of the rural activists and the pragmatic conservationists. The former have a constituency that primarily consists of the rural poor who live in hilly and mountainous regions, areas with dryland agriculture and animal husbandry. These are populations partially or wholly reliant on gathering forest products whether for subsistence or for sale. The relocation of such villagers, whether tribals or caste Hindus, to make way for wildlife, is strongly opposed by the rural activists. Pragmatic conservationists, while often critical of the administration's insensitive methods, broadly agree that people must be removed from prime wildlife habitats if this is essential for rare species. The question goes beyond one of rehabilitation and relocation to usufruct rights. The pragmatic conservationists are mainly wildlife biologists whose prime aim is to evolve management programmes for specific species. They approach the issue from the standpoint of enhancing the survival prospects of their target species or

ecosystems. Their findings often pit them against the older 'hands off' approach of the preservationists, but their methology is still geared to the wildlife much more than to the people. Rural activists, at least those who are sensitive to ecological issues, see the issue in terms of livelihood and survival of social groups marginal to the power structure. It would make little tactical sense for them to admit that the sustenance of disadvantaged groups may at times be in irreconcilable conflict with wild plants or animals. Their prime focus is not only on redressing grievances, which the pragmatic conservationists are willing to acknowledge. Some voluntary groups have gone so far as to ask that they and other local residents in and outside the park be given control of the area. Such a prospect would not be welcome to even the most open-minded of the pragmatic researchers. Where there is room for joint action it is with regard to specific grievances such as wild animal depredations on crops or attacks on people. The biologists who have documented these problems in detail are in a position to lobby governments to be much more responsive both in preventive terms and to provide effective compensation. Ironically the very structure of consultation that incorporates such experts also slows down remedial action. Professional foresters are apt to look upon the researchers as upstarts and to drag their feet on implementation of programmes for culling male elephants or lions as the case may be. The research scholar who has logged several hundred hours tracking the wild animals or assessing crop damage is still marginal to the community of forestry. They may have the expertise but they lack directorial power. As members of the middle class or literati they do not experience the problems of deprivation so clear to the rural activists. But there is little doubt that the pragmatic conservationists are the most ambivalent of all the groups of dissenters and critics. Their findings point in one direction and their professional Lie makes it essential for them to remain in close contact with the very branch of government whose choices they often disagree with. The growth of autonomous research institutions has increased their leeway and given them a separate institutional base outside the forest department, but they can go a certain distance and not beyond.

Rural activists have a much wider agenda and programme. They seek to question not only wildlife conservation policies, but the wider gamut of issues related to development. These include the terms of trade with the mercantile groups or the foresters who purchase forest products, the denial of land rights and credit to the poor and the more mundane but critical problems of the lack of even basic social services such as health

and education. The strategy is one of struggle, all the more so because they are often at loggerheads with the forest department which is their overlord or controls access to grazing grounds. Increasingly, human rights violations have come to be prominent in the issues raised by such groups. These efforts are now backed up by their allies in urban areas who also call for an alternative mode of conservation and development. The urban intelligentsia has now come to identify with the rural activists' agendas much more closely than in the past. Alternative systems of protection such as sacred groves were initially seen as an adjunct to the existing PAs but the debate has now moved ahead. The emergence of cross-regional and state level co-ordination has had a lot to do with the joint efforts of the urban intelligentsia and the rural activists. What is equally important is the strong advocacy of decentralised systems of resource control. The Gadgil-Rao bill of 1995 calls for an extensive restructuring of control of the existing protected areas as safety sites, giving villagelevel committees a central role in delimiting boundaries, assessing crop damage and ensuring protection from rapacious commercial interests. It is true that the links on the wildlife front are still nascent compared with the networks on large dams or commercial forestry. But this has to do with both the new wave of protest against sanctuaries and the awareness among both urban and rural concerned citizens that the destruction of the natural areas was not their objective. The issue being contested is not only one of equity but also of sustainability: this may have been implicit in many adivasi or peasant movements in the past but it is being made in an explicit manner now.

There are still differences in emphasis between the urban and rural advocates of local control. The former often attach considerable importance to biological diversity and often favour service charges to communities or groups who protect rare plants or animals. By the 1990s, many radical rural groups who would once have scoffed at the notion of rights of nature having an intrinsic worth, have come to champion such notions. They ground their case in the continued existence of tribal or peasant traditions that view nature not as separate from the human world but as part of a unified whole. The urban intellectuals, often a part of the middle class, acknowledge the role of such ideas but they are more sceptical of their viability in the face of market forces. Perhaps, this is the strongest and weakest part of their case. They are on good grounds in favouring positive incentives for conservation. This at least makes an ideological point, namely that it is the Maldharis of the Gir who should be rewarded for coexisting with lions. They can and should be turned



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from antagonists or victims into protectors and it is the duty of society at large to assist them in every way possible. But it is still not clear how such incentives are to be worked out in economic terms. Local protection is often a success because it is rooted in cultural or religious notions and practices. It may not be possible to affix a monetary value on the protection of pipal trees in a village grove or of sacred crocodiles in a lake. In trying to defeat the market system, the urban intellectuals have to beware of siding with the very forces that may undermine their wider aims. At another level, some among the urban intellectuals have probably gone too far down the road in romanticising traditional systems. This is significant insofar as it displaces the old stereotype of rapacious and destructive tribals or peasants who will destroy the fauna and flora unless checked by government. It is also important that the ways of relating to nature that were earlier considered the preserve of the ethnographer be studied by biologists or historians. The division between 'science' and 'local knowledge' may have been necessary two decades ago to prevent uncritical glorification of the former and outright dismissal of the latter. But it may be much more useful to simply have a critical perusal of 'actually existing practice' rather than romanticise traditional systems. This is especially necessary considering the degree of market integration and the rates of demographic expansion that we are often dealing with. Self-reliant agrarian communities linked together in a loose federal arrangement may or may not be ideal, but they are hardly practicable in today's world. In any case, a dialogue about actually existing practice will enable much more creative and relevant interventions both at a conceptual and a practical level.

Both rural and urban critics need to be much more specific about what we mean by local control. Many protected areas contain people living within their confines, on the perimeter and groups who may reside further away but use the tract at certain times of the year for limited purposes. 127 Further, there are those who draw on fodder reserves in sanctuaries in pinch periods as when the rains fail. It is not often clear on what basis local control will work, whether the criteria are to be the length or place of residence. Even more complicated is the conflict between locally resident cultivators who may use a forest and nomadic groups with herds who are themselves the victims of land acquisition by government but add to the pressure on the resource base in or around a sanctuary. The usual answer is to allow such issues to be decided by consensus and open negotiation. This still does not explain what the minimal points of agreement will be and how they are to be ascertained. Even more crucially, who is to play the mediating role if not the government in a democratic system? And if it is to be the administration, there is the vexed question of which element in the bureaucracy is to be given weightage and how it is to be made accountable and transparent. Local control can only work within a wider framework conducive to conservation and less prone to short-term growth of the kind that corrodes the resource base. There has to be a role for the state but it will have to be very different from what it is today. There is also some sign that, as in several strong agitations against denotification to facilitate industrial interests, local people will have a prior say before such denotification is permitted. Similarly, the existing arrangements under which the wildlife wing assists in protection of sacred groves or waterbird santuaries maintained by villagers could be given a new legal status as 'people's protected areas'. Yet, these measures may not go far enough. There is an urgent need to go much further in evolving alternative systems of control that build on existing efforts but strengthen them. If the rural or urban critics of preservation are to succeed, they have to evolve alternative structures of power.

The constructive work groups have a very critical role to play. Their strength lies in their ability to evolve creative solutions to existing problems that not only improve livelihood but also increase the elbow room of disadvantaged groups in their struggles. In the process, groups have come up with workable alternatives that expand the scope for reform within the existing system. The question which still remains is how far these efforts can supplement the work of rural activists or urban reformers in evolving an alternative framework. The problem of tapping market forces for conservation is all the more problematic. If it is a question of organising co-operatives for venom-extraction or for tendu leaf trade, there is no question that organisation is essential to bargain with middlemen or government agencies. The danger here is that constructive work may often stop at just that, and the massive injections of funds now being made may simply give a fresh lease of life to the old way of operation, in which government departments increase their own clout through injections of funds.

#### CONCLUSION

If the older preservationist agenda looks like it is in usept buble, it still has a lot of life left in it. The crisis of an old order need not necessarily be a prelude to its collapse. None of the critics named here has any sympathy for the agenda of unreconstructed developmentalism that the preservationists did so much to critique. Their shortcoming was their reliance on the state machinery,

in particular on legislative and executive power of the union government. The power of the centre in development policy is now much more limited that in the early 1970s, for both political and economic reasons, but the pressure for generation of revenue and attracting industrial investment is all too real at the state government level. The critics of today often equate the preservationists with the forces of short-sighted development. This is perhaps correct insofar as both support the existing power structure and only disagree with the way power is to be exercised. One wants to cut down a forest to make way for dam, the other to save it for scientific research and leisure. There is still a deep antagonism between the constituencies of the middle class preservation lobby and the rural activists. Wildlife enthusiasts feel that animals have primacy over villagers at least within the wildlife reserves. There is "no other way to successfully run a reserve, and there can be no compromise on the issue". 128 This is the nub of the issue: in their own ways, all the groups studied here are convinced of the viability of alternatives. Nowhere will the struggle for control be as sharp as between the rural activists and the preservation lobby. Protection of wildlife 'for its own sake' was both a utilitarian and a romantic endeavour. It was preserved for a certain kind of use (scientific research or wildlife-watching) in preference to other uses (livelihood and survival).129 In the Indian case, neither a technocracy or bureaucracy acting as the arbiter of conflicts nor a free market system which may tilt towards privatisation of open access resources would address ecological issues adequately. The assertion of people's rights has the potential for a different kind of conservation-oriented control of their lives and lands. The very idea of a forest separate from people is seen as "an illusion" that only denies, "the unalienable relation of nature to man". The question itself becomes one of working out a new set of relations with the forest which will be enduring for both people and the natural world.130

How this will be done at a time of demographic growth and agrarian intensification will be a major challenge and site-specific approaches will probably play a vital role. These issues cannot be divorced from the wider ecological dilemma. Local institutions may be open to corrosion by market forces, due to a combination of external pressures and social change among what may seem like homogeneous rural communities. The risks inherent in political reform must not be allowed to postpone change but the wider economic context of incentives for destructive behaviour has to be changed if there is to be any hope. This issue calls for more thought and action. Some arch-preservationists may look back on the 'golden era'

of the Indira years and yearn for them.<sup>131</sup> But the clock cannot and should not be turned back. The maturing of democracy and political assertion by disadvantaged sections is now far more advanced than in the Indira era. The traditions represented by Vedanthangal are now locked in contest against those symbolised by Asoka.

#### **Notes**

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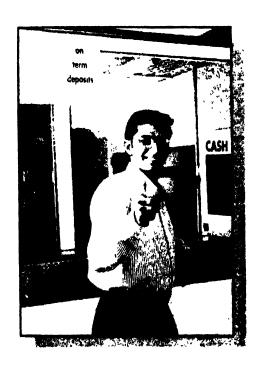
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#### Sexual Violence, Discursive Formations and the State

#### Veena Das

While in the face of the disorder of collective violence the state seems to absent itself so that we cannot guess how the judicial discourse would have constructed pathological sexuality, we have evidence of how 'individual pathology' is constructed in the rape trial during normal periods. Further, in the dense discursivity of the state as it engages in separating the normal from the pathological, we get a production of bodies (male and female) that normalises sexual violence at least for the purpose of the law.

THE World Mental Health Report contends that domestic violence and rape constitute approximately 5 per cent of the global health burden for women in their reproductive years. Realising the enormity of the health burden on women that this imposes, the report urges the international community to take the physical and sexual abuse of women as an area of priority for research and social action. This paper looks at the processes through which, I believe, sexual and physical violence through the mechanism of rape is 'normalised' in Indian society. It also suggests certain directions in which the rape law might move to provide better protection to women.

Sexual violence against women is constitutive of social and political disorder in India. Widespread violence against women was witnessed at the time of the Partition of India with more than hundred thousand women having been abducted from each of the two parts of the Punjab alone [Butalia 1993; Menon and Bhasin 1993]. Not only were women abducted and raped, but slogans like 'Victory to India' and 'Long Live Pakistan' were said to have been painfully inscribed on the private parts of women. Although a Fact Finding Organisation was set up to enquire into these atrocities, the findings of the organisation were never made public. I have argued elsewhere that the bodies of women became political signs, territories on which the political programmes of the rioting communities of men were inscribed [Das 1995]. Although the judicial silence of this occasion is a stunning fact of history, I think one can suggest that in order to read this silence it is necessary to juxtapose it with other occasions when the judicial discourse is engaged in the task of separating 'normal' sexuality from 'pathological' sexuality, and to ask whether the very logic by which courts of law in India bring out this separation does not 'normalise' the violence against women during periods of disorder. In other words I submit that while in the face of the disorder of collective violence the state seems to absent itself so that we cannot guess how the judicial discourse would have constructed pathological sexuality, we do have evidence of how, 'individual pathology' is constructed in the rape trial during normal periods; and further, that in the dense discursivity of the state as it engages in separating the normal from the pathological, we get a production of bodies (male and female) that normalises sexual violence at least for purposes of the law.

#### RAPE IN JUDICIAL DISCOURSE

The pervasiveness of sexual violence at every level of social organisation has been decisively demonstrated by feminist scholars. Many have claimed that the everyday heterosexual practices and the practice of rape participate in the same structure of relations defined by patriarchal ideologies. For example MacKinnon has argued that "... sexuality is a set of practices that inscribes gender as unequal in social life. On this level sexual abuse and its frequency reveal and participate in a common structural reality with everyday sexual practice" [MacKinnon 1992: 126; see also MacKinnon 1989]. But there is a peculiar puzzle here. If sexuality in everyday life, sexual ecstasy and sexual abuse have complex, albeit discontinuous linkages, then how is it that the state steps in through its judicial institutions to 'problematise' the assumptions of everyday life regarding men's uncontested rights over women's bodies? If the law was only interested in treating sexual offences on analogy with offences against male property, as many have alleged, it would be difficult to explain the importance of the notion of consent in the case law as it has developed in India and elsewhere. Indeed, 'consent' of the woman turns out to be the most significant category for distinguishing between nonpunishable sexual commerce with a woman and the offence of rape against her. In this context Smart (1989) considers that the significance of the category of consent is that it helps to systematically transform rape into consensual sex in the legal system. More recently Matoesian (1993) has identified court room talk as the site for examining how the victim's experience of sexual violence is delegitimised and decriminalised by converting it into consensual sex. "Courtroom talk captures the moment to moment enactment and reproduction of rape as criminal social fact" [Matoesian 1993:27].

There is a genealogical link between the argument made here and Foucault's understanding of the relation between power and sex. In his history of sexuality Foucault (1980) understood by power as essentially that which seeks to dictate its law to sex. This means first of all that sex is placed by power in a binary system of licit versus illicit and permitted versus forbidden sex. In this reading the effects of power take the general form of limit and lack. Yet it is Foucault above any other thinker who has emphasised that sexuality in modern societies is not so much a product of judiciopolitical prohibitions as of the will to knowledge/power that lies behind discourses defined by techniques of confession and scientific discursivity. Hence, "we must not think that by saying yes to sex, one says no to power" [Foucault 1980: 157]. This seems to imply that the search for freedom in the pleasures of sex is ironically what places a person under the domain of power. The distinction between sexual pleasure and sexual subjugation becomes blurred here. It is this very play between pleasure and subjugation, I shall argue, that defines techniques of confession in judicio-political discourse so that the woman's body is made to confess against her explicit speech; subjugation is read as pleasure. The court room trial and the structure of sentencing demonstrate how a woman's no to sex can be converted into a yes to it through the operation of judicial grammar and judicial sentencing. It is in these practices that we shall see what consent means in the dense discursivity of a field defined by the juridical

#### JUDICIAL DISCOURSE

One way of conceptualising judicial discourse is to see it as a cross roads for multiple transactions by which a particular way of talking about rape sorts women into categories that brings law and social practices into congruence with each other. In their pathbreaking work on a semiotic under-

standing of judicial discourse, Greimas and Landowski (1976) have described how the legislative function of this discourse first separates the licit and illicit comportment of human desires through normative enunciations. These desires, they argued, are then classified and hierarchised through processes of judicial verification by an application of such distinctions as nature and culture on the one hand, and individual and social, on the other.

The legislative function in the discourse is a function of enunciation – it belongs to the order of being by which legal objects are brought into existence in the process of being named. The adjudicatory level, on the other hand, belongs to the order of doing. Although the linguistic practices encountered in judicial prose orient one towards thinking that the processes of adjudication belong to a reality that exists prior to being named, in fact it is the legislative function that gives direction to those elements of the world that will be selected for reference. Thus the order of doing is the operational sphere of those semiotic objects which have already been brought into existence by legislative enunciations or by the legislative definitions of reality.

The juridical domain is defined by the combinations of prescriptions and interdictions, 'that create a solid and immobile architecture', but since the production of rules is constantly subject to verification, the undifferentiated domains of non-prescriptions and non-interdictions that initially define the non-juridical domain can move into the juridical domain through the application of juridical phrases. In the final analysis, then, the juridical discourse splits into the two poles of grammar and semanticity. The legislative level is the level of grammar without content while the adjudicatory processes relate to the level of judicial verification through which content is given to the judicial grammar. The level of non-judicial discourse - devoid of both judicial grammar and judicial semanticity constitutes a virtual world elements of which may enter the judicial world through judicial production and verification. It is this double process of judicial production and verification that negotiates the 'reality' of societal categories and fits it into frames of law. In the process the judicial discourse comes to mediate the everyday categories of sexuality and sexual violence, sorting and classifying the normal and the pathological in terms of marriage and alliance. It is because of the manner in which categories of alliance are brought into the process of judicial verification, separating women into 'consenting' and 'non-consenting' ones; regulating male desire by channelising it towards women of appropriate categories -

that we can see why judicial discourse becomes silent when rules of alliance stand suspended during periods of collective violence. Let me try to give flesh to this argument by a consideration of the rape law in India.

#### RAPE IN INDIAN CASE LAW

At the level of the codification of law, rape constitutes an offence against the body. At one level, it may be seen along with other crimes in which force is used against a person resulting in grievous harm or death of the victim. Yet by separating and codifying a separate category under the heading of sexual offences, the Indian Penal Code, directly recognises the right of the state to regulate sexuality. It is important therefore to note that although in the sentencing structures one finds that the judges are compelled to constantly distinguish between grievous bodily harm caused by an attempt to rape a woman and rape proper; in the penal code itself sexual offences are classified through a binary distinction between 'rape' and 'unnatural offences'. The deployment of the concept of nature, as we shall see later, allows rape to be viewed as an offence which is 'natural' and men as falling into a natural state when the ordering mechanisms of culture are absent.

The law relating to crimes in India was codified in 1860 by the colonial British government by the introduction of the Indian Penal Code [Dhagamwar 1992]. The Code identified rape as an offence and made it punishable under Section 376. The definition of rape in this section read as follows:

A man is said to commit 'rape' who, except in the cases hereafter excepted, has sexual intercourse with a woman under circumstances falling under any of the five following descriptions:

First - against her will.

Secondly - without her consent.

Thirdly - with her consent, when her consent has been obtained by putting her in fear of death or of hurt.

Fourthly – With her consent when the man knows that he is not her husband, and that her consent is given because she believes that he is another man to whom she is or believes herself to be lawfully married Fifthly – with or without her consent, when she is under 10 years of age.

Explanation – Penetration is sufficient to constitut, the sexual intercourse necessary to the offence of rape.

Sexual intercourse by a man with his own wife, the wife not being under 10 years of age is not rape.

The original age of 10 years in the fifth clause has been amended through a series of legislative amendments so that it now stands at 16 years.

 Even a cursory reading of the text would make it clear that in defining the offence of rape, the concern is with regulation of sexuality rather than protection of body integrity of the woman. One of the commentators to this paper, Stacy Cherry (1994), raised the question that a woman giving her consent because she believes herself to be lawfully married to an 'alleged rapist' seems particularly problematic. What kind of circumstances must exist, asked Cherry, for a woman to believe that she is married and yet possibly not be married? To my mind, this clause clearly brings out the manner in which social reality is mediated through the judicial discourse. For instance, in cases of bigamy a woman may believe herself to be married but the marriage is null and void in law. Hence although the husband may not have used any force in having sexual relations with her and indeed, the woman may have consented to the sexual relationship, in law he would be defined as a rapist according to this clause. When we read this along with the clause which does not consider it judicially possible for a husband to 'rape' his wife if she is above the age of 16, we can see that the offence of rape is about the regulation of sexuality and not about the protection of the body integrity of women. An examination of the case law shows that the consent of a woman can be read as nonconsent, and the absence of consent can be read as consent, depending upon where she stands in the system of alliance. What rape as illegal sexual commerce offends, it seems, is not the body of the woman but the order of correct sexual relations as defined by societal norms.

It is not that the law is not concerned with the question of consent. At the level of judicial verification, the question of mury to the body becomes crucial in finding evidence of consent, but at the level of judicial enunciation of norms that the question of consent in the definition of rape is a very complicated issue indeed. This becomes even more clear if we see the subsequent Section 377, which defines 'unnatural offences' and prescribes punishment for these.

Section 377 reads as follows: "Whoever voluntarily has carnal intercourse against the order of nature with any man, woman or animal, shall be punished with imprisonment of life, or with imprisonment of either description for a term which may extend to 10 years and shall also be hable to fine." The explanation states that "Penetration is sufficient to constitute the carnal intercourse necessary to the offence described in this section" while a Comment to the Section clarifies that this particular offence consists of carnal knowledge against the order of nature.

about the case law utal developed around the category of unnatural offences at the moment, but an examination of this seems important to further amplify the notions of 'nature' as deployed in the judicial discourse. For the present I shall be content to note that in contrast to the law on rape, in which the notion of consent plays a very important part, the idea of voluntary participation is crucial for defining offences 'against the order of nature'. Thus, in law, a man cannot be raped by definition and a woman submitted to sado-masochist practices by a man through the use of force could not be said to be raped. one is then compelled to conclude that rape is not an unnatural act. Indeed, as Charles Bright (1994) stated succinctly in his comments on this paper, "the whole question of female consent becomes a process of positioning the male to do what comes naturally - that is to act from and in nature, in full accord with both body (desire) and speech (will)". I think the point is sufficiently clear that the rape law is not oriented towards protecting the body integrity of a woman but towards the regulation of sexuality and that the category of nature is deployed as an important category for effecting this

Important amendments to the rape law have taken place in recent years (see Agnes 1992). One must treat 1979 as a crucial year when serious gaps were identified in the law and a push towards reform was initiated. The precipitating event was, as is well known, the Supreme Court judgment in the case of Tukaram versus State of Maharashtra, AIR 1979, SC 185. The facts of the case were hat a young girl Mathura was summoned to the police station on a complaint of abduction lodged by her brother against her lover. She came to the police station along with her relatives, including her brother. She alleged that while the relatives were asked to wait, she was taken to the rear of the main building where the head constable raped her while a second constable made an attempt to rape her. The accused were acquitted by the Sessions Court who found no evidence of force having been used. The High Court, on appeal, reversed the finding of the Sessions Court on the grounds that it had failed to distinguish between 'consent' and 'passive submission'. The Supreme Court in appeal held that since the victim had not raised any alarm, her allegations were untrue. In the course of pronouncing the judgments, several statements were made in the respective courts regarding the girl in which she was described is a 'shocking liar' and frequent references of her having been habituated to sex weighed leavily with the Supreme Court in discrediting her own account of the event. This judgment was strongly protested by and Sarkar 1979). It was their agonised formulations that led to a countrywide mobilisation of women's groups to press for changes in rape law. After discussions in parliament and the submissions of the Law Commission on this question, the rape law was amended both with regard to procedural and substantive issues in 1983. In the amended law, efforts were made to tighten the law in favour of the victim. More specifically, the category of custodial rape was defined. The burden of proof was shifted to the accused in the case of custodial rape and a minimum punishment of 10 years rigorous imprisonment was prescribed. Under this provision, gang tape, and rape with a woman known to be pregnant would also normally lead to a minimum 10 years maprisonment [Dhagmwar 1994].

The 1983 amendment cited more than 100 cases to clarify the different clauses. A compilation of these cases, undertaken by Pratiksha Baxi,' shows that there are two major concerns in the case law- one pertains to the definition of consent and the second to the judicial definition of what constitutes 'penetration'.

As far as consent is concerned, the case law evolves in the direction that consent cannot be obtained after the act, that a woman who is sleeping or is intoxicated cannot give consent; that a woman who is not of sound mind cannot give consent; that if she had a misapprehension of the act then she cannot be said to have given consent. It seems from these cases that consent is defined in the process of judicial verification as an act of reason and will. This is clearly spelt out in Idan Singh 1977 Cri LJ 556 (Raj) in which if was stated that consent was an act of reason in which there was a conscious and voluntary acceptance of the act of sexual intercourse Yet there is a counter text which assumes consent to be not only a matter of cognitive and moral recognition, but also the choice a woman makes between resistance and assent (Rao Harnaram Singh (1958) Cr LJ 563). Here we see that the will of the woman as expressed in her speech and the body of the woman as providing evidence of acceptance or rejection, are set in opposition to each other. As we shall see later, the body is made to often speak as under torture, against the idea of consent as constituting a cognitive category. Finally, since the underlying idea is that sexual intercourse with a woman defined as vaginal penetration is an act of nature, it is rarely asked as to what is constitutive of the act of sexual intercourse that a woman is consenting to? For example, in Jarnail Singh 1972 Cri LJ 824 (Raj), it was stated that if consent is given prior to sexual intercourse no matter how tardily or reluctantly and no matter

not amount to rape. In all these issues a way of reading the relation between signs inscribed on the surface of the body and the 'depth' of female subjectivity are established.

As far as the second point pertaining to penetration is concerned, a number of cases define that partial penetration amounts to penetiation for purposes of the law; that it was not necessary that the hymen be ruptured, and that the medical evidence may add to the other evidence but cannot be treated as sole evidence of rape having occurred since rape is a legal category and not a medical category. As was stated in Joseph Lines (1844) 1 C & K 393, "to constitute penetration, it must be proved that some part of the virile member of the accused must have entered within the labia of the pudendum of the girl, no matter how little.

The 1983 amendments were expected to make it easier for victims to seek redressal, and case law since then has introduced the idea that mere absence of injury on the body. of the prosecutive does not constitute evidence of consent; neither is corroborative evidence always necessary. Surprisingly the rates of conviction are steadily declining According to the statistics provided in Crime in India, the percentage of convictions in rape cases was in the range of 35 to 38 per cent between 1980 and 1986, in 1988 it declined to 8 and in 1990 to 9.1. Although many of these cases did not concern custodial rape, and several were in courts of law before the amendment was passed, one would have expected that the new directions which were given for interpreting consent, may have made conviction easier rather than making it more difficult. The question of why rates of conviction have declined is one to which I do not have a ready answer. It is worth considering, however that the underlying assumptions of judicial production and verification especially the normalisation of rape through its naturalisation—make the process of judicial reform much more difficult than was anticipated.

#### JUDICIAL GRAMMAR AND JUDICIAL SEMANTICITY

In terms of the two poles of judicial grammar and judicial semantics proposed by Greimas and Landowski (1976), we get the following taxonomy. At the pole of judicial grammar, the law defines two circumstances—the first in which rape cannot occur by definition, and the second where no judicial verification in terms of the circumstances relating to consent is necessary. The former covers cases of sexual

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ntercourse between a man and his wife. egardless of the consent or otherwise of the vife. The possibility that a man could use orce to have sexual intercourse with his vife is in the realm of judicial nullity. The econd is the case of a girl below the age if 16 in which case only the fact of intercourse las to be established in order for the offence of rape to have occurred. A wife who has seen forced into submission by her husband nd a man who has obtained the consent of girl below 16, are subjects in the 'real' vorld-a reality that judges have to encounter n the courts again and again - but since the eal world is a virtual world as seen from nside the law, it needs the mediation of udicial phrases to negotiate this 'messy' eality. As we shall see later, there is a ension between judicial grammar and udicial verification so that a judgment may ake into account that a man does not have right to inflict grievous bodily harm on us wife in the process of having sexual ntercourse with her although within the imits of the judicial grammar, this cannot e classified as rape. In the converse case, when judges have encountered the evidence of a girl's consent to sexual intercourse even t she is proved to be below 16 (but not much below this age) this has been taken to onstitute mitigating circumstances for eduction of the period of imprisonment. The judicial grammar then leaves a whole lomain of sexual commerce to which the listinction between force and consent, comes o be applied in order that the difference between 'sexual intercourse' and 'rape' be udicially demonstrated. It is in the play of power here to define sex that we find that he distinctions between nature and culture ome to be articulated in order to dramatise nasculinity and femininity as capability. The following sections depend heavily upon vidence taken from modes of reasoning in he judgments in rape cases. Hence the udicial prose that has its own stylistic occuliarities, is embroidered in my prose (so o say) but I hope it retains its mark of otherness'.

#### FORCE AND CONSENT

The deployment of the concepts of force and consent in the process of judicial verification moves at two different axes constituted by reading the signs on the body and relating them to the speech of the woman is nevery case the speech of the woman is atted against her body for the production of truth. In the process of judicial verification, the judges find that either the body bears witness to the truth of the statements of the prosecutrix that she had been forced into submission, or contrarily, it provides evidence to negate the speech of the woman.

While in all cases pertaining to the violation of body integrity, it is inevitable that the body would be objectified in the process of judicial verification, here the body is objectified as a sexual body. The female body is defined in this discourse primarily as one which is marked by the impress of male bodies on it leading to a gendered reading of this process of objectification of the body.

The first question in a rape trial that the judges seek to determine is whether sexual intercourse has occurred. A whole way of talking about the sexualised body comes into play here; is the hymen intact; how much of a finger could be inserted into the vagina under medical examination; is penetration to be understood as vulval or vaginal;2 etc. Thus, a whole topology of signs is created that move on the surface of the body, territorialise it, and constitute it as a sexual body, fit or unfit for exchange. The body is objectified in ways that become a kind of judicial pornography. I give an example of this particular mode of verification on the question of whether the offence committed is to be classified as a sexual offence or is better treated as a nonsexual one.

In this case (SC 58/1986 decided on 20/ 1/1987, per P N Santhakumarı, Sessions Judge, Ernakulam, Kerala) the prosecution case was that the accused, who was 17 years old, committed assault and rape on a twoyear-old girl when her mother had left her in the care of her elder brother (seven years old) for a short while, when she went to post a letter. The mother came back and found that her son was standing in the corridor and crying. The door to the room in which the accused was with the baby was locked and did not yield to her repeated attempts to push it open. Looking through the window she saw the accused, in a half naked position, lying on the baby. He was committing sexual assault on her, having laid her on the floor while he shut her mouth with his hands. On finally being able to get into the room, the mother found the girl to be bleeding profusely. The girl sustained injury on her private parts and was rushed to the hospital.

In the medical evidence it was stated that there was a perineal tear on the private parts of the girl and profuse bleeding. The doctor had deposed that he could not examine the girl completely because she needed urgent medical care to save her life.

In arriving at the sentence in this case the judge had to decide whether the offence committed by the accused constituted rape. She summarily dismissed as absurd the plea of the defense that it was a case of false accusation. Nevertheless the judgment was that the offence was of attempted rape and

not rape proper. The following was the reasoning of the judge.

Now the question arising for consideration is whether there was penetration to the vaginal canal so as to term rape. In case of rape the prosecution in order to prove sexual intercourse, need prove penetration in the vaginal canal Penetration is enough so as to constitute rape whereas without penetration the offence or the act cannot be termed 'rape'. The girl being two year old penetration appears not easy Still there is perineal tear... There is no concrete evidence of penetration into the vaginal canal of the girl in spite of the perineal tears on the private parts of the girl which can probably be caused by criminal force. Presence of the seminal stains and human sperm heads on the girl's frock and the evidence of the mother that the accused lay on the girl does not prove penetration though it does prove sexual assault. Thus the act does not come within the purview of 'rape' as defined in \$375 IPC.

The accused having laid the girl on the floor shutting her mouth by his hands and being half naked lying against her as seen by the mother and having completed sexual act by the discharge of semen which the mother saw him wiping off from his own private parts and also from the body of the girl, the accused having taken the girl to the room and having done the act with the determination and the intention to commit the offence of rape though he had completed his sexual acts there being no evidence as to penetration which is the most essential ingredient for rape, it is only sexual assault and attempt of rape

This lengthy quotation has been given here, not because this represents the typical way in which judges define penetration—there are many other cases in which the judges have held that partial penetration is sufficient to constitute penetration under the law—but rather to show that while the same act is constituted as a sexual act for the man, there is an ambiguity as to whether a girl child's body can be treated as a sexual body in the commission of this very act.

! give one more example in which the judges came to an opposite conclusion, viz, that though the girl had not sustained any injuries the offence was that of rape. It seems to suggest that the question as to whether the girl had been sexualised by the experience is an important one in determining whether the offence is sexual in nature. It shows that the movement between surface and depth between reading the body and reading the woman as subject provides the underlying grammar of judicial verification.

This example is of a case in which the respondent/accused was a medical officer staying in a joint family. One day he tricked a young friend of his niece who was then eight years old to come to the house when he was alone with his niece. He then

on him and also slightly inserted his penis into her vulva and had an ejaculation. Although the girl did not relate this to her parents immediately since he had threatened her with dire consequences, the story came out in the next few days. On being confronted by the girl's enraged father, the accused confessed that he had frequently abused other girls in a similar manner, including his own niece. In the court the statements made by the accused were treated as extra judicial confession made in the presence of the girl's father and his own relatives. In this confession he clearly stated that he had "raped Tulna and had also committed the same kind of sexual assault on earlier occasions with Richa, Priti, and other girls of that locality, but being a doctor he had been careful enough not to rupture their hymen".

The case had come up before the High Court of Madhya Pradesh which had accepted the entire evidence of the prosecution but had nevertheless entertained a doubt as to whether the offence could be classified as rape. The High Court held that since there were no signs of injuries, on either the girl or the accused, the offence was not one punishable under either the provisions of rape or of causing grievous bodily harm, but only under Section 354 IPC on the ground that the respondent had outraged the modesty of a young girl.

The decision of the High Court created a scandal in the international press. Although the state did not prefer an appeal, the father of the girl appealed in the Supreme Court, against the judgment. In its review of the case, the Supreme Court held that there was enough evidence that the respondent "without completely and forcibly penetrating the penis into the vagina of the girl had slightly penetrated within the labia majora or vulva or pudenda without rupturing the hymen and thereby satisfied his lust after ejection of semens". The Supreme Court held that this was sufficient to constitute the statutory definition of penetration which was necessary to prove rape and accorded punishment accordingly

In contrast to the earlier case that we discussed in which the girl had suffered grievous bodily barm, in this case the girl was forced to co operate with the accused and had hence escaped injuries on the body. The accused, being a doctor bad the technical skills not to rupture the hymen. In the earlier case of the two-year-old child, the offence was declared to be a non-sexual one. In this case, the Supreme Court came to the conclusion that it was a sexual offence that had been committed.

I suggest that underlying the discussion on what constitutes penetration and hence rape, is another discourse that criss-crosses discourse on alliance. In Hindu society the young girl, with her body unmarked by the sexual desires (lusts) of men, is considered the appropriate gift in marriage that establishes alliance between men. A girl's awakening into sexuality is considered not as the work of her own desire but rather the working of male desire, which in the code of alliance is most appropriately, the desire of her husband. The sexual offence of rape against a young girl thus becomes an offence against the code of alliance - although this is only obliquely alluded to in the judicial discourse. Hence in the case of Tulna, the Supreme Court having defined the offence as that of rape, went on to state the following:

We are told at the bar that the victim who is now 19 years old, after having lost her virginity still remains unmarried undergoing the untold agony of the traumatic experience and the deathless shame suffered by her Evidently the victim is under the impression that there is no monsoon season in her life and that her future chances for getting married and settling down in a respectable family are completely married.

Without making every qualification, I would like to maintain that judgments on rape in the case of young girls (especially if a girl is a virgin), lie at the intersection of the discourse on sexuality and the discourse on alliance so that the question of whether a sexual offence has been committed, is decided not by recourse to the opposition between force and consent but on the issue of whether the body has been so sexualised by the experience as to make it unexchangeable in marriage. Thus, it is not only a matter of regarding the signs on the surface of the body but also constructing an 'inside', much as Foucault talks of the inside being in the nature of a fold. Hence, in the first case of the two-year-old child, the offence came to be constituted as one of having caused bodily injury, but not rape, although the injuries were on the private parts of the girl. While in the second case, although the girl did not sustain any injuries and her hymen was not broken because of the technical mastery over the body that the accused had by virtue (or vice) of his profession, the act was clearly defined as sexual in nature. I suggest that this may be attributed to the fact that the twoyear-old child though badly injured, was not seen as having been 'sexualised' by the act whereas the eight-year-old by having been compelled to experience male sexuality had been so sexualised as to be constantly ashamed by her experience.4 In fact the judges quoted from her account in their judgment to show that what she experienced may be appropriately termed as sexual violation. For example, she had stated that "Nawal Chacha (uncle) put his male organ

slipping out. After that my vagina was paining". The judge's reference to her feelings of shame in recalling these events shows that it is not only changes in the body but also in the construction of the self as a sexual being that determine, 'marriageability' of a girl and hence the judicial discourse dwells on her memory of the event as much as on bodily harm a constitutive of rape.

Whereas in the case of a child or a virgin the question is whether a body previously unmarked by the impress of male desire on it, has been 'sexualised' through the offence under trial, in the case of women who may be defined as 'sexually experienced', the discourse on sexuality and alliance intersects on a different point. This is the point at which a slippage occurs in which the offence against the body and will of the woman becomes transformed into an offence against the rules of alliance. These rules implicitly state that men may only treat those women as sexually available who are not integrated into the structure of alliance. Thus, those men who recognise each other in the 'matrimonial dialogue of men' to use the evocative phrase of Levi Strauss (1969), are normatively required to constitute the women as signs, as women carrying significance in this dialogue. If, on the other hand, a woman is not chaste and is therefore without significance, in the exchange between men, then she may be seen as available for sexual experimentation. In all such cases the rape trial becomes a dramatic enactment showing how force may be used against the will of the woman but is likely to h converted into consent by the application of judicial reasoning on the relation between surfaces and depths in defining the mode of being female.

The example I offer for the first kind of reasoning - 1 c, the offering of judicial protection to a woman who is integrated into the structure of alliance - is to be found in a judgment delivered by the Karnataka High Court in Criminal Appeal No 79 of 1983. D. II - II - 1986, in the case of the state of Karnataka (Appellant) and Mehabooh and Others (Respondents). The case was as follows. The prosecutrix was a married woman, normally resident in Bangalore, who had gone to another town by bus, to see her ailing father. From the bus stand she took an autorickshaw which was being driven by one of the accused. On the way the driver stopped and at his whistle another accused entered the autorickshaw. Instead of going to the residential colony, where her father lived, the driver took the rickshaw to a lonely place. The prosecutrix was threatened and bodily carried to a ditch where she was raped. The defense plea was that the absence

1 injuries on her body or on the accused showed that the prosecutrix did not resist and hence her accusation was a tissue of hes. The Sessions Court had acquitted the accused on the grounds that injuries were not found on the woman or on the accused, and there was lack of other collaborative evidence to prove rape. In an appeal against the order of acquittal, the Appellate Court held that it was possible that the woman did not physically resist for fear of being assaulted and that absence of injuries could not be onstituted as lack of proof of a sexual ittence having been committed on her. The ourt also held that it was now settled law that corroboration was not essential for conviction and that necessity of corroboration was a matter of prudence. In this case since the prosecutrix was a respectably married woman, her testimony did not need collaborative evidence. The order of acquittal was thereby reversed

This case is a good example of the manner of which femininity as capability is constructed, and how the rape trial may become a dramatic enactment of the division between a good woman and a bad woman, hisplaying norms of femininity.

The defence of the accused in this case had been that the prosecutrix had been abandoned by her husband and had taken to prostitution. They alleged that the police had a false case forsted against them and that the woman being of an immoral character, norelevance could be placed on her evidence. The defense had also relied on an earlier case (Pratap Misra vs State of Orissa, AIR 1977, sC 1307 (1977 Cri LJ 817) when it had been feld that absence of injury either on the accused or the prosecutrix shows that the prosecutrix did not resist. (We shall come to this case later).

In its judgment the Appellate Court idmitted that according to the medical officer fac woman had not complained of any pain in her private part. However "as stated by the medical officer herself further, there would be such pain or injury only if the victim is virgin and admittedly PW-1 was a married woman and used to sexual attercourse. Therefore, the fact there were orinjuries on the person did not necessarily mean either the story of PW-1 regarding are incidence was unreliable or that she was consenting party".

The judges went on to state further that Ve have gone through the evidence of PW with utmost care, particularly having in rew the defense version of the case tried to be made out affecting the character of PW but for the suggestions in the cross examination which she has also stoutly med, there is nothing to even remotely spect that she is a woman of such easy ortues".

We shall see a little later that how judges interpret the absence of injuries depends upon their understanding of the character of the woman and more precisely whether a woman 'habituated to sexual intercourse' is firmly bound within the structure of alliance or whether she can be treated as someone outside it.

In this particular case, the dividing practices by which the good woman and the bad woman are separated becomes even clearer since the judges gave an elaborate discourse on the meaning of consent. It may be worthwhile to quote this at some length.

And whilst the sands were running out in the time glass, the crime graph of offences against women in India has been scaling new peaks. This is why an elaborate rescanning of the jurisprudential sky through the lenses of 'logos' and 'ethos' has been necessitated. In the Indian case refusal to act on the testimony of a victim of sexual assault is adding insult to injury. Why should the evidence of a girl of the woman who complains of rape or sexual molestation be viewed with the aid of spectacles fitted with lenses tinged with doubt, disbelief or suspicion?.. We must not be swept off the teet by the approach made in the Western world which has its own social milieu, its own social mores, its own permissive values, and its own code of life. Corroboration may be considered essential to establish a sexual offence in the backdrop of the social ecology of the Western world. It is wholly unnecessary to import the said concept on a turnkey basis and to transplant it on the Indian soil regardless of the altogether different atmosphere, attitudes, mores, responses of the Indian society and its profile...

Having established through the means of spatial differentiation, the difference between a social inilieu which is permissive (i.e., the West) and one in which girls live in a "tradition bound non-permissive society" (i.e., India), the judges map this spatial difference onto a difference between women of two kinds. They give no less then 12 reasons why one may presume that women in India, would not make false allegations of sexual assault 'with the rare exception of one or two cases coming from possibly amongst the urban elite'. These 12 reasons define the limits within which sexual desire may move. Thus, a woman admitting to sexual assault against her would be conscious of social ostraci-sation; if she is unmarried she would appre-hend the difficulty of securing an alliance with a suitable match 'from a respectable or an acceptable family'; she would risk losing the love and respect of her husband; she would feel extremely embarrassed in relating the incident to others on account of the upbringing in a tradition bound society where by and large sex is I need not labour the point further that a woman whose testimony is likely to be believed is normatively defined as one who is 'tradition bound', who displays the appropriate modesty with regard to male desire, and who is in danger of losing the love and respect of her husband if it turns out that she had consented to sexual intercourse with another man. This brings me to the issue of how judicial logic is applied to issues of consent when the woman does not come within these defined limits, and hence violates the definition of a good woman.

I should like to take my examples of judicial reasoning of this kind from two cases - one (state of Orissa vs Pratap Misra), was quoted in the previous judgment and the second, Tukaram vs State of Maharashtra, more popularly known as the Mathura case, was alluded to earlier. It may be recalled that Mathura, a young girl who was between 14 to 16 years old had been raped at the police station while her brother and lover were outside the police station. The Sessions Court had acquitted the accused arguing that there was a world of difference between sexual intercourse and rape and that there was no evidence to support the contention of the prosecution that she had not consented to sexual intercourse. The High Court, on appeal, reversed the decision of the Sessions Court on the growads that passive submission by the girl could not be read as consent. The judgment that we shall be considering is that of the Supreme Court which reversed the decision of the High Court and set aside the conviction of the two accused

Let us see how Maihura is portrayed as a social persona in the judgment. "Mathura (PW 1) is the girl who is said to have been raped. Her parents died when she was a child and she is living with her brother, Gama (PW 3). Both of them worked as labourers to earn a living. Mathura (PW 1) used to go to the house of Nushi (PW 2) for work and during the course or her visits to that house, came into contact with Ashok, who was the sister's son of Nushi (PW 2) and was residing with the latter. The contact developed into an intimacy so that Ashok and Mathura (PW 1) decided to become husband and wife."

Following this Mathura's brother Gama had lodged a report at the police station alleging that his sister had been kidnapped by Nushi. At the police station the Head Constable asked Mathura to wait while he asked the others to move out. It was while her companions were waiting outside that the head constable took her to a torlet situated at the rear part of the police station, loosened her underwear, lit a torch and stated at her private parts. He then dragged her to a charpoy and telled her on the ground and raped her

in spite of protests and stiff resistance. After this a second constable fondled her private parts but was unable to rape her because he was in an intoxicated condition.

The main contention of the appellants before the Supreme Court was that there was no direct evidence of rape since no injuries were found on the body of the girl or of the accused. The court held that no marks of injury were found on the person of the girl and "their absence goes a long way to indicate that the alleged intercourse was a peaceful affair and that the story of stiff resistance put out by the girl is all false". The High Court had found evidence of passive submission, believing the victim when she stated that "immediately after her hand was caught by Ganpat, she cried out. However, she was not allowed to raise the cry when she was being taken to the latrine but was prevented from doing so. Even so, she had cried out loudly. She stated that she had raised alarm even when the underwear was loosened at the latrine and also when Ganpat was looking at her private parts with the aid of a torch". The Supreme Court, however, held that the cries and alarm were a concoction on her part. It said that it was preposterous to suggest that she was so overawed by the persons in authority and the circumstances that she could not resist. The judges supported the judgment of the Sessions Court including the version that "Finding Nushi angry and knowing that Nushi would suspect something fishy, she (Mathura) could not have well admitted that of her own free will, she had surrendered her body to a police constable. The crowd included her lover Ashok and she had to sound virtuous before him."

How is it that in the state of Karnataka vs Mehboob and Others, the judge made such a strong case for giving full credence to the stated version of the woman that force had been used against her, despite absence of injuries, while in the present case the Supreme Court had no hesitation in assuming that the girl had actively participated in the act of intercourse at the police station with a constable? This, in spite of the fact that her brother and lover waited outside. One has to take recourse to the structure of alliance relations within which the girl/woman was placed to see why her body was seen as if it were pitted against her speech. Mathura was already cast in the social persona of a woman who had taken a lover and hence her protests could be dismissed as a tissue of lies. In support of the judge's contention the medical evidence was read to show how habituated to sexual intercourse she was. "Her hymen revealed old ruptures. The vagina admitted two fingers easily". Thus, the reading of the surface of the body is made to confirm to the judge's reading of the 'inside' of her being - his conviction that she was a particular kind of girl who would be so overcome by her sexual desire for the constable whom she had never even seen before that she would surrender her body to him while her lover waited outside and then make accusations of rape in order to appear virtuous. Taken together, these two judgments show that judicial belief or disbelief in the woman's version of the events is a matter of the classificatory practices through which good women are separated from bad women - it has less to do with protecting the body integrity of the woman and more to do with regulation of sexuality in accordance with rules of alliance. Far from problematising the practices of sexuality in this regard, the judicial discourse normalises the dividing practices. Sexual violation becomes the opportunity in which courts of law become the sites of dramatic enactment of the judicial norms through which the relation between the surface of the body and the depth of feminine being could be read to create the female as the subject, a necesarily fragmented one since her body and speech are put at war with each other.

If further proof were needed of the classification of women suggested by the case law, one could refer to state of Orissa vs Pratap Misra. In this case a pregnant woman who was in a holiday resort with a man, was raped by some NCC students. Despite the presence of corroborative evidence, what weighed heavily with judges in pronouncing the sentence of acquittal was the finding that the man she was accompanied by was not her husband but her lover. The absence of injuries on her body was then seen as a sign of her consent and it was assumed that the man had contracted with the students to make her available for sexual intercourse. Even the fact that she had a miscarriage following this sexual assault was seen as unconnected to the event of rape.

We are now in a position to give a concise description of the classification of women that emerges in the rape trials. There is first a binary distinction between a girl who is a virgin and a woman who is sexually experienced. Desirable women are those who can be integrated into the system of alliance - virgin girls by being gifted in marriage to 'respectable and acceptable' families (to use the phrase which occurs frequently in the judgments) or those who are already so integrated. Sexual desire in these women is regulated by the structure of alliance - hence an offence against them constitutes a sexual offence for it violates the codes through which the matrimonial dialogue of men is conducted. By the same logic, however, the women who are described as of easy virtue, 'habituated to sexual intercourse' with men who are not their husbands, do not have rights to the protection of the state. In their cases the body always speaks to negate their speech. By declaring them to be shocking liars, the courts construct a category of women in whose case a 'no' to sex can be converted to a 'yes' by the application of judicial reasoning. I shall now argue further that the judicial discourse does not simply blot our such women from sight but actively constitutes them as available for the satisfaction of male lust by the judicial phrasing of the relation between surface and depth. This is the logic within which we can understand the concern of the case law to define, first, what is penetration and second. what is consent. The first re-orders the body as surface on which the judicial gaze can read different kinds of signs, establishing either complicity to sexual intercourse or resistance to it. The presence or absence of injuries, the state of the sexual organs of the woman all become evidence of where her place is in the division between virtuous and wanton women. The second question, that of establishing consent which requires inference about the will of the woman, then turns on the question of how depth or the interior motive of a woman may be establishing the surfaces of the body through the judicial gaze. Female subjectivity is made transparent as the judicial gaze moves from the surface to the depth of the body. Thus, the integrity of her being is shattered in the rape trial and the whole question of female consent becomes a 'process of positioning the male to do what comes naturally - that is to act from and in nature, in full accord with both body (desire) and speech (will)' [Bright 1994;3].

#### CONSTRUCTION OF MALE DESIRE

The discourse on male desire is veiled The judicial phrases uttered in judgments, nevertheless, show clearly that the concept of nature is deployed to first define men's desire for female bodies as 'natural', and then the classification of women that we discussed is used to direct such 'natural' desires towards the appropriate categories of women. Here too we shall see that the discourse on sexuality intersects with the discourse on alliance but the points of intersection are somewhat different.

Since male desire for female bodies is seen as 'natural' almost as a counterpart of rape being seen as an offence that does not violate the order of nature, the judicial discourse on male sexuality is engaged in the creation of a 'social savage' [Greimas and Landowsky 1976]. This social savage is tamed by the application of rules of alliance which provide the grid within which men may be constructed through their relatedness to each other. Thus, desire in the male is schooled through rules

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of culture by placing men in positions relative to each other, and desire for female bodies is regulated through this social recognition that men grant to each other in the system of alliance Male desires are then judicially classified in accordance with the various points of intersection between the discourse of sexuality and the discourse of alliance

Desire for the female when embodied in a young male is classified as instinct, provided it is directed towards a woman who is not integrated in the system of alliance and hence can be categorised as a woman of easy virtue

The judicial construct of 'young male acting out his natural sexual instincts' is deployed in the sentencing structure in the course of hearing on mitigating circumstances granted to the accused. It may be evoked in the context of acquittal or even in cases when judges are laying out their reasoning as to why the offence should be treated as a grave one. Independent of the context, the judicial phrasing (emphasised in the following texts) make this construct of a 'natural sexuality residing in the male available for thought. This is particularly striking in face of the fact that women whom courts classify as of easy virtue are never seen to be acting out any natural instincts which would be symmetrical to the construction of desire in the male

In the case (SC 58/1986 Ernakulam) of the two-year-old child who was sexually assaulted by a young man discussed earlier in the paper, the assistant sessions judge gave her reasoning for reduction of the period of rigorous imprisonment as follows. 'It's indeed a cruel and wretched act to commit sexual assault or attempt to rape an infant girl of two years especially in the circumstance that the accused was sharing his stay in the residential apartment of the family of that girl along with them. At any rate the accused could have refrained from whatever his sexual instincts may be from the child Still in due consideration of the prime of youth of the accused and his tender age of running 17 at the time of the act etc'

The second case, I would like to cite is that of an unmarried woman who was raped by a hospital attendant after he had taken her to an empty room on the pretext that he was taking her to the ward where her niece was admitted. After rejecting the defense pleathat the prosecutive could not be believed because she was not a virgin and that there were discrepancies in her account the court observed.

The beastliness and atrocity of the crime is evident from the injury resulting due to the thrust. According to PW 2, the doctor, about thirty stitches were put for the ragged tear inside the vagina and blood transfusion also.

had to be given. There is no evidence of any opprovocation or enticement from the side of the victim. There is no evidence that the prosecutrix is of easy virtues. The accused is aged 32 years and the crime evidently is not the result of any impulsive act due to the intepressible sexual urge of an adolescent or youngster.

Many other examples could be given of this form of reasoning. I hope the point is sufficiently clear that in the process of judicial verification, courts construct the category of young males who are acting out their impulses and 'irrepressible sexual urges' when they rape women The judicial intervention is not directed towards the protection of all women from such males on the prowl. What the courts do through their intervention is to define the category of women on whom these urges may be acted out and separate them from the women on whom these acts may not be committed. The former are defined as women of easy virtue' while the latter are women who in future may be inacgrated into the system of alliance or are already within it

The lieve it is this definition of certain kind of sexual violence as stemming from the order of nature, which allows agents of the state such as policemen to commit rape and sexual assault on those women, who have come within their jurisdiction due to the disturbances in the code of alliance. In the case of Mathura which has a'ready been discussed, it was the complaint lodged by the brother against her lover that allowed the police constables accessover her. The judicial phrasing of the Supreme Court judgment was also based upon the fact that she had a lover she was habituated to sexual intercourse and the hymen had shown old tears. It was as if natural' for such a woman to agree to sexual intercourse with the constable whom she had not even known before, right in the police station while her relatives including her lover, waited outside In other cases of custodial rape also one common feature has been that the woman has violated the code of alliance and hence becomes a field on which men may gratify their sexual instincts

In the eyes of the courts when does sexual instinct become unholy lust? Thave suggested that this is so when the sexual act has made a girl who was previously suitable for being given in marriage now unmarriageable. We already that this is reasoning applied in the case of Tulna, the eight year old girl in that case the appellants and the defendants belonged to respectable? families—a point emphasised quite strongly in the judgment which noted that the girl's father was a journalist who had travelied abroad, and the people involved were men of 'status'. The same reasoning, viz, that the offence of rape

consisted in having made the girl unmarriageable, may be found when the accused belongs to a higher status than the girl, except that in such cases the judges may either seek to correct the injustice by insisting on a marriage between the victim and the offender or the punishment may consist of financial compensation to be provided to the girl to secure a bridegroom who would be willing to marry her

Rose Verghese (1992) cites a case (Braja Kumar Chauhan versus the state of Orissa) in which the judge first tried to arrange a marriage between the prosecutrix and the accused. After the attempt failed, the judge then reduced the sentence of imprisonment of the accused and instead fined him Rs 3,000 which was to be paid to the prosecutrix He stated that the prosecutrix 'now a young girl, will be left at lurch on account of the stigma' due to the publicity that the case must have locally received, and prospects for her marriage appeared bleak. However she could be rehabilitated, he thought if she received some financial assistance. In order to achieve this end the financial compensation was to be provided to her and the term of imprisonment of the accused accordingly reduced Clearly the courts are instrumental in 'trade off' in this case so that a man of a lower social status may be provided with the financial incentive to marry the woman who has otherwise become unmarriageable. The concern is again not with protection of the body integrity of the woman but with correcting the disturbance in the system of alliance is which has been violated by 'untained male desire

The judges are also likely to treat sexual desire as unholy lust' in cases of gang rape if the husband is present at the time of the sexual assault. This is provided, the man is recognised as an appropriate partner in the matrimonial dialogue. In one case, three men broke into a house, committed robbery and gang raped the wife one by one while the husband was held by the other two nien on the point of a knife. In the First Information Report the husband did not report the rape 'due to fear of loss of reputation" "However after the accused were identified and arrested he reported the rape saying that" his should not happen to any husband in future [Cited in Verghese 1992 159, emphasis mine] In awarding the sentence of 10 years rigorous imprisonment, the court noted the hemous nature of the crime. Although the woman had not physically resisted the rapists, the judges noted that this was "due to fear of death of her husband, herself and her child As Purvi Shah (1993 4) noted in her astute comments on the paper, "This court's decision is not based on any injury to the woman's body or lack of consent Rather it is framed within the context of the harm ier husband, tamily and she - within the ontext of her family - may face. Indeed, his woman has been made into a wife or nother rather than a woman. The cases vhereby the court renders decisions of rape nvolve subjects seen as wives not as women". the goes on to state that not only is the jusband's respectability seen as the central actor determining the court's decision in his case but also, "It is interesting to note low this privileging of the husband echoes he power granted to a father. For instance, n the rape case involving the eight-year-old, part of the case's validity stemmed from 'the all's enraged father' who was responsible or appealing the case." Thus 'natural instinct' s transformed into 'unholy lust' in judicial shrasing if acting out this instinct leads to tigmatising men as husbands or fathers. In rranging and aligning women and ositioning them in relation to men as either vailable for sex or protected within systems falliance, the courts construct and classify nale desire in a manner that leads to either he formal naturalisation of rape as somehow egally consensual or they criminalise it as hallenge to patriarchal alliance systems

Similar facts, however, of raping a woman n the presence of her husband begin to look lifferent in judicial reasoning if it turns out hat the woman was not legally wedded to he man. In the case of Pratap Mishra vs State if Orissa, to which reference was made arlier, the woman was subjected to sexual assault by three NCC cadets while on holiday vith a man. In this case the judges of the supreme Court disbelieved the version of he woman although she suffered an abortion ifter the rape and assumed consent on her part. Among other factors one, which veighed heavily with the judges was that he woman was only a 'concubine' of the nan Vasudha Dhagamwar (1992 246) in providing an excellent critique, quotes from he judgment:

We do not mean to suggest even for a moment that PW2 was a pimp, but the fact remains that the appellants undoubtedly wanted to have negotiations with him before insisting upon him to open the door. This is also a circumstance that militates against the case of rape and shows that PW2 himself connived at the sexual intercourse committed by the appellants with his concubine

One is stunned to observe in this case that what counts with the judges is the assumed elation that the men have formed with each other—the circumstance that militates against he case of rape, they say—is that PW2 timself connived at the sexual intercourse ommitted by the appellants with his oncubine. Neither the injuries on the body of the woman, nor her own will count—the smale body and will is placed in the 'custody' of the male to be disposed off as he wishes

The third construction of the rapist is of a man securing vengeance against another man by violating the latter's wife, daughter or sister. In such cases also the woman's body is merely the sign through which men enter into relationships with each other. In the Indian courts this comes up frequently in the context of policemen going on a rampage of looting, destruction and mass rape in order to punish the population of a village or a locality. Varghese (1992) quotes the case of 14 policemen who went on a rampage against the women in a small village in order to avenge an insult to one of their colleagues (Quoted in Varghese 1992, and Dhagamwar 1992) The court acquitted the policemen on the ground that the women in the village who were from the lower castes could not be equated with 'such ladies who hail from decent and respectable societies' as they were engaged in menial work and were of questionable character?. The judge further added that "It cannot be ruled out that these ladies might speak falsehood to get a sum of Rs 1000, which was a huge sum for them".

Because the naturalisation of male desire is connected to systems of alliance, the whole question of marital rape is removed from the arena of judicial discourse. The satisfaction of male desire when it is sought to be fulfilled within the confines of matrimony is considered legitimate, no matter how it is fulfilled. The legal code does not recognise marital rape - hence at the level of judicial grammar, this category does not exist. In the process of judicial verification, however, the judges can find instances when grievous bodily harm has been done to the wife in the process of the exercise of his conjugal rights by the husband. In such cases the courts have held that while a husband can cause grievous bodily harm to the wife, this cannot be classified as a sexual oftence. The first and best known case of this kind was reported in 1890 when Phulmoni Dasee who was a little over 10 years died when her husband tried to have forcible sexual intercourse with her. The husband was convicted under section 338 of the Indian Penal Code which deals with causing grievous hurt by doing an act so rashly as to endanger human life or personal safety of another. Subsequently the age of consent was raised to 12 and has continued to rise till 16 [see Dhagmwar 1994]. The law clearly takes recourse to the idea that marriage is the prescribed institution for the satisfaction of 'natural' sexual instincts - hence sexual intercourse within marriage cannot be considered a sexual offence. If a woman incurs injury during sexual intercourse with her husband this is to be treated with other non-sexual offences of a similar kind. Thus in the case of a conjugal couple, the surface of the female body has no information to convey for determining the nature of the 'inside' for she does not exist as a subject for purposes of rape law

Pratiksha Baxi (1995) argues that the discourse on marital rape, not only in the courts but also in the parliamentary debates normalised the use of force in sexual intercourse within marriage. She points out that in the report of the Joint Parliamentary Committee on the proposed amendments to the rape law, a separate category of 'illicit sexual intercourse not amounting to rape' was created to cover cases in which a man who is separated from his wife has forcible sex with her (the JPC Report 1982;8) In defence of this amendment it was stated that "The Committee feel that in a case where the husband and wife are living separately under the decree of judicial separation, there is a possibility of reconciliation between them until a decree of divorce is granted Hence, the intercourse by the husband with his wife without her consent during such period should not be treated as or equated with rape. The Committee are of the opinion that intercourse by the husband with his wife. under such circumstances should be treated as illicit sexual intercourse" [The IPC Report 1982 8, cited in Baxi 1995 73] Baxi's interpretation of this statement is impeccable "The distinction between rape and sexuality from the woman's point of view gets bluried for the state permits force in sexual intercourse, not only for describing it as normal but by normalising it for the sake of 'reconciliation'. Here power is deployed to constitute married woman's sexuality as 'passive' for the capacity to say 'no' to sex within mairriage is not recognised by the law as a legal right."

In Foucault's (1980) history of sexuality, power was understood as essentially that which dictates its law to sex by dividing sexuality between light and illight and permitted and forbidden compartments. In looking at the relation between power and sexuality as it is revealed in the judicial discourse in India, I suggest that it is encountered not in the form of limit and lack but mits dynamic active form of production of bodies and speech both male and female The sites of judicial discourse are the female body and male desire while there is a corresponding silencing of the discussion on temale desire and male bodies" \* As we have seen, it is male desire which is considered 'natural', hence 'normal' and the female body as the natural site on which this desire is to be enacted. Women are not seen as desiring subjects in the rape law - as wives they do not have the right to withhold consent from their husbands - although the state invests its resources in protecting them from the desires of other men Paradoxically

women defined in opposition to the wife or the chaste daughter, i e, women of easy virtue, as the courts put it, also turn out to have no right to withhold consent. Unlike the case of the wife, however, it is not through the application of judicial grammar but through judicial semantics that this right though legally granted is taken away in the course of court hearings. As Purvi Shah (1994:6) put it, "A reading of female desire as interpreted by the courts demonstrates that while men are seen to be acting out their 'natural' urges when engaging in 'illicit' sex, women who show any sort of desire outside the confines of marriage are immediately considered 'loose'. By escaping the confines of male-centred discourses of sexuality and alliance, these women are then castigated by becoming the objects of any sort of male desire. Rape is not a crime but is reduced to an act that she herself deserves or seeks... Under the court's adjudication of these rape cases, every man thus becomes not an object of female desire, but rather these women who show 'illicit' desire become consensual objects of male desire even against their will".

Thus it is clear that a woman's yes to sex outside marriage puts her in a position in which she is rendered judicially incapable of constructing desire in the singular for a particular man. Her illicit desire places her within the power of any man and especially within the power of the agents of the state such as policemen. It would, however, be a mistake to think that this is only a disciplining of female desire. It is equally a disciplining of male desire. By constructing male desire as 'natural' it is also generalised, so that once the system of alliance is suspended in thought, then one woman is considered as good as any other for the satisfaction of this desire. Thus the judicial discourse cannot admit of desire for a particular woman even in the male subject. One may recall the evidence of the chowkidar (watchman) of the guest house in the Pratap Misra case that he had found the man crying helplessly outside the room in which the NCC cadets raped the woman, presumably his lover. Similarly Mathura's brother and husband were made to wait outside the police station while she was raped by the constable.

Just as there seems to be no place for the woman as the desiring subject in the judicial discourse, but there is an elaborate vocabulary for describing the female anatomy and the impact of sexual intercourse on it correspondingly there is no reading of the signs of sexuality on the surfaces of the male body for establishing sexual offences, nor any understanding that desire in the male may be for a particular woman rather than for a generalised, standarised female body?." About the only question that seems medically of sexual intercourse or not and whether there are signs of injury especially on the sexual organs of the male. Both in the case of the two year old child and the eight year old child who were violated, the judges found evidence of sexual acts on the part of the male. Tulna, the eight year old child described the fattening of the penis and the pain she experienced when the man tried to insert his penis into her vulva. Similarly the judges had evidence of 'ejaculation of semens (sic)' in the two year old's case. Yet in both cases the judges only considered the question of penetration - although in one case partial penetration was considered sufficient to constitute rape while in the second case it was not. An alternate way of constructing rape would be to consider the evidence on the male body - reading the surface as conveying information on the nature of the offence - as sufficient for establishing it as a sexual offence. In that case the whole question of what constitutes penetration would become irrelevant as both male and female subjects would be constructed in their wholeness.

#### CONCLUDING OBSERVATIONS

In the introduction to this paper, I raised the question as to whether an understanding of how judicial discourse constructs normal and pathological sexuality at the level of the individual could help us to understand the widespread violation of women during episodes of collective violence and the judicial silence in the face of such grave disorders. I am not sure that we have an answer to the question but it appears to me that I may have found a possible direction towards which such an enquiry could move. If the combination of judicial production and verification (judicial grammar and judicial semantics) that we have considered produces a discourse on rape which places itself essentially on the intersection of the discourse of sexuality and the discourse on alliance, and which provides the essential function of protecting the system of alliance rather than protecting the body integrity of women, then the law can only function as long as normal classifications of marriageable and non-marriageable women; and of men who recognise themselves as partners in alliance versus those for whom such recognition is withheld since they are not likely partners in alliance; is in place. Since the the function of law turns to sort out women and position them in terms of availability and non-availability with reference to different categories of males, the entire judicial discourse falls silent in face of the collapse of these categories. This does not explain why desire to assert

relevant is whether the accused is capable • collective identity whether of nation or of community should become metamorphosed into the desire to humiliate men of other nations or communities through violent appropriation of 'their' women, but I believe that my analysis lays the foundation for understanding why the judicial institutions of the state become silent in the face of such disorder. I cannot find even the rudiments of a jurisprudence in the Indian legal system (but perhaps this can be generalised for other legal systems) that could address the problem of rape in the kinds of contexts in which the problem is not of ordering and sorting women but of protecting their body integrity against brutal rape and abduction.

#### Notes

[An earlier version of this paper was presented at the seminar on 'States of Violence', held in Michigan. I am especially grateful to the student commentators Carole McGrahanan, Purvi Shah and Stacy Cherry; and to Charles Bright for comments that proved extremely challenging in the revision of the paper. Discussions with Upendra Baxi, Pratiksha Baxi and Kalpana Viswanath were very fruitful for formulating the issues.1

- 1 I am grateful to Pratiksha Baxı for compiling the list of these cases for me.
- 2 The female body is objectified as a general body - all women are assumed to have a 'normal' body with the same kind of changes as a result of sexual activities.
- 3 Many of the cases that are analysed here are cited in the painstaking report on sentencing structures in rape cases by Verghese (1992)
- 4 Pratiksha Baxi has argued that the link between shame and sexual violence often results in rape being seen as 'worse than death' - an interpretation that she says the Indian Women's Movement has consistently tried to reject [Baxi 1995]. See also Kalpana Vishvanath (1994) who shows how the idea of shame and sexuality as a linked pair are internalised by women.
- I wonder if we can compare this with mediation in feud - another system in which men recognise each other through the exchange of violence - in which the party that is on the verge of losing may be persuaded to accept blood money to terminate the feud.
- 6 The question of how temporality enters the judicial discourse is very important, not only at the level of judicial grammar which determine how cases become time barred, but also at the level of judicial verification. Delay in the case of reporting a rape seriously prejudices the outcome not only because of the difficulty of obtaining medical evidence, but also because judges are less likely to believe a woman if she has delayed reporting the case. In the Indian judicial system the delays in arriving at a judgment (in Tulna's case the Supreme Court gave its judgment 11 years after the event) can make time itself a resource in the hands of litigants. The systematic examination of temporality cannot be undertaken here - it would require another paper.
- 7 It should be noted that when the exchange of

violence is within the framework of the institution of feud, there are strict rules which control the styles of violence that may be used. The sexual violation of women by the feuding parties is strictly considered outside the normative frame [see Das and Bajwa 1994]. What we witness in the case of policemen going on a rampage against lower caste women cannot be derived from rules of feud in which only men of equal status are said to 'recognise' each other, but a perverted theory of punishment in which the illegitimacy of state practices combine with a perverted working of caste hierarchy to produce the kind of outcome we are describing here.

- 8 This point was made forcefully by Purvi Shah (1994).
- 9 Desire for a male sexual partner is similarly generalised as an enactment of unnatural desire – an offence against nature.

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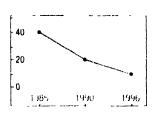
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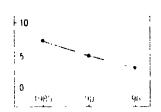
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# WHEN PRODUCTIVITY INCREASES, ALSO GO UP?

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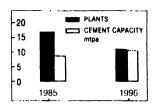
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#### Snould Domestic Prices be Equated to World Prices?

#### Prabhat Patnaik

Much has been written in criticism of the neoclassical proposition that a country's domestic prices should be equated to world prices. The assumptions on which it is based have also been much criticised

This paper presents an altogether different argument, which is relevant in the context of an underdeveloped agrarian economy like India and which turns on the faci that agriculture has very specific characteristics different from industrial activities, to show why alignment with world prices is likely to be a patently inoptimal policy for such an economy.

A COMMONIY held view among neoclassical economists is that a country's domestic prices should be equated to world prices. Indeed two policy measures which they usually advocate, namely that an economy should be 'opened up' for trade. and that tariffs, as far as possible, should be progressively eliminated, necessarily imply between them the advocacy of an equalisation between domestic prices and world prices

The underlying argument is quite straightforward. As long as (a) the country remains a 'price-taker', (b) there are no significant non-linearities on the production side violating constant returns to scale, and (c) there is no period-wise interdependence which makes static and dynamic optimisations divergent, free trade, which necessarily equalises domestic with world prices, enlarges in every period the availability of commodities in the economy (in the sense that the economy can obtain a commodity bundle outside of its production possibility frontier). It follows that free trade is an optimal policy under these circumstances, and so, by implication, is the equating of domestic with world prices.

These three assumptions on which this argument is based may appear strong to others, but neoclassical economists do not think so. They argue that the onus of proving that non-constant returns to scale, non-'pricetaker' status and the importance of timewise interdependence are indeed weighty considerations, is on their critics, they are only willing to concede that these assumptions may be violated in particular instances, proving a case at the most for some divergence between world and domestic prices in special circumstances (e.g., the 'infant industry' argument).1

Much has been written in opposition to this neoclassical proposition. Their argument for free trade for instance has been shown 'o be a non-sequitur which does not establish he welfare implications of free trade. The fact that a commodity bundle becomes vailable which lies outside the production possibility locus only means the satisfaction of Scitovsky's double-compensation criterion. Unless however we know precisely the point to which the economy moves after trade and this point is judged to entail an improvement in distribution, we cannot, on the basis of Scitovsky's criterion alone, hold the post-trade situation to be superior in welfare terms 2

In addition, of course, the assumptions mentioned above have been much criticised The purpose of the present paper is not to repeat all that. Rather it is to present an altogether different argument, which is relevant in the context of an underdeveloped agrarian economy like India and which turns on the fact that agriculture has very specific characteristics different from industrial activities, to show why alignment with world prices is likely to be a patently inoptimal policy for such an economy. This argument is different because it retains its validity even if assumptions such as constant returns to scale, the absence of timewise interdependence and 'price-taker' are made Section I presents a simple macro-economic model, Section II shows in the context of a single period how deviations from world prices would be better from the economy's point of view, Sections III and IV look at the growth implications of the two alternative strategies and question the tenability of the neoclassical argument even in a dynamic context. Section V gives some concluding observations.

Consider an economy with just two sectors 'food' and 'manufacturing' where 'food' output is given in the short-run (one of the specificities of agriculture which yields the bulk of food) but 'manufacturing' output is subject to variations along a supply curve which slopes upwards. This upward slope is because the equipment stock is given in the short-run and output is a function of labour with decreasing marginal productivity but constant moneywage. (One can think in terms of a vintage model to make the story more credible, but the purpose of using the production function approach is precisely to remain as far as possible within the neoclassical paradigm.)

The following equations capture what has just been said

$$O_{j} = \overline{O}_{j}$$
 ...(1)

$$\begin{array}{ll} O_j = \overline{O}_j & ...(1) \\ O_m = g'(L_m), \ g' > O, \ g' < O & (2) \\ w = p_m \ g' & ...(3) \end{array}$$

$$\mathbf{w} = \mathbf{p}_{\mathbf{g}} \mathbf{g}^{\dagger} \tag{3}$$

where O denotes output, L employment, pipice, and subscripts f and m the corresponding sectors. The money wage rate was assumed for simplicity to be common between both sectors. The equations are a self-explanatory

The world prices of the two commodities are given and unaffected by the country's actions ('price-taker' assumption) The domestic prices would be nothing else but these world prices multiplied by the price of foreign exchange if the two sets of prices were indeed equated. But since our purpose is to compare a situation where they are equated with a situation where they are not. we shall use a single parameter, an import tariff on the manufactured good, to capture the possibility of divergence of domestic from world prices. We therefore have

$$\begin{aligned} P_{i} &= \widetilde{P}_{i} P_{c} \\ \text{and} \\ P_{m} &= \widetilde{P}_{m} P_{c} (1+\tau) \end{aligned} \tag{4}$$

$$\mathbf{P}_{m} = \mathbf{P}_{m} \mathbf{P}_{-} (1+\tau) \tag{5}$$

where P is the price of foreign exchange and t the tauff rate

We assume that 'food'is the export commodity and that 'manufactures' are imported. The reason why 'food' should be the export commodity need not detain us here the argument of this paper is that in economies, where 'food' is exported, equating domestic prices with world prices would be moptimal, and the fact that historically it is 'food' or other primary commodities which have been the main export items of third world countries can scarcely be doubted

The question however is, it world and domestic prices are equal for 'food', then what determines how much is exported and how much is sold at home? And if the price of 'manufacture' imports (which equals the world price when r=0) is the same as the domestic price their what determines how

much of it is imported and now much is bought domestically? We overcome this problem in two ways: (i) we assume that exports of food equal what is left over after domestic absorption of food (which is independently determined) and (ii) we make use of the identity that the trade deficit equals the excess of total domestic absorption (which is independently determined) over total domestic output.

We also assume that all wages and only wages are spent on food, and that the earners of surplus, which consists of profits and tax revenue (the only source of tax revenue is the import tariff), have a real expenditure (all of it on manufactures) which is an increasing linear function of the real surplus. On this basis we have the following:

$$M = A+b.S/P_m -O_m \qquad ...(6)$$

$$O_{f} = X = (1_{f} O_{f} + L_{m}).w/p_{f}$$
 ...(7)  
 $S = O_{f} (P_{f} = w.1_{f}) + P_{m}.O_{m} = w.L_{m}$   
 $+ M.\overline{P}_{m}.P_{e}.\tau$  ...(8)

where S denotes the total surplus in money terms, I<sub>r</sub> refers to the average labour coefficient per unit of food output (which is already realised) and the other symbols are self-explanatory. X and M, it should be noted, are reckoned in physical terms.

We have nine variables to be determined:  $O_p$ ,  $O_m$ , M, X,  $p_p$ ,  $P_m$ , S,  $L_m$ , and  $P_c$ . Once we add the following foreign exchange market equilibrium condition

$$X.\overline{P}_f = M.\overline{P}_m$$
 ...(9)

we get a complete system for the determination of all the nine variables.

Let us now turn to a description of the logic of the determination of the singleperiod equilibrium. Let us, for simplicity, take  $\tau = 0$ . For any hypothetical exchange rate we have a set of domestic prices of food and manufactures which equate them to the world prices. At that domestic price of manufactures there is only a certain amount of domestic manufactures output which would be produced (given by the supply curve) and hence a certain manufacturing employment (and consequently total employment). On the other hand, at the domestic food price, since money wages are given, we have a certain real wage, which, together with total employment, gives us the total food absorption in the economy. The excess of food output over absorption is what is exported. Imports however need not equal this figure. Since all outputs and prices are determined as indicated, we have a certain level of surplus and hence a certain level of imports (from eqn 6) which need not match these exports. There would then be a non-zero excess demand for foreign exchange (since we are ignoring all autonomous capital flows).

Looking at it differently, the excess demand for foreign exchange is nothing else but the difference between the level of surplus and the expenditure corresponding to that level. It follows then that with b < 0, the excess demand for foreign exchange would be a decreasing function of the price of foreign exchange. And there would be some equilibrium price of foreign exchange at which foreign exchange market equilibrium, and consequently overall single-period equilibrium, would be established. (An exactly similar kind of reasoning can be provided for the case where  $\tau > 0$ .)

II

We thus have alternative single-period equilibria, each corresponding to a particular value of  $\tau$ . To establish that equating the domestic prices to world prices is the optimal policy for a country we have to show that the single period equilibrium corresponding to  $\tau=0$  is superior in some sense to any other single-period equilibrium which corresponds to any positive value of  $\tau$ . Alternatively if the equilibrium corresponding to a positive can be shown to be superior to that which corresponds to  $\tau=0$ , then the vacuity of the neoclassical argument would have been demonstrated. Let us therefore compare across equilibria.

At any equilibrium the real surplus (i e, the surplus in money terms deflated by the domestic price of manufactures) is equal to the real expenditure on manufactures. But since the latter is itself a function of surplus we have the determination of surplus by this mechanism. In other words,

$$S/P_m = A+b.S/P_m \qquad ...(10)$$

from which it follows that no matter what the value of  $\tau$ , at all equilibria

$$S/P_{m} = A/(1-b)$$
 ...(11)

which is a constant. The real surplus is the same in equilibrium no matter what the level of the import tariff is.

A conclusion immediately follows from this, namely that an equilibrium with a higher import tariff must entail a higher domestic price of manufactures, and hence a higher domestic output of manufactures. If this were not the case, if the imposition of a higher import tariff were accompanied by a lower or unchanged domestic manufactures price, then the only reason could be a sufficiently lower price of foreign exchange. But, since money wages are given, a lower price of foreign exchange would necessarily mean a lower level of nominal and real surplus than prevailed earlier. This however is an impossibility because in all equilibria the magnitude of real surplus must be the

ryow, the real expenditure on manufactures (or the real surplus in equilibrium) exactly equals the sum of domestic manufactures' output and imports. Since a higher import tariff, we have just seen, necessarily entails a larger domestic output of manufactures in equilibrium, it must entail a smaller import,5 and hence, for balanced trade, a smaller export. It follows then that (i) an equilibrium corresponding to a positive level of import tariff would give both a larger level of manufacturing (and hence total) employment and a larger level of per capita domestic food availability than an equilibrium corresponding to a zero level of import tariff; and (ii) an equilibrium corresponding to a higher import tariff would be generally better on both these counts than an equilibrium corresponding to a lower import tariff (until the tariff gets so high that the basic structure of the model would have to be modified).

By contrast, there is no way that the zero tariff equilibrium can be considered superior to the positive tariff equilibrium. True, it entails a lower domestic price for manufactures, but that, apart from having an adverse effect on manufacturing output and. employment, does not even improve real income distribution, since manufactures are absorbed (in the model) entirely (and in real life largely) by the surplus earners. On the contrary, this lower domestic price of manufactures contributes towards a worsening of real income distribution because it is accompanied by larger imports of manufactures, and hence larger exports of food to achieve trade balance, which reduces domestic food availability to the detriment of the poor. It follows then that equating domestic with world prices is a patently inoptimal option for a country.

#### H

So far we have confined attention to the single-period equilibrium. It may however be thought that equating domestic with world prices, though it may have short-term adverse consequences, would be beneficial in the long run. In this section therefore we compare alternative growth-paths, each corresponding to a different value of  $\tau$ , to examine the veracity of this line of thinking.

Our strategy would be to take the singleperiod equilibria corresponding to different values of  $\tau$ , which have been discussed earlier, as representing cross-sections from a number of alternative steady-state growth paths. To do so however wse have to make a number of modifications. First, the constant term A in (6) which is given in the context of the single-period must now have a time subscript attached to it and must exhibit growth over time. We can think of it as consisting of several parts: each sector's investment which is given in the singleconsumption expenditure by capitalists whose total magnitude, we assume, grows pari passu with the total wealth, i e, capital stock, in the country; and, finally, autonomous government expenditure which is also assumed to grow with capital stock. For convenience of exposition we do not talk of government investment, i e, do not take explicit cognisance of government apital stock.

Investment in any period (we ignore depreciation) is assumed, as just mentioned, to be the result of decisions taken in the previous period. As for specific sectors, manufacturing investment is assumed to be governed by a version of the acceleration principle: investment per unit of capital stock in any period equals the expected output growth rate for that period which is an extrapolation of the preceding period's growth rate. In the food sector, as long as some threshold rate of return is obtained, the actual rate of accumulation depends not on the rate of return but on the availability of complementary inputs like irrigation and energy which the government provides. We simply assume that the magnitude of food investment in any period depends on the magnitude of total government expenditure of the preceding period which is devoted to the food sector.

Accordingly we postulate:

$$\begin{array}{lll} A_{t} = I_{ft} + I_{mt} + a.K_{t} + G_{t} & ...(12) \\ I_{mt}/K_{mt} = O_{t-1}/O_{t-2} - 1 & ...(13) \\ G_{t} = m.K_{t} & ...(14) \\ I_{t} = I_{ft} + I_{mt} & ...(15) \end{array}$$

which are all self-explanatory (a.K, denoting autonomous private consumption).

On how much of government expenditure is devoted to the food sector we adopt the following reasoning. Unlike in the single-period where capital stocks in the two sectors were inherited and nothing could be done about their relative size, in the longer run this relative size can and would be altered. The chief mechanism of this alteration is the earmarking of a larger or smaller share of government expenditure for the food sector. The government tries to maintain a balance between the two sectors (pressure from food capitalists would force it to do so), so that we have

$$\begin{split} I_n &= \alpha.d_{i-1} \cdot [G_{i-1} + b.M_{i-1} \cdot \tau/(1+\tau)]...(16) \\ d_t &= j + (\mu K_t/K_{it} - 1).t & ...(17) \end{split}$$

where d is the proportion of total government expenditure devoted to the food sector, j,  $\alpha$  and  $\mu$  are constants and M. $\tau/(1+\tau)$  is nothing else but the "real" tariff revenue (multiplied by the uniform marginal propensity to spend out of the surplus); tenters as a multiplicative term for making analysis simpler.

There are certain identities:

$$K_{f(t+1)} = K_{ft} + I_{ft}$$
 ...(18)

$$K_1 = K_0 + K_{mi}$$
 ...(20)

And finally, both equations (1) and (2) have to be reformulated:

$$O_{mt} = g(K_{mt}, L_{mt}), g'_{1,2} > 0, g''_{1,2} < 0...(2')$$
  
 $O_0 = K_0 \cdot \beta \cdot ...(1')$ 

This last point, which simply asserts the intuitively plausible proposition that food output does not increase if real wages in the food sector fall, needs an explanation. A given amount of land containing a certain investment has a certain productive capacity and utilisation of this capacity is possible with a certain labour use. Increased application of labour with a given amount of capital sunk in land cannot on its own therefore raise output. And this is why we assume fixed coefficients in the food sector.

Three possible objections can be raised against this view; each of them however is based on a misinterpretation. First, it may be thought that since labour itself can give rise to capital formation, saying that additional use of labour cannot raise output is wrong. But the production by labour of capital is not the same thing as the substitution of labour for capital a la neoclassical economics. And our assumption about investment in the food sector is that it does not depend on real wages (since the threshold rate of return is always being earned). Secondly, the change in labour application per unit area which may come about owing to the 'substitution' of machines for labour over time does not necessarily represent a movement along any production function and is not usually sensitive to the real wage rate. And thirdly, the fact of the existence of diversity among farms cannot be utilised for constructing a production function approach (along the lines of a vintage model) because any fall in real wages would not raise output on farms which have maximum labour use per unit area (and, unlike in vintage models there are no unutilised farms waiting in the wings that would become viable at the margin if wages fall)7.

The difference between agriculture and industry in this regard, why a vintage model is less implausible for industry than for agriculture, consists in the fact that in industry the marginal units are capitalist units which are at the margin on the basis of a comparison of their labour productivity with the market wage-rate. In agriculture however the marginal units are not capitalist units. They are family units where the labour productivity is well below the real wage rate anyway, so that any lowering of the real wage rate has no impact on output. This basic difference between the two situations in turn derives from the fact that concentration proceeds much faster in industry than in agriculture.

constitute the complete system. In addition to the nine variables mentioned in the previous section, this system determines in any period the following additional nine variables:  $A_t$ ,  $d_t$ ,  $I_t$ ,  $I_{ft}$ ,  $I_{mt}$ ,  $G_t$ ,  $K_t$ ,  $K_{m(t+1)}$ , and  $K_{f(t+1)}$ . The system admits a steady-state solution with uniform growth (we shall not be concerned with questions of stability). In fact the steady state rate of growth is obtained by solving:

$$a.j.[m+b.\lambda(g).t/(1+\tau)] = \mu.g.(1+g)$$

where g refers to the rate of steady-state growth, and  $\lambda$  refers to the ratio of manufacturing imports to the total capital stock in the economy which is a constant for each growth rate and is an increasing function of the growth rate itself. Now a rise in the tariff rate would, for any given growth rate, increase the l.h.s. of this equation. The equation would hold only if the growth rate itself increases as a consequence of the tariff increase. In other words, the rate of steady state growth associated with a higher rate of tariff is higher than that associated with a lower rate of tariff. The argument that deviations from world prices, though possibly harmful in the short run, are beneficial in the long run is not therefore a valid one.

#### IV

It may be useful to see heuristically why a higher tariff rate would be associated with a higher growth rate in the economy. By our assumption the government is maintaining a certain balance between the sectors in the economy. Along each steady state path in other words the sectoral distribution of capital stock remains the same. If we compare these paths cross-sectionally, i.e., along a slice of time, then they would differ with respect to the tariff rate, and as a consequence there would be differences in the rates of growth which, cross-sectionally, would appear as diferences in A (see Section II). In other words, a higher tariff rate's increasing the growth rate reflects itself as an increase in A. Suppose there was no such increase in the growth rate, i e, A remained the same across paths even as the tariff rate increased. Then the surplus per unit of capital stock would remain the same across all paths, and total absorption and investment per unit of capital stock would remain the same. A redistribution of surplus would take place away from the food capitalists (owing to the terms of trade shift) but this would have no effect either on the magnitude or composition of aggregate demand.

If this shift of surplus, of which the government would be a beneficiary, leads however to an increase in its spending, and if investment in the food sector depends not so much on the surplus of that sector itself (since the threshold rate of return is being

spending, then clearly the result would be an increase in investment per unit of capital stock, 1 e, in the growth rate. This is the reason why an increase in the tariff rate, which has the immediate impact of raising employment and food availability, has the long-term impact of raising the growth rate (since the two analyses are carried out separately we cannot as yet get a complete picture of the traverse and hence cannot put the results of the two analyses together).

#### V

Finally, we have to ask: why do the conclusions of the present paper differ from standard neoclassical fare? An obvious reason for the difference arises from the assumption of fixed money wage that we make. This underlies the existence of unemployment in the economy, which makes possible larger or smaller output in one sector (manufacturing) even for a given output in the other sector (food). This is in contrast to the commonly-made assumption in neoclassical models that the money wage is flexible and its equilibrium value is that which clears the labour market. And if the economy always experiences full employment then movements can only be along a production possibility locus, and the question of any policy giving rise to larger employment simply does not arise

But our departing from utterly unreal neoclassical assumptions like flexible money wages and perpetual full employment is only one element in the picture. The specificity of our model, which is not just a restatement of the well-known view that in a demand-constrained system protection raises employment, arises from an important additional element which has to do, as mentioned earlier, with the difference between agriculture and industry. Three aspects of this difference are pertinent here.

First, agricultural output, unlike that of industry, is unaffected by demand and hence price in the short run, and the same within limits can be said of agricultural supplies (we are ignoring the question of speculation here). Secondly, not only is the output of the agricultural sector not demand-determined in the short run, but its productive capacity cannot be easily augmented in the short run through the shift of resources from elsewhere. To be sure this is true within industry itself: unemployed resources do not easily migrate from one industrial sector to another; but this is even more true between agriculture and industry.

These two characteristics imply that agricultural output is fixed in the short run, and in an economy which is an exporter of agricultural products, the domestic availability of such products in the short run is inversely related to how much is exported.

The agricultural product whose availability is of crucial importance is of course food. Since the substitution of non-food for food crops can be effected with great rapidity, it follows that the short run availability of food in an economy with agriculture as the main exporting sector is inversely related to the magnitude of exports.

It is this proposition which underlies our argument in the short-run context for deviating from world prices. If tariff protection of industry enlarges the output of this sector resulting in lower imports, then a foreign exchange market equilibrium can be achieved with lower levels of agricultural exports as well which means that there is an increase not only in total employment but also in per capita food availability.

Every such tariff imposition however shifts the terms of trade against agriculture, and our presumption is that this shift in itself has no adverse effects on private investment in agriculture. The reason for this lies in the third characteristic of agriculture, namely that while a certain minimum profitability constitutes a condition for investment, once this is ensured, raising profitability further does not have any positive effect on private investment. What private investment depends on (once the minimum profitability is ensured) is the availability of complementary public investment in the form of infrastructure, irrigation, extension, etc. To say this is not to assert some unique relationship between public and private investment (since how much of private investment is stimulated would depend on a host of additional factors including land relations and the available technology); it is to suggest that terms of trade per se, except in extreme situations, do not necessarily have any bearing on investment<sup>9</sup>. And it is this presumption which underlies our conclusion from the comparison of long-run growth trajectories, each of which is associated with a different rate of tanff protection, and hence a different level of the terms of trade.

The proponents of 'liberalisation' in agriculture fail to see this point. Their argument is that higher profitability in agriculture would lead to higher investment irrespective of what the state does or does not do. As a matter of fact it is only what the state does, and not higher profitability as such, which would determine whether agriculture experiences higher investment. It is this last proposition which underlies our argument about the desirability of deviation from wor'd prices even in the long run.

### Notes

1 Often a weaker version of the neo-classical proposition is advanced which argues that it is not the absolute levels of domestic prices which should be equated to world prices but that domestic price-ratios should be made equal to world price-ratios. In the absence of

- does not augment availability in any period: the availability frontier can be different from the production possibility frontier (lying outside it but touching it just at the point of production) only if there is actual trade. But if actual trade takes place, then either the absolute prices tend to get equalised, or the inequality between the domestic and world prices is maintained through a system of tariffs and subsidies (which amounts to de facto depreciation of the currency and hence de facto equality of absolute price-levels) Thus, the distinction between equalising the two sets of price-ratios and equalising absolute prices is scarcely of any practical consequence.
- 2 This argument is based on that of none other than IMD Little in his A Critique of Welfare Economics, Oxford, 1951
- 3 The broad setting of the argument of this paper, though not the argument itself (nor the details of the model), is similar to that contained in my paper 'Trade as a Mechanism of Economic Retrogression', forthcoming in the Journal of Peasant Studies.
- 4 The assumption of linearity is not necessary but is made for convenience. But the assumption that expenditure corresponding to surplus is a function of the magnitude of surplus alone is somewhat strong (though much less so than commonly used assumptions like proportional savings) because it presumes that the marginal propensity to absorb manufactures as the surplus increases is the same for the capitalists in the two sectors as well as for the state While dropping this assumption does not within limits, negate the results obtained below, it makes the argument more messy
- 5 This of course holds because A is a constant If for some reason A increases, then, for any given t, M is likely to increase, but the increase in M can never be as large as the increase in A, since that would entail a constant O<sub>in</sub> which is an impossibility an autonomous increase in a gregate demand must make its impact felt via some increase in prices and hence output
- 6 There is no harm in adopting this procedure since productive spending on overheads, even when it leaves behind a tangible asset scarcely yields a return and employment on these assets is largely for maintenance and repairs, commercial investment by the government can, if one so wishes, be treated on a par with private investment
- 7 While Amartya Sen's original explanation of the inverse relationship between the size of holdings and productivity talked in terms of a common production function between large and small farms. Utsa Patnaik emphasised the different production possibilities available to the different groups of farms. My argument here amounts to saying that for each group there are, as it were, fixed technical coefficients, and a change in real wages does not either alter the relative weights of the groups or bring in hitherto unutilised production capacity. See A K Sen, 'An Aspect of Indian Agriculture', The Economic Weekly, Annual Number, 1962 and Utsa Patnaik, 'Neo-Populism and Marxism', Journal of Peasant Studies, 1979.
- 8 While this is an obvious proposition we could not infer from it that an optimal policy would entail deviations from world prices Protection for raising employment could be provided by exchange rate depreciation alone as in standard "beggar-my-neighbour" formulations, without necessarily involving any tariffs.
- 9 This proposition was argued forcefully in Ashok Mitra's Terms of Trade and Class Relations, Cass, London, 1977.

## Export-Oriented Agriculture and Food Security in Developing Countries and India

### Utsa Patnaik

The set of economic policies labelled economic liberalisation, stabilisation and structural adjustment adopted by developing countries over the last 15 years have had and are having a profound impact on the nature of the development process in these countries, and especially on their food security. It is the aspect of food security as affected by food availability and income shifts which is the focus of this paper.

The paper argues that the undeclared aim of these policies appears to be the restricting of domestic income growth and absorption of the products of developed countries by the populations of developing countries in order to release resources for growth of the exportable products demanded by the developed world. In support of this the paper looks at the international division of labour in agricultural production in a historical perspective and contends that the theory of comparative advantage cannot explain either the history or the pattern of international specialisation because it contains a logical fallacy relative costs cannot be defined at all for a large range of trade relations. The paper also comments on the new pattern of demands on tropical agriculture emerging in the developed countries and the new drive to obtain tropical importables on favourable terms.

DURING the last 15 years, 1980 to 1995 nore than 80 developing countries have been following over various sub periods a sirtually identical package of economic policies, labelled 'economic liberalisation stabilisation and structural adjustment programmes, under the tutelage of the international lending agencies - the International Monetary Fund (IMI) and the International Bank for Reconstruction and Development (World Bank) They have done so as the obligatory condition imposed on them for portowing in order to finance their external payments deficits. Such a comprehensive orchestration from metropolitan centres of policy measures with an identical overall thrust for developing countries across the globe, is unprecedented and has never been seen before in the post-war era. These policies have had and are having a protound impact on the nature of the development process in the countries concerned, and on their food security in particular. It is the aspect of food security as affected by food availability and income shifts on which we propose to focus in this paper

India is a relative later omer to the group of adjusting countries in that the Fund Bank determined package started being implemented from mid-1991, the macroconomic impact of the policies, though redictable on theoretical grounds and on the basis of the experience of other countries is showing up in the data sources only with considerable lag, though in some respects the direction of the impact is already quite cear. In discussing the impact of the policies the agrarian sector and on food security 11 India, we will therefore draw upon the perience of other developing countries, while supplementing it with the available Il formation on the trends in the domestic onomy

This paper is in three parts. In the first we discuss the main content of the Fund Bank administered policies and argue that even though the ostensible aim is the correction of external payments imbalance and structural reforms required to sustain this the policies themselves are internally contradictory and not consistent with this declared aim. They do appear to be fully consistent however with the undeclared aim of restricting domestic income growth and absorption of their own products by the populations of developing countries in order to release resources for growth of the exportable products demanded by the developed world. They are also consistent with opening up markets for metropolitan capital where substitution of domestic productive capacities by imports rather than income expansion, appears to be the main mechanism of securing larger markets

We argue that the rationale of the first objective emerges clearly when we look at the international division of labour in agricul tural production in a historical perspective The climate soils specificity of crops and the concentration of natural bio diversity in tropical and sub-tropical areas has led historically to a high degree of import dependence by developed countries on imports from these regions and their policy regime vis a vis third world agriculture has been geared accordingly to sustaining their imports based high living standards. The populations of northern countries have made continuous and sustained demands on the limited productive capacity of tropical lands while the converse has not been true. The theory of 'comparative advantage' cannot explain either the history or the present pattern of international specialisation because it contains a logical tallacy relative cost cannot be defined at all for a large range of trade relations

We argue that despite some advances in productivity in the third world and in biotechnology in advanced countries, to date the sustenance of imports dependent high living standards in the latter appears to have been possible only at the expense of the decline of basic foodgrains production for local third world populations. It is in this respect that there is a strong adverse effect on food security. The emerging inverse relation between food production and exportable production is a pan developing countries phenomenon which is particularly marked in those which have taken structural adjustment loans in the 1980s and have been pushing agri exportables for a number of years. The inverse relation is just beginning to emerge in India as well

The second section comments on the new pattern of demands on tropical agriculture emerging in the developed countries during the last two decades and the new drive to obtain tropical importables on favourable terms. It argues that the present economic policies (SAP with trade and investment liberalisation) objectively achieves this aim whatever the putative aim might be by restricting domestic mass consumption growth in the third world countries against a cenario of declining investment, and through opening up of the agrarian economy induces cropping pattern and product use shifts away from basic necessities for local populations. Food security is seriously undermined and in countries which started with low iverage levels of nutrition prefamine conjunctures are rapidly created. Any moderately severe economic shock is then enough to plunge the vulnerable into actual starvation

The third and last part briefly explores the emerging class dimensions of support for and opposition to the new policies in India.

## Putative and Real Agendas in the Agrarian Sector

The new economic orthodoxy which has been introduced globally, by now is so well known as to require only the briefest recapitulation. It involves at the national level the apparent 'withdrawal of the state' from economic activity: however an essential aspect of this 'withdrawal' has been unprecedentedly vigorous and active state intervention to reverse previous policy packages and introduce completely new ones; far from being passive, the state actively implements a new policy package under Fund-Bank tutelage. Short- to medium-term measures include very tight fiscal and monetary policy amounting to sharp domestic deflation, devaluation, removal of protection (trade liberalisation), removal of subsidies; longer run measures include opening up the economy to the free inflow of foreign capital, privatisation of public-sector enterprises including the financial sector, removal of exchange controls and eventually full convertibility, export promotion and in the agrarian sector encouragement to agriexports and commercial agri-business.

While all this is put within a framework of the desirable, 'efficiency' promoting effects of the free operation of capitalist markets, this is evidently something of a smokescreen, in that a reified notion of 'the efficient market' is used to validate specific packages of interventionist measures which have never been implemented in this form in the developed countries themselves even when they had payments imbalance problems, but are today exclusively applied to developing countries. The benefits of these policies in turn accrue exclusively to the global metropolitan sector.

The core of the new economic dispensation, then, is deflationary contraction of the economy combined with the privatisation of industry and infrastructure, and the dismantling of all controls and protection in the process of promoting 'liberalisation', that is the unrestricted inflow of goods and capital. 'Deflation' is to be understood as income deflation and not price deflation; indeed rapid price inflation in necessities like foodgrains is a preferred instrument of mass real income deflation in many cases including in India. (While pushing for the full liberalisation of trade and investment flows into indebted countries, even the most ardent northern liberalisers do not however advocate the free mobility of labour or question immigration restricting policies in their own countries). To sum up, the policy package extends in fact far beyond the requirements of correcting external imbalance alone; the latter is used as is a validating device to bring in a total reversal regime hitherto followed.

Let us see what the IMF itself has to say about the policy measures actually implemented under its guidance by 78 indebted countries in the course of the 1980s.

It is evident that demand-contracting measures were undertaken in almost all cases and wage restraint plus exchange rate adjustments in a majority (Table 1). The cuts in central government expenditure and reduction in the budget deficit ratio, as is well known by now, were almost invariably achieved by slashing productive investment and cutting outlays on health and education. These were the logical corollary of the emphasis on the reduction of state investment. privatisation and the promotion of market pricing of health and education services. Now income deflating, demand-contracting fiscal and monetary policies have been timehonoured though crude and painful ways of reducing imports and thus helping to correct an external deficit. When an entire population's average income falls owing to deflation, it is obviously forced to consume, save and import less. In a developing country where average income is low and the distribution of income is highly skewed to begin with, income deflation has serious results: there is higher unemployment, and poverty increases further from already high levels. This happens even with unchanged income distribution owing to the fall in average income; in addition regressive fiscal and other policies (lower tax rates on the well-to-do, cuts in social subsidies, wage restraint) also worsen income distribution. Public goods availability suffers with social sector cuts.

But is it really necessary to incur such a high economic and social cost which is mandatory with a generalised deflation? Many economists not subscribing to the current economic orthodoxy have argued that it is not necessary: the desired effect of reducing imports and improving the trade balance, can in fact be obtained at very much lower social cost by specifically targeted export promotion and import controls, and through a system of allocating scarce foreign exchange to priority uses. The associated internal budgetary balance can be improved, not by growth-reducing cuts in investment and in vital social sectors, but by widening the tax base, ensuring less evasion and by cutting unnecessary state expenditures. Generalised deflation of the economy is not necessary for the desired end; it has been like ed to trying to cure a headache by cutting off the head.

#### **EXPERIENCE OF ADJUSTING COUNTRIES**

A well known set of UNICEF-sponsored studies [edited by Cornia, Jolly and Stewart 1987] on the impact of SAP and liberalisation on capital formation, growth and human

development indicators, have unfolded damning indictment. In 55 countries impl menting SAP during 1980-85, out of a tol of 124 years for which data were available in 71 years change in real investment rai were either negative or showed negligit change compared to the previous year; o of 186 years, in 155 years GDP per cap either fell or showed insignificant chang In a majority of countries, proportionate more so in Africa and in Central Americ poverty levels rose, as did infant mortali rates, while literacy campaigns received setback as health and education outlays we cut sharply under the mandatory Fund-Ba requirement of reducing governme expenditure [Pinstrup-Andersen, Jarami! and Stewart 1987]. However much the Fun Bank might protest that it does not speci that productive investment and the soc sectors be cut, the signals it sends c regarding the desirability of the withdraw of the state from investment, privatisaton hitherto public-sector enterprises, and 'rational' market costing of health a education services, are all consistent w public expenditure cuts necessarily taki these forms.

A more recent paper by R van der Hoev (1994) summarises the latest IMF studies Latin America. Taking all countries whi implemented liberalisation and adjustme between 1980 and 1990 the per capita Gl declined by 9 per cent, the minimum wa by 31.7 per cent and agricultural wage 26.5 per cent. The proportion of the po rose from 41 to 44 per cent with a large impact on the urban poor. The averag naturally conceal large variations with a fe countries performing reasonably and other approaching disaster scenarios with up to per cent decline in per head income (Boliv Argentina, Guyana, Haiti, Nicaragua) wh countries like Chile, Colombia and Barbac have seen stagnation in per head GDP. T absolute numbers of people in poverty Latin America have increased by 45 per co from 91.4 mn to 132.7 mn over the deca [Psacharopoulos 1993]. The cold statist conceal acute social distress: in so. countries worst affected, bizarre sympto of social tensions have emerged, as in Bra where large numbers of urban child begg

TABLE 1: IMF-Supported Programmes in 78 Countries in 1980s

| Type of Policy                 | No of Case<br>(Per Cent of To |  |  |
|--------------------------------|-------------------------------|--|--|
| 1) Restraint on central        |                               |  |  |
| government expenditure         | 91                            |  |  |
| 2) Limits on credit expansion  | 99                            |  |  |
| 3) Reduction in ratio of budge | t                             |  |  |
| deficit to GDP                 | 83                            |  |  |
| 4) Wage restraint              | 65                            |  |  |
| 5) Exchange rate of policy     | 54                            |  |  |

Source: Constructed from Cornia (1987).

o have re-emerged as the destitute give up heir freedom in return for subsistence

The IBRD data on sub-Saharan Africa. show that during the decade 1980-1989 out of 33 countries, 12 countries with 40 8 per ent of the population of the region registered average annual per head GDP decline ranging from zero to 2 per cent and another nine countries with 40.4 per cent of total population registered declines exceeding 2 per cent per annum Thus 81 2 per cent of he total population of sub-Saharan Africa n a total of 42 countries, experienced fall n income per head, taking all 46 countries of the SSA region as a whole per head GDP lell by 1 1 per cent annually over the decade Since the clites in African countries protected heir incomes, the decline for the rest must nave been larger. As a part of Fund guided wage-restraint policy, real average and minimum wages were cut by a quarter over just five years, 1980-85 in two-thirds of the countries for which wage data are available (IMF reports, summarised in van der Hoeven

Such sharp mass income deflation over such large populations, is unprecedented in the post independence history of developing countries, nor is it a matter of a few years of adjustment after which the economy starts growing again on the contrary since the basic problems of external imbalance and increasing indebtedness are not solved but aggravated by SAP policies the indebted cconomy enters on a permanent merry go round of more income deflation more devaluation, more raising of interest rates for fear of hot money flight more poverty for the masses combined with a more import dependent consumption for a minority towards whom the income distribution shifts In Latin America and SSA this has been going on now for a decade and half

Both regions, the Latin American countries is well as sub-Saharan Africa have seen a highly successful' export drive in primary products which has served to push out increasing volumes of exports to the advanced countries 'Successful' from the point of view of the latter, but not from that of the former, since sharply declining international terms of trade for primary products relative to manufactures (a minimum of 50 per cent decline in the 1980s continuing into the 1990s) have meant that any African developing country which 'only' double dexport volume wer the decade, was left with no increase in exchange earnings at all. The successful' xport thrust was therefore accompanied by worsening trade balances, since imports were imultaneouly liberalised while terms of trade noved adversely

These trends should cause no surprise when the same policies of devaluation and primary exports thrust are strenuously pushed

developing countries which are thus made to compete against each other to augment world supplies, it is hardly surprising if international prices decline, particularly since there is no sharp expansion of demand in importing countries. On the contrary the advanced countries economies continue to register stagnation or low growth under the regime of the high interest rates demanded by finance capital. For the African countries during the last 15 years, the decline in external terms of trade has amounted to a collapse which continues into the 1990s. We will have more to say on terms of trade in relation to India later. For the importing developed world on the other hand these price trends combined with successive rounds of Fund pressured devaluation in the exporting countries, have meant continuously lowering dollar prices for a range of necessities these countries cannot produce and has helped them to maintain and even raise their real standard of life despite their own very low rates of income growth. It is hardly surprising that there is a veritable cacophany of theories emanating from northern universities which castigate the poorer countries, alleged, export pessimism' urge them to open up and export usually the examples of 'export success are drawn from the state interventionist, neo mercantilist countries like Taiwan, South Korea or Singapore none of which are debt constrained SAP implementers and aic therefore totally irrelevant to the case of those developing indebted countries of which India is a prime example

Lund-Bank income deflating policies in poor indebted countries, despite being widely criticised for a decade on the basis of their own data for reducing investment and growth increasing poverty and leading to regression in health and education indicators, continue today to be geared to imposing the same punishing regime of income and demand contracting measures India as a recent entrant into the group of adjusters, has been implementing exactly the same set of policies. All the talk of 'adjustment with a human face has not changed by an iota the basic agenda. The package India has been implementing from mid-1991 is no different in substance from the packages implemented from a decade earlier by countries in sub Saharan Africa and in Latin America, with very adverse results, as we have seen

### DOWNWARD SHIFT IN FREND INVESTMENT AND GROWTH RATE UNDER SAP

The first act of the governing regime in mid-1991 was to devalue the rupee by 25 per cent and after allowing the exchange rate to slide further one of its last acts in the course of 1995 has been to carry out a further

the existence by then of large reserves, in total the rupee has depreciated against the dollar in nominal terms by over 50 per cent since 1991. In between it has imposed deflationary income contraction on the economy, engineered inflation in necessities prices, and slashed social subsidies which taken together have increased unemployment, reduced investment and growth, cut the real incomes of the masses and raised poverty

As in dozens of other countries earlier in India too both public and private productive investment and the social wage have seen severe cuts since 1991, resulting in a downward shift in the growth rate of the economy and a rise in poverty. The most severe income deflation was applied in 1991-92 and 1992 93 with the reduction in the ratio of the fiscal deficit to GDP from 8.4 per cent to 5.9 per cent and large administrative price hikes especially in issue prices of foodgrains under the PDS. The total capital expenditure of the central government declined by 16 per cent to 20 per cent in real terms (depending on the price deflator used) over these two years alone. The economy stagnated in the first year at grew by 5 per cent in the next year but this was mainly because of good agricultural performance. The rise in administered food prices led to a phenomenal increase in poverty by 1992, especially in rural are is to 48.1 per cent compared to 36.6 per cent. In 1990-91 according to the Tendulkar Jain (1995) estimate

In 1993-94 and 1994-95 however the budget deficit to GDP ratio rose above the desired SAP compatible levels attracting warnings from the Fund Bank but the expansionary effects were limited by the fact that it was the resenue deficit which grew fast at the expense of continuing stagnation in productive investment. However, some expansionary effect was present nonetheless and the growth rate improved though it remained at less than half of the annual rate for every one of the eight years before SAP. Also, this growth as the mere partial recipturing of the development loss of the preceding two years did not represent a net.

TABLE 2 A NEAL AVERAGE OF GROWIN RATE IN GNP. NNP AND NNP PER HEAD (At Factor Cost in 1980-81 Prices)

|                                               | GNP  | NNP  | NNP<br>Per Head    |
|-----------------------------------------------|------|------|--------------------|
| Pre SAP                                       |      |      | -                  |
|                                               | 7 46 | 7 63 | 5 37               |
| Six years<br>1985-86 to 1990-91               | 5 78 | 5 73 | 3 50               |
| Post SAP<br>Three years<br>1991-92 to 1993-94 | 113  | 2 83 | () <del>y</del> () |

Source Teonomic Survey 1994-95 Appendix Statistical Table \$3



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gain. Indeed the Net National Product per head rose by an annual average of a mere of 9 percent over the three years starting with 1991-92, compared to 5.7 per cent the three years peceding the reforms (Table 2) according to the data in the official 1994-95 Economic Survey. Poverty incidence came down by 1994 as the inflation rate moderated but it was still noticeably higher than in 1989-90, as confirmed by the Sen-Chandrasekhar estimate. With the general elections approaching fast the deviation towards SAP-incompatible higher budget deficit ratios has necessarily continued into 1995-96.

Manufacturing growth in particular has decelerated severely. A simple average of annual growth rates gives 1.9 per cent for the first three years of the reforms, 1991-92 to 1993-94, compared to an average of 7 4 per cent during the preceding six years 1985-86 to 1990-91 calculated on a similar basis (Table 3). With the SAP-incompatible rise in the budget deficit ratio, the growth during 1994-95 was much higher at 8.5 per cent (and for 1995-96 it is claimed to be even higher); even so however the four-year average starting 1991-92, is less than half of the average for the years preceding the teforms.

The trade deficit is expected to be back to about \$5 billion in 1995-96, which is short, but not much short, of the \$ 5.9 billion of 1990-91, despite significant export growth in the interim. The reason lies in a surge in imports in the last couple of years, partly owing to the industrial expansion but partly also owing to the import liberalisation that has been a feature of structural adjustment. It is noteworthy that the composition of imports is changing towards the particular types of 'capital goods' required for the new durable consumption goods. This again replicates the experience of other developing countries under liberalisation; however much export growth is hiked, freeing of imports particularly of the non-developmental kind leads to a private spending spree by the well to do, so that in a few years the payments problem is usually back to square one, while in the meantime a high and quite unnecessary price has been paid by way of more poverty for the rest of the population. The decline in the savings rate in the Indian economy is consistent with this spending spree by the

Inflation, stimulated by the 25 per cent devaluation of the rupee in 1991, was added by the cut in fertiliser subsidy in August 1991 which raised fertiliser prices by 30 per cent, and by effective cuts in food subsidy was months later when issue prices for 1900dgrains from ration shops were raised sharply. A record rate of inflation, of 22 per cent (last month basis) for agricultural abourers, resulted. In the face of criticism

about the impact on grain output, the fertiliser price hike was partially reversed; but the damage is beginning to show up in stagnating food output. Research yielding some regional field data shows a sharp decline in 1992-93 in value added per hectare and per worker owing to input cost rise.

The total rise in the official index of wholesale prices over the four years of the new policies has been over 50 per cent. which is very high by previous Indian standards. For the wage-earners in the informal sector and labourers in agriculture the rise has been much higher: the consumer price index for agricultural labourers has risen by 70 per cent over the four years. Since the major part of the wage-paid workforce has no indexation of earnings to inflation, its real earnings decline has been substantial; perhaps this is one reason the Central Statistical Organisation appears to have stopped giving the break-up of GDP by factor incomes.

The Indian experience so far has replicated the familiar contours of the experience of adjusting countries in the 1980s: reduction in the growth rate, especially of industry; very substantial real income decline through the route of necessities prices inflation affecting the wage earners and the poor who are net purchasers of food, pushing more people below the poverty line. The export growth rate has shifted upwards but so has the import growth rate. We will argue later that rapid export growth especially of agricultural products far from being a positive indicator, under conditions of stagnating overall investment can only be at the expense of decline in mass domestic consumption of basic foodgrains. The only concession to criticism has been talk of 'safety-nets' for the poor as part of 'adjustment with a human face', but there has been no change at all in the basic agenda of reducing growth. (The analogy might be of a person with a limp who is advised to cut off a portion of her good leg in order to ensure stabilisation of gait and is then generously offered a set of crutches).

The implacable, relentless insistence on the growth-reducing and poverty-increasing agenda, in itself suggests that however welldocumented their adverse effects on the general population in developing countries. these policies will continue to be mandatory because they have been highly successful in implementing the real, as opposed to the putative Fund-Bank agenda, where the real agenda is viewed as expressing primarily the economic interests of the developed nations. We argue that reduction in the rate of growth of income and hence of demand in the developing countries serves a definite positive function favourable for the capitalist developed countries in the present conjuncture, for the economic disenfranchisement of the majority of the third world population benefits them. This strong proposition is advanced not hastily but advisedly, after looking at the evidence. Why and how restricting growth in third world countries benefits advanced countries, is a question we explore for the agrarian sector. Before that, let us briefly recapitulate the existing estimates of poverty in India.

#### INCREASE IN POVERTY AND IN IMR

Given the marked downward shift in the trend growth rate of the economy over the last four years of the new policies, and the rise in the rate of inflation which erodes the real incomes of the unorganised labour force, not surprisingly the incidence of poverty has risen quite sharply. The findings of Gupta (1995) and Tendulkar and Jain (1995) confirmed this for a comparison of 1990 and 1992. Both showed substantial rise in poverty

TABLE 4: ESTIMATES OF RURAL POVERTY

| Year    | Number (mn) | Poverty Ratio |
|---------|-------------|---------------|
| 1987-88 | 229 83      | 39.28         |
| 1989-90 | 208.79      | 34 41         |
| 1990-91 | 216.50      | 35 ()4        |
| 1992    | 279 07      | 43 96         |
| 1993-94 | 244 87      | 17 5 1        |

Source: Chandrashekhar and Scn (1996)

TABLE 3: AVERAGE ANNUAL GROWTH RATES OF REAL GDP (AT FACTOR COST)
BY SELECTED MAIN SECTORS

|                    | Agriculture and Allied | Manufacturing<br>Construction and<br>Public Utilities | GDP  |
|--------------------|------------------------|-------------------------------------------------------|------|
| Pre-SAP            |                        |                                                       |      |
| Three years:       |                        |                                                       |      |
| 1988-89 to 1990-91 | 7.50                   | 8 73                                                  | 7 63 |
| Six years:         |                        |                                                       |      |
| 1985-86 to 1990-91 | 3.75                   | 7 37                                                  | 5 93 |
| Post SAP           |                        |                                                       |      |
| Three years:       |                        |                                                       |      |
| 1991-92 to 1993-94 | 2.57                   | 1.90                                                  | 3 17 |
| Four years:        |                        |                                                       |      |
| 1991-92 to 1994-95 | 3.11 •                 | 3.55                                                  | 4 22 |

Source: Economic Survey 1994-95 and 1995-96, Appendix Statistical Tables

incidence. Data from the new quinquennial survey for 1993-94 have been since processed by the Planning Commission to show that between the two quinquennial surveys, 1987-88 and 1993-94 poverty has declined and this finding has been used by proponents of structural adjustment as proof of the beneficial impact of the new policies on poverty.

However 1987-88 is the wrong base for comparison, being both an exceptionally poor agricultural year and also too far back from the date of initiation of the 'reforms'. Also, the Planning Commission used a traditional, questionable methodology which had been criticised by an Expert Commission, namely, it took the difference between the CSO aggregate consumption estimate and the lower NSS estimate and distributed this difference over each NSS expenditure group in the same proportion as that group's share in unadjusted consumption. There are reasons to believe however that the extra consumption not captured by the NSS is likely to be skewed towards the higher expenditure groups. Upon rectifying these defects, Chandrasekhar and Sen (1996) find that rural poverty (similar estimates for urban poverty have not been made) which was on a downward trend has started rising again and in each of the post-reform years has been higher than either in 1989-90 or 1990-91 (Table 4).

The Indian experience during the last four years thus substantially replicates the experience of dozens of other countries: reduction in investment and growth, and rise in poverty. The infant mortality rate which is a telling indicator of the level of mass well-being, registered a slow but steady decline all through the late 1980s, but during the reform period, 1991 to 1994 the rate of decline has slowed down and in a number of states the urban IMR has actually risen (Shiva Kumar, A K, 'Urban IMR and Economic Reforms' in Frontline, 1996). States in which urban IMR has been stagnant or has risen include Rajasthan, Haryana, Uttar Pradesh, Bihar, Karnataka and Tamil Nadu, many had higher than average IMR before the rise.

At the same time, there have been larger inflows of foreign capital, about three-quarters of it in the form of mobile 'hot money' attracted by high interest rates, and a large accretion to reserves — not arising, it may be noted, from any export surplus, but arising substantially from borrowing. To this extent the very source of larger reserves carry a hefty interest burden.

Large reserves are a cause for satisfaction if they permit a bolder programme of state investment for development than would otherwise be possible, as was the case for example with sterling reserves accumulated by India during the the second world war

which permitted the bold Second Plan of much higher state productive investment, since these sterling reserves provided a buffer against the inevitable external payments imbalance accompaying growth. Accumulating large reserves makes very little economic sense however if a state-led investment thrust is anothema under SAP as at present; on the contrary the Indian state is required, and it has already obliged, to deliberately emasculate itself by cutting its own productive investment, privatise PSUs and to start scouting for foreign finance capital. Rise in external debt - a significant part of which falls in the category of 'hot money' - and increased vulnerability to speculative capital outflow are the result. By early 1996 India's external debt has reached the third largest size in the world at nearly a hundred billion US dollars (exceeded only by Brazil and Mexico) and servicing this debt is expected to absorb an increasing share of export earnings. From the third quarter of 1996 as the phased principal repayment of structural adjustment loan taken in 1991-92 falls due, the pressure on the balance of payments will increase sharply. We may expect a scenario of further pressure by the lending agencies for more devaluation, more liberal imports and further exportvolume increases in the coming months, which will be quite compatible with further worsening of current account deficits and further rise in indebtedness.

These policies are hardly rational from the viewpoint of the mass of third world populations; they continue however to be pushed strenuously by the Fund-Bank and continue to be implemented by indebted third world governments. The only rational explanation seems to be in the undeclared but transparent agenda, namely, their usefulness in accessing and cheapening third world exports for consumers abroad, and opening up hitherto protected third world markets.

There are strong incentives which are offered by the new policy regime to the minority constituting the domestic well-todo, to support these policies because the distribution of incomes shifts noticeably in their favour, direct taxation rates on individuals and companies are reduced, subsidy cuts on food and the health and education sectors reduce workers' bargaining strength through a drastic reduction in the social wage, a profit inflation for business is ensured as necessities prices rise and real wages are restrained, and access to international consumption standards assured for the minority with the means as scarce foreign exchange is freed for consumer imports which were restricted earlier.

The domestic state, increasingly representing openly the interests of the well-to-do minority of its own population,

implements these policies because it finds it easier to borrow abroad than to tax the rich, and more expedient to pass the burden of deflation onto the poor than to impose discipline on its own profligate consumption (It is noteworthy that budgetary deflation does not even impose any real discipline on the budget since, as has been repeatedly pointed out by analysts, the government's revenue deficit continues to widen and the overall cut is achieved by slashing productive expenditures). The vision of 'national development' has been replaced by the economics of class expediency.

Some of the key influencers of decisionmaking in third world governments undergoing structural adjustment (and India is no exception in this respect) are themselves ex-employees of the IMF or IBRD, and can revert to these institutions, whose agenda they are implementing so faithfully, almost at any time they wish. They are as a faction of a class already 'globalised', and care little if the costs of imposing 'reforms' are borne by the mass of their countrymen who, unlike them, have access neither to dollar incomes nor to migration opportunities, their own 'safety nets' are already well in place, so that in the event of a collapse of the system they are administering, they can easily migrate to their metropolitan havens. This represents an entirely new phenomenon, when 'nationalism' and 'patriotism' for this class mean little and indeed are treated as laughably outmoded ideas.

All this is not an individuals-specific matter but reflects larger forces, indeed a new phase of world capitalism itself with the reemergence of the dominance of highly mobile international finance capital. These decisionmakers enjoy not merely the support but the virtual adulation of a section of the urban well-to-do in India, who similarly today have personal access to international travel and consumption standards through their own jobs, and through children and relatives settled abroad. Though a tiny fraction of the total population, perhaps less than half per cent or so, in absolute terms their number is large and their influence is much larger than their numbers; they are supporters and beneficiaries of the new policies, which are entrenching their interests further at the expense of their ordinary countrymen. They can now insulate themselves from their fellow-countrymen in oases of high lifestyle comparable with or even better than anything abroad (since local labour remains cheap). On present indications they have been prepared to support the imposition of mass income deflation (via food price inflation and cutting state investment), the maintenance through repeated devaluations of a low effective exchange rate beneficial for the advanced country importers, the dismantling of domestic food security, the producers and take the country towards an exerall scenario of rising debt, low growth and increasingly more skewed income distribution.

No advanced capitalist country today will countenance being caught in a scenario where all of them are simultaneously carrying out devaluations as well as deflations. The last ime this happened in the developed world was 65 years ago in the slide to the great inter-war depression. Country after country undertook deflation to remain on the Gold Standard; later, as the Gold Standard collapsed they undertook competitive devaluations in an attempt to capture a larger share of by then declining world trade. The end result of combining simultaneous (viz, across countries) deflations combined with similarly simultaneous devaluations was, to say the least, distressing, and is now the stuff of economic history [see for example Kindelberger, The World in Depression 1929-1939].

Third world countries today are being asked to do precisely this: to competitively deflate and competitively devalue. There is in fact a remarkable similarity between the pre-Keynesian, quite disastrous economic policies that finance ministers the world over followed in the late 1920s, and the Fund-guided programmes that the indebted third world countries are obliged to follow today. The main difference is that today these policies are advised for the developing countries alone.

Devaluation squeezes real wages while deflation accentuates unemployment. A combination of the two - which when undertaken competitively by many countries does not even achieve its putative aim has a severe impact upon the working masses. And yet indebted developing countries, with 2 per cent of the per head income of the developed world, are expected under the Fund-Bank package to cope with the burden of simultaneous deflation and simultaneous devaluation (Table 1 covering 78 countries in the 1980s shows that the intersection set of countries implementing both, was at least half the total number). There is a ruthless implacability about the agenda, which, we would argue, is owing to the need for releasing exports, especially from the primary sector at cheapening rates from developing countries, by reducing domestic demand and absorption of their own products by the mass of the population.

It might be argued that reducing growth rates in the developing world adversely affects markets in them for advanced countries' exports and is therefore against their interest in this respect. However it has to be remembered that rise in their per head income is not the only way that developing countries can absorb more imports; after

barriers, the eroding of the developing countries' domestic industrial sector by displacing its production, or deindustrialisation, performs the same function equally well from the viewpoint of international capital. That is the basic reason for the insistence of the advanced world on clauses of mandatory market access in the GATT 1994. Studies of a number of African economies undertaking adjustment in the 1980s, have reached the conclusion that significant deindustrialisation has occurred already.

Why should the reduction of demand and absorption of their own products by third world populations, be necessary at all, and of benefit to advanced countries? This is the question to which we try to put forward the answer in the next section with reference to the agricultural sector. The answer involves a rejection of the entire body of previous theorising, based on 'comparative advantage', involving today's tropical developing countries.

International Division of Labour and Logical Fallacy in Comparative Cost Theory

There is a fallacy of logic in using the theory of comparative costs to explain that pattern of international division of labour which involves the export of agricultural products by the tropical and sub-tropical countries and the import of manufactured goods from more advanced northern countries. The fallacy lies in the fact that relative costs cannot be defined at all. This argument is explained further below.

There is a fundamental if obvious difference between agriculture and manufacturing, the economic consequences of which are usually not taken into account. Manufactured goods whether cement, textiles or steel, can be produced anywhere in the world, on the basis of imported raw materials if these are not locally available; but crops are ineluctably specific to particular climatesoil complexes. The overwhelming bulk of the earth's bio-diversity in general and botanic diversity in particular, is concentrated in the earth's tropical and sub-tropical areas which include India, where high ambient tempertures ensure year-round plant growth. In northern countries there is only one single natural growing season, the range of crops is relatively limited, and artificially extending the growing season is a highly energyintensive and prohibitively expensive proposition.

No amount of capitalist innovations can alter the fact that under field conditions Yorkshire can never grow bananas, Bavaria can never grow sugarcane and New England can never grow coffee. With a vast expenditure of energy derived from the fossil

cultivation may enable growing them in tiny quantities as in a botanical garden; but commercial cultivation on any scale is out of the question and imports are mandatory, for these products are by now essential elements in northern consumption baskets.

Large countries like India cannot only grow all the typically tropical crops, but potentially if not actually every crop that grows in Yorkshire, Bavaria, or New England. In addition to the specifically tropical crops, the temperate-land summer crops, fruits and vegetables are also easily grown in winter in sub-tropical climates. Where topography is such as to provide land at varying elevations, a highly diversified product-mix is possible.

Tropical lands with their unique capacity to produce a large variety of crops, are not in unlimited supply. We might not conceptualise tropical cultivable land as a completely non-renewable resource as we do the fossil tuels, but it is definitely a resource whose 'supply' can only be augmented with the greatest difficulty. Lateral expansion of cultivable area is no longer easily possible as it was in the last century and can only take place by further forest destruction carrying long-term adverse effects on rainfall and survival of species. (In some Asian countries cultivable area is actually falling as commercial, industrial and residential construction grows). Making an existing acre'do the work of two or three by raising output per unit area, is thus the only rational alternative. Heavy investment in research and in irrigation is required however to raise the yields from existing cultivable area, and after the 'green revolution' of the 1960s in the cereals no new really big breakthrough is as yet in sight. It is still potentially toxic heavy chemical fertiliser application on irrigated land to non-lodging varieties which is the source of yield rise

Further, the present logic of Fund-guided contractionary programmes has led if anything not to increase, but to prolonged deceleration in investment in irrigation and in agriculture in most tropical developing countries. Certainly we know that in In-lia investment in agriculture has been declining from the partial liberalisation of the 1980s and the present phase of SAP has seen a continuation of the decline. In the absence of adequate investment tropical land becomes a resource in virtually fixed supply, implying that growth in one component like agriexports can only be at the cost of decline in domestically consumed output. We will return to the emerging inverse relation between agri-exports and domestic food supply below. This emerging inverse relation is indeed the single most important outcome of the liberalisation of agriculture, carrying for the poor.

The basic of obvious fact of the concentration of hotanic diversity in tropical regions has determined the world division of labour in agricultural production. Its historical origins lay, not in Ricardo's 'comparative advantage' (which is probably the cleverest rationalisation of national selfinterest ever put forward by an economist), but in the use of mercantile arms backed by state power to secure for European populations, access at the cheapest possible rates to tropical products. The fact that Britain could grow no cotton, did not prevent the cotton textile industry emerging as the leading sector of the Industrial Revolution; but this improbable development was only made possible by securing an elastic supply of colonial raw cotton under the mercantilist system of prohibiting textile manufactures in the colonies while pushing the cultivation of the raw material. The fact that Japan, that other island-nation on the edge of a continent, could grow little sugarcane itself, did not prevent the emergence of a large Japanese sugar refining industry; but this in turn was only possible by seizing and colonising subtropical Taiwan and developing sugarcane production.

The specialisation of Britain or Japan in manufacturing and their colonies in primary products, and the ensuing trade pattern, had nothing whatever to do with any Ricardian 'comparative cost advantage' or indeed 'absolute cost advantage'. There is a fundamental logical fallacy in trying to explain such specialisation using Ricardian theory. This theory (the standard twocountry, two-commodity model) is only applicable where both countries can produce both commodities; this is a necessary condition for calculating and comparing production costs. Tropical primary products are by definition not producible at all in temperate regions, so production cost sin-ply cannot be defined for these commodities for these regions; hence neither absolute nor relative costs are definable.

To say for example that Britain had a comparative advantage in textiles relative to India whose advantage lay in sugarcane (or jute, or tea), is a nonsensical proposition, for while the cost of both goods can be defined for India, sugarcane, jute or tea cannot be produced in Britain, hence its cost cannot be defined. If cost cannot be defined, cost ratios are undefinable. We can attempt a mathematical solution to the problem perhaps by assuming a fictional output of sugarcane (or jute or tea) in Britain and imputing an infinitely high cost of production to it. But this is not Ricardo's theory which assumes that both commodities are producible, and are actually produced in the pre-trade situation, in both countries: only on this

of both goods improves for each country through trade (in the sense of more of one good and no less of the other good, i e, vectorwise improvement). Fictional outputs have no place in Ricardo's theory because the vectorwise improvement in the availability of both commodities in both countries through trade is the explanation as well as the justification of trade in the comparative cost theory [see Samuelson 1965, pp 426-38 for a formal exposition of Ricardo which is based precisely on the production of both goods in both countries in the pre-trade situation].

On the other hand one might try to rescue the theory by interpreting the 'vectorwise improvement' to mean a Pareto improvement in utilities in each country rather than an improvement in the physical commodity bundles available in each, in the post-trade situation as compared to the pre-trade one. This is trying to arrive at a weaker version of Ricardo's conclusion about mutual benefit from trade, without making Ricardo's assumption (making use instead in the process, of fictional outputs with infinitely high costs of production); but this device too will not work. The conclusion about beneficial effects of trade even in this sense does not necessarily follow. Indeed for the tropical country trade becomes positively harmful: because of the inelastic supply of tropical land - in the absence of adequate investment which the market itself does not call forth – the export of tropical products would necessarily reduce domestic availability of such products or of foodgrains, and leave the mass of the population worse off, for which manufactured imports from the north, no matter how cheap, cannot compensate

The comparative cost theory thus breaks down for all trade involving tropical products viz-a-viv northern countries. Relative cost cannot be defined at all where some goods cannot be produced, and rescue efforts through virious logical stratagems like assuming fictional outputs and weakening the mututal benefit condition, do not work. This simple point which nevertheless constitutes a powerful logical critique of the common fallacy of invoking Ricardiantheory to explain international specialisation, has not been made before to our knowledge.

As a matter of fact, the criticism is applicable not only to the present use of Ricardo's theory; it is equally applicable to Ricardo', original example of specialisation in wine production by Portugal and in cloth production by England, which would occur if the relative cost of wine production was lower in the former. This is an example which finds a place in every economics textbook to this day and is uncritically taught the world over to students. This particular

as well since commercial large-scale grape production was not possible in England, located as it was in the northern part of Europe, owing to its cooler and more variable summers compared to the central and southern continental countries. The cool temperate lands generally cannot cultivate grapes. Since grapewine could not be produced its relative cost could not be defined. (The natural, genetically untampered grapevine or vitis could indeed perhaps be grown with great care though giving low yield, in England in a few very limited south-facing and wind-sheltered locations in Cornwall or in heated conservatories; but not on any scale under field conditions Incidentally it is amusing to note that Samuelson 1965, ibidem while providing a modern exposition of Ricardo's theory, quietly substitutes 'food' for 'wine' in the original two-commodity two-country model of Ricardo without mentioning why he does so. Food is of course producible in both countries while wine is not. It is possible that he smelt a rat in the original example but thought it best not to explore the issue, with its subversive implications for the 'mutual benefit' conclusion, any further)

Britain wanted a large supply of inexpensive grapewine to consume but could not produce it. The real reason for warmer Portugal obligingly exporting its low-value wine and giving access to its own markets for higher value cloth to Britain - resulting in the relative decline of its local cloth production, or deindustralisation - lay in its relationship of naval and diplomatic dependence, indeed near subjugation, to Britain both when Portugal was fighting Spanish rule over its population as well as later in the course of the war of the Spanish Succession Britain's naval ascendancy left Portugal with little choice in the matter of trade. Britain had even succeeded through a combination of naval bullying and diplomacy, in wresting from Portugal the coveted, highly lucrative Asiento or monopoly of supplying slaves to the Spanish empire in South America from Portuguese West Africa; and later obtained more trade concessions for its merchants located in Lisbon including the agreement on the exchange of cloth for wine [see Boxer 1969 and Hill 1966].

The central role of military violence, interestingly, drops out of the picture entirely once we come to the subsequent theorisation of the trade pattern by English political economists: Ricardo's illustration and explanation is entirely in terms of neutral, technologically given cost factors. The very fact of the emphasis on cost ratios serves to divert attention from the basic point of whether cost is at all definable; it acts as an intellectual sleight-of-hand. Without entering

unto the vector and perhaps unanswerable question of to what extent Ricardo was aware of what he was doing, as far as his theory is concerned it clearly played the role of rationalising – as being mutually beneficial and therefore voluntarily entered into by both sides – and thus intellectually justifying a trade pattern which in reality was to Britain's benefit and to the trading partner's detriment. The rationalisation was powerful because it was stated in terms of what looked like objective economic law, even though the real historical mechanism leading to that trade pattern as well as its welfare outcome were quite the contrary of that postulated.

The obfuscating power of the intellectual construct should be clear from the fact that every economics textbook uncritically carries to this day this logically incorrect illustration of Ricardian comparative advantage. Further, the theory is used systematically to suggest that the trade pattern historically imposed by armed force and economic coercion upon subjugated or colonised peoples by the west Europeans, resulted in a mutual advantageous specialisation. So successfully has the hegemonic theory suborned the capacity for independent logical thought that we find third world historians and economists themselves putting forward this fallacious argument, vide the invocation by K N Chaudhuri in the Cambridge Economic History of India 1985, of Ricardian comparative advantage as the explanation of India being reduced to importing Lancashire cloth and exporting primary sector products in the early 19th century.

During the last three centuries, the consumption basket of Europeans including those who emigrated and populated the temperate areas of the Americas, has been transformed: but only partly owing to improvements in their domestic agriculture. and very largely owing to increasing dependence on imported tropical and subtropical products which provided the physical basis for rising standards of living. Reliance on the products of their own agriculture had historically meant a very limited consumption basket for the Europeans. Late medieval temperate agriculture had a remarkably low productivity owing to a short growing season confined to a few summer months over much of Europe, a seed to yield percentage as high as 25 to 40, and the fact that only one-third to half of cultivable land at any given time could actually grow anything because fallowing to keep up soil fertility was necessary in the absence of adequate manuring 'van Bath 1963]. The inability to grow enough loodgrains for humans as well as fodder for inimals entailed mandatory livestock culling n the onset of winter and lowered the vailabilty of manures which in turn kept yields low and perpetuated the vicious circle. 1 atin Europeans however were somewhat better off and enjoyed the saving grace of the vine, the olive and some citrus fruit.

Analysing the data on the diet of serfs and lords on the feudal estates of Germany and Sweden in the 16th century, van Bath (1963) finds that the average diet provided more than adequate calories at about 3,500 to 4,000 per head but was grossly ill-balanced and monotonous, consisting of large quantities of bread, rancid salt butter, a little cheese, and meat of which only 10 per cent was fresh and 90 per cent preserved and heavily salted. Vegetables and fruit were limited to the few summer months; the highly saline diet generated an 'oceanic thirst' so that beer consumption per head was some 40 times higher than in present times. Herrings supplemented this diet for coastal peoples. Vitamin and other micronutrient deficiency diseases (rickets, night blindness, scurvy, etc), hypertension and cardiac disease must have been much more common than

By contrast, in the Ain-i-Akhari, part of the Akbarnama written by Abu'l Fazl Allami during emperor Akbar's reign in India in the late 16th century, we find a list, stated to be not exhaustive, of the market prices of 35 kinds of fruit and 26 kinds of vegetables (see Ain 27 and Ain 28, Akbarnama translated Blochmann 1887] Consumption may have been limited by income, but not by the inability to produce. Net yields of cereals per unit of arable land were substantially higher than in Europe owing to low fallowing, at least two growing seasons in the year, a low seed to yield percentage of around 10, and the ability to multiple-crop under irrigated conditions.

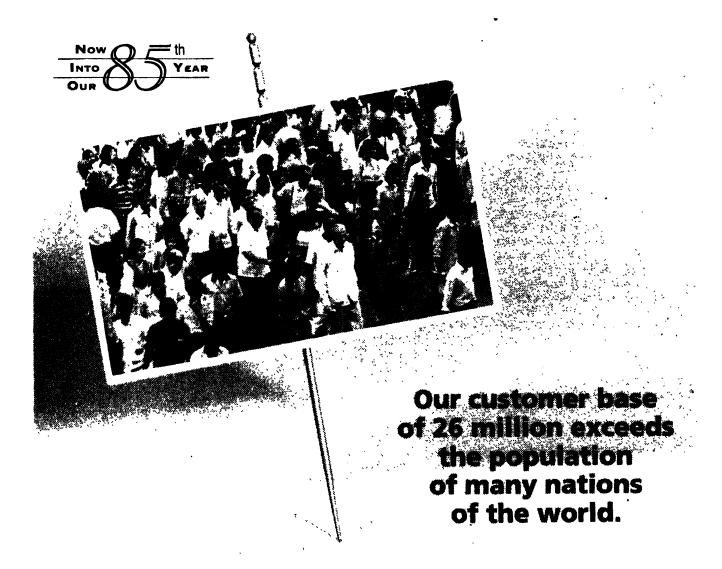
The improvements in European agriculture starting in England from the 18th century, involved root and leguminous fodder crops which permitted livestock to be fed through winter; convertible husbandry increased the supply of fresh meat and manures, breaking the late medieval vicious circle of very low productivity. The 'agricultural revolution' in Britain, the country with the most improvements, seems all the same rather unimpressive: Mingay tells us that grain output rose by 50 per cent at most during 1700 to 1850, which gives us an annual compound growth rate of only 0.27 per cent [Mingay 1967], which fell behind the estimated population growth rate by the mid-18th century Nevertheless the consumption basket of the British and other west Europeans through the 18th century was being transformed, and this was owing to the institution of mercantilist trade patterns following their seizure of the Americas, parts of Africa and the colonisation of Asia and the Caribbean. The greatest land and resource grab ever in the history of human societies by the Europeans, predates the rise of industrial capital.

With the seizure of tropical colonies, we know that Europeans proceeded with great energy to exploit for themselves the benefits of tropical botanic diversity, by dispersing a range of commercially valuable crops (sugarcane, rubber, cotton, tea, coffee and so on) from their countries of origin to colonies with similar climatic conditions, for plantation production for export to metropolitan markets. For this purpose they similarly trasported West Africans, kidnapped and enslaved, and later Asian indentured workers, thousands of miles to serve through their labour the interests of the new globalised capital, W. A. Lewis (1978) estimates that from the second half of the 19th century alone about 50 million Europeans migrated to settle and develop the resources of the temperate lands they seized, while a similar number of Africans and Asians, about 50 million, were transported by them as cheap slave and coolie labour to work the mines and plantations feeding metropolitan industry and consumption.

As the leading colonial power, Britain by 1830 already had tropical imports amounting to as high as 40 per cent of its own domestic production by value if we consider primary goods and by 1860 this had increased to a staggering 60 per cent [calculated from data in Mitchell and Deane's Abstract of British Historical Statistics 1966] These are underestimates given the method of valuation used in the statistics. A developing country today with even half this degree of impordependence would at once plunge into balance of payments crisis. External payments problems seldom troubled the European colonisers however, because with political control the tropical import surplus for them, became costless. It was financed by using a large part of the tax revenues obtained from the colonised people themselves to purchase the importables, the metropolitan import surplus of goods from the colonies thus represented a different economic category from an import surplus under normal trade. It was nothing but the transfer of the commodity equivalent of a part of the colonial tax revenues. As far as Britain was concerned on average over half its huge tropical import was re-exported to temperate countries (mainly Continental Europe) to pay for its imports from them, thus solving potentially serious payments problems given inclastic demand for British exportables

### INVERSE RELATION OF FOOD AVAILABILITY AND AGRI-EXPORTS

In the modern world the mechanism of taxation is replaced by that of the external debt of third world countries, whose servicing requires an export thrust and absorbs a



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substantial part of their export earnings. The heaviness of debt in third world countries is partly the result of their attempt to develop today in a much more hostile world dominated by the early industrialisers and with no access to large transfers such as those advanced nations historically enjoyed from today's developing countries. The heaviness of debt is also the outcome of the developing countries not being paid enough for their exports compared to their imports, and continuous pressure on them to cheapen their exports further.

The reason for dwelling on the mechanism of tax-financed exports in colonial times, is to stress the fact that it necessarily operated via a domestic deflation. If a part of budgetary revenues is set aside every year in the colony for paying local exportable producers and the foreign exchange earned by the export surplus does not accrue to the producers but is diverted to metropolitan use, then this is equivalent to the following scenario: a surplus budget is being operated (the surplus being equal to the magnitude of the transfer abroad) to reduce domestic demand, and the commodities so released are then bought up using the unspent revenue and taken out as unrequited exports (for the modus operandi of colonial fiscal policy see S Sen, Colonies and Empire, 1992). Income deflation was a necessary economic mechanism from the rulers' viewpoint because the rate of growth of Indians' income had to be limited in order to keep in check their market demand for domestically consumed goods, and thus divert a larger part of available limited resources especially irrigated land, away from these domestically consumed goods to the production of the tropical primary exports needed by the industrialising powers.

The most important domestically consumed necessity was foodgrains, and its growth necesarily declined to accommodate the growth of exported crops. 'Necessarily' is used here in a contingent sense; had the colonial government pumped large enough investment into irrigation, improved seeds and fertilisers in order to raise grain productivity, then food output could perhaps have been maintained even with increasing agri-exports. But no colonial government's priority was to see that the average local producer continued to eat at least the same amount of food as before commercialisation. Its priority was to secure a cheap and elastic supply of the commercial tropical raw materials which fed its home industry and the tropical consumption goods which had tecome a part of the the essential consumption basket of the home population or which could be exchanged for imports from other temperate land countries.

We extend the argument to present times; as in the past, there is a basic asymmetry which continues to exist with respect to

global agriculture. Every developed northern country continues to make systematic and ever larger demands on the limited productive capacity of tropical and sub-tropical lands, while the converse is not true: the populations of developing countries have neither historically made demands on temperate lands, nor do they wish today to become wheat importers from them. They are perfectly capable of meeting their own food requirements if they were left alone to do so and were not called upon to meet the demands of northern countries which are habituated by now to consume a huge range of products only producible in Southern lands. With no access to tropical colonies other than the Philippines for any length of time, the US too has developed a highly import-dependent consumption pattern ensured by the contractual control exercised by its transnational food companies on third world producers.

In this context it will be worth bearing in mind that strawberries in July and strawberries in January are analytically two 'different' crops, most of Europe or north America can produce the former but not the latter; so northern demand is by no means confined to typically tropical crops like sugarcane or coffee, but includes all crops which are seasonally limited in temperate lands but are easily producible in winter in countries like ours. Hence the thrust by the TNCs in the global food business is to displace third world iand already under foodcrops, to those vegetables and fruits which will iron out seasonal imbalance of supply for northern populations. Fresh, frozen and canned vegetables and fruits are cheaply available all the year round to consumers in western Europe and north America, whereas consumption patterns to this day in east Europe or Russia which never colonised or exploited the third world, are much less diversified, more 'primitive', seasonally constrained and local productsdependent.

It is not the priority of any advanced country today, to ensure that the demands it makes on tropical agriculture are consistent with local populations retaining enough to eat themselves. True, the advanced countries strenuously push wheat exports to them; but since the price of tropical exportables are under continuous downward pressure, terms of trade tend to turn against the developing world reducing its ability to import food and forcing consumption decline. In fact we already find, in the countries with the most successful agri-exports drive, severe decline in per head food production and since food imports usually cannot be increased enough to compensate owing to declining international terms of trade, there is also a decline in availability and a rise in the numbers of the famine-vulnerable. Some data from sub-Saharan Africa are examined later. It is evident from a study of history that the cost of ensuring a cheap stream of agri-exports to the metropoles was very high for the colonised populations: no less than a substantial decline in their own absorption of basic foodgrams, a decline in their level of nutrition. In India for example, exportable commercial crops giew more than 10 times faster at 1.31 per cent annually compared to only 0.11 per cent per annum for the foodgrains over the period 1894 to 1947 according to G Blyn's estimate for British India. The per head exportables production rose, but the production and availability per head of foodgrains declined by 25 per cent overall for British India in the inter-war period. The decline was highest in Bengal, Bihar and Orissa at 38 per cent while even the most dynamic region, Punjab saw an 18 per cent decline [see Blyn 1966]. We have elsewhere argued [see Patnaik 1991] that this secular fall in food availability, combined with the adverse movement in the international terms of trade for primary products, created the preconditions for famine. Traditional systems of food security were continuously undermined by exports and the inter-war decline in terms of trade in a completely open, liberalised economy, sharply increased the numbers of faminevulnerable. Any shock to the system could then set off actual famine, as indeed happened in Bengal in 1913-44.

The scenario of falling nutrition levels for the colonised as a direct result of exports to the metropole, was a general one Japan, during the relatively short periods that it colonised Korea and Taiwan (1910 to 1945 and 1895 to 1945) developed these areas vigorously as suppliers of rice and sugarcane Despite the fact that it pumped in a good deal more of investment to ensure high growth than Britain had done in India, in Korea so large was the increase in exports of rice (rising from less than 1 per cent to 65 per cent of increasing rice imports into Japan during 1897 to 1937) that consumption of foodgrains by the Koreans fell [see Grabowski 1986] Inferior millet from Manchuria substituted for rice in the colonised Koreans' diet, but the calorie content of the average diet is estimated to have declined by 18 per cent over the two decades before the second war. The poorer peasants were reduced to eating wild grasses and tubers for two to three months in the year [see Hayami and Ruttan 1970]

We put forward the proposition here that the real as opposed to the putative rationale of imposing income deflation on all indebted third world countries today by the Fund-Bank, is no different from the rationale in colonial times. Given inadequate growth of production the only way that more exports can be squeezed out at low prices is through The rare flavour of 100% pure Darjeeling tea



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limiting the absorption of their own products by the third world populations. Mass income deflation does not correct long-run payments imbalance when accompanied by trade liberalisation and more skewed incomes over social classes, as the experience of dozens of adjusting countries amply demonstrates; but it does serve as a very effective economic mechanism for reducing the growth rate of third world consumption and releasing exports (which are either only producible in these countries or are producible at much lower cost than elsewhere). Now as then, the maintenance of the developed world's high living standards is crucially dependent on a cheap and elastic supply of imports from developing countries; we would argue also below, that there are recent shifts in consumption patterns which are resulting in fresh demands on the limited productive capacity of fragile tropical and sub-tropical lands.

The structural characteristics of the colonial syndrome in the agrarian sphere - the growth of exports and decline in the absorption of basic food staples by the poorer majority of local populations – is being replicated today all over the developing world as a general trend which is sharply accelerated in the countries following trade liberalisation and SAP. It is important to remember, and it will bear repeating, that the regime of primary sector export drive in every third world country undertaking liberalisation and SAP today, is also the regime of mand story macroeconomic contraction, and hence of decline in rates of productive investment and growth including in agriculture. There is thus not the remotest possibility of combining high agri-exportables growth with high growth of domestically consumed crops.

Where investment rates are falling, increasing exports can only take place by reducing domestic absorption. Income deflating policies thus are the 'necessary' mechanism to lower domestic absorption of basic foodgrains and other necessities, divert scarce tropical land and investment to agriexports which are pushed strenuously by state policies. Rising export volumes are squeezed out at falling prices as more and more developing countries are required to follow the same policies and compete against each other to export similar products. What we are witnessing today is the economic recolonisation of third world agriculture, but under less transparent and hence more effective forms of subversion of their national food security. It is a subversion which is aided and abetted by a section of the governing elites in these countries which have been intellectually suborned by powerful ideological constructs (including modern use of the logically incorrect theory of comparative advantage) and materially suborned by being given access to international living standard provided they help to immiserise their countrymen.

Contraction in economic activity continues to be the unchanged Fund-Bank putative recipe for 'adjustment' although it is not a necessary condition for achieving the declared aim of external and internal balance. and it is zealously implemented in every case. Because in fact it has been highly successful in squeezing out third world exports at declining prices, to the great benefit of the developed world, and also highly successful in tilting income distribution further in favour of the third world rich, we believe it is going to continue to be implemented regardless of how much evidence is compiled (including by individuals employed by these organisations) of the extremely adverse effects on poverty, food security, health and education levels in the exporting countries. No change in the highly successful basic agenda can be expected. We can expect, rather, more programmes to limit the most distressing manifestations of incomereducing policies.

The reasons for the international lending agencies, talking a great deal about the need for poverty reduction and of 'safety-nets' even though it is the deflationary, mass income contracting policies administered under the close guidance of these agencies which in fact increase poverty - lie in their tear of the outcomes of possible passive revolt through migration of a section of third world producers and of widespread sociopolitical upheaval. To consider the colonial analogy, it was certainly not in the long-term interests of the British in India that peasants should be over-exploited to the extent that they died off in such vast numbers in famines induced by colonial policies themselves, as to adversely affect total taxable incomes; for that would amount to killing the goose that laid the golden eggs. What might be called a 'sustainable rate of exploitation' was thus a rational desideratum, and famines had to be contained and limited at the same time as the basic policies leading to famines, continued to be followed.

It is similarly certainly not in the interests of the advanced world today that the exploitation of the third world should be so excessive as to affect the political stability of the existing international order (although infact we see this outcome in some individual cases, where amongst other factors, Fund-Bank induced economic crisis has helped to catalyse social disintegration via ethnic and communal strife; Sri Lanka is an example).

An important consideration underlying the anxiety to contain poverty, is the present contradiction between the complete international mobility of goods and capital which is demanded and substantially obtained by the advanced countries, and their insistent sabotaging of the complete international mobility of labour, through the imposition of restrictions on immigration of unskilled labour from developing countries. The advocates of liberalisation, are both inconsistent and hypocritical in that they want the full liberalisation of goods and speculative capital movement from their own countries to the developing world (and indeed this is part of loan-conditionalities), but they wish to regulate strictly the inflow into their own countries, of third world labour displaced from their occupations owing precisely to the de-industrialisation induced by the unregulated inflow of goods into these countries and the winding up of their public enterprises.

However, there are limits to control: as more third world producers are displaced or marginalised they will take higher risks to migrate illegally to advanced high-wage countries which in turn will have to devote more resources to keep them out, or face the rise of domestic fascist organisations, which are indeed already gaining strength on the European continent largely on an unemployment and anti-immigrant platform. Given such a scenario it becomes important to advanced countries to ensure that at the same time that the exploitation of the third world continues, poverty there is sufficiently contained through various schemes as to induce the bulk of the unemployed and destitute to stay put in their own countries, even as the movement of capital and goods is fully internationalised

CHANGING PAITERN OF ADVANCED COUNTRIES' DEMAND ON FRAGILE TROPICAL AGRICULTURAL PRODUCTIVE CAPACITY

The high living standards of western European and north American populations today depend crucially on the availability of an uninterrupted, elastic supply of cheap energy on the one hand, and of a large range of imported goods from tropical and subtropical countries on the other hand. Ensuring the continuing cheapness of these two crucial factors underpinning living standards, has been probably more important than ever before as the recession which started in the 1980s continues in most advanced countries and so do fairly high unemployment rates. This in turn, it has been argued, has to do with the new phase of dominance of finance capital which ensures its international mobility in search of speculative profits, to the detriment of productive investment and growth in real sectors [P Patnaik 1993]. The advanced countries have had some of the lowest per capita annual growth rates in the world in the last 15 years, falling to negative rates in many years and seldom exceeding I per cent when positive; this period has also seen a dramatic increase in the rates of surplus value in these countries, and yet real maintained, but have risen for substantial sections owing to the remarkable price stability they have ensured, to which the steady fall in imported primary products prices have contributed substantially.

We know that each north American uses up over 8,000 units of oil-equivalent of commercial energy every year compared to over 5,500 units in western Europe and 3,600 units in Japan, while India's per head energy consumption is only around 220 units and China's is less than 600 units (these orders of magnitude were quoted during the Earth Summit in 1992). These are very roughly proportional to the respective per head incomes. Thus, India's per capita energy use is only one-fortieth and one-twentyfifth of the north American and European levels, China's being one-fourteenth and one-ninth respectively. This implies a very high degree of skewness in global energy consumption, most of which is derived from the fossil fuels. With barely 5 per cent of world population, north America alone accounts for a third of world energy consumption, while at the other extreme with nearly 38 per cent of world population, India and China account for only 12 per cent of global energy consumption.

There is a great deal of talk about the developing countries especially India and China being overpopulated. The relevant concept here however is not the nominal population but the standardised or real population, where the basis of standardisation is an index derived from the per head demand on non-renewable resources, for which the energy demand can serve as a proxy. Taking the Chinese per head energy use as the base of such a simple index, China's nominal and real population would be identical at 1200 million, or 1.2 billion. India's real population works out to 0.33 billion, while north America has a real population of as much as 4.1 billion; western Europe and Japan together would contribute at least another 2.9 billion. Thus, the advanced countries represent a real population of 7 billion compared to the mere 1.53 billion real population of the two most nominally populous countries in the world.

A similar order of drain on the fragile productive capacity of tropical and subtropical lands is imposed by the northern countries owing to their high incomes, and hence their high 'effective populations', as on world energy resources the bulk of which is derived from the fossil fuels. Tropical and sub-tropical land may not be an entirely exhaustible resource like the fossil fuels, but as earlier argued it is in practice in sufficiently inelastic supply for a serious problem to arise for the mass of third world populations when there is rise and diversification of consumption by the metropolitan centres

income. They demand complete opening up of the agricultural sector of developing countries because this will allow the powerful magnet of advanced countries' effective demand to restructure third world crop production to their own requirements.

Every northern household today is habituated to consuming daily a large range of products imported from tropical and subtropical countries, which cannot moreover in the main be 'import- substituted' domestically except for a few items where synthetic or other substitutes have been developed (e g, synthetic vanilla flavour, high-fructose corn syrup replacing sugar in some uses): but without ever completely displacing the premium market for 'the real thing'. From the moment of awakening in the morning to retiring at night the typical consumer's high standard of life is underpinned by a plentiful and cheap availability of imported products. Beverages like coffee, tea, cocoa, and fruit juices; vegetables and fruits in fresh, frozen or canned forms; vegetable oils in liquid and hydrogenated forms; cane sugar and flowerspecific honeys; lean meat; fish and seafood; cocoa and sugar-based chocolates, syrups, ice-cream and confectionery; spices and flavourings; tropical cereals, nuts, sugarbased alcoholic beverages and tobacco; salt; flowers and ornamental plants comprise some of the large range of imported items in daily

Other tropical products are essential elements in the pharmaceutical and cosmetics industries. In textiles, cottons and fibres that 'breathe' owing to the admixture of cotton are increasingly preferred to pure synthetics. The imported vegetables and fruit are not confined to tropical varieties alone; equally important is the evening out of otherwise large seasonal supply variation through the import of northern summer varieties in their barren winter season. The TNCs engaged in agri-business operate in an oligopolistically highly competitive world; where debtconditionalities prise open fresh lands in developing countries suitable for potentially lower-cost production, they move in fast and often demand reverse land reform such as the lifting of restrictions on maximum farm size. Where direct control over land is difficult the TNCs have worked out forms of contractual control over local producers who are offered initially attractive terms. Often consumer tastes in advanced markets are created by the very operation of the TNCs, and new products (such as kiwi-fruit) are constantly added. Diversification has been aided by the marked spread of healthconsciousness within the general mass of northern populations.

A typical northern supermarket say in the US at present carries on average about 12,000

[Friedman 1990]. Many foods are available in several presentations (for example in sugar, from regular granulated to caster and varieties of brown and demerara). Speciality shops or special counters in supermarkets provide exotic foods from every part of the world. A quick survey will indicate that at least three-fifths of all food items on display in a supermarket are wholly or partly tropical to sub-tropical in origin; for ethnic supermarkets the proportion would be even higher.

To an observer from a developing country like India where import dependence for items of direct food consumption is nearly zero, such a high degree of physical import dependence of northern populations is a very striking phenomenon. If for some reason the supply of these commodities was to dry up and they were to disappear entirely from the supermarket shelves, leaving locally available temperate land goods alone, then the high living standards to which west Europeans and North Americans are habituated would drop sharply. They would drop, if not to near-medieval levels, then at least to the levels still prevalent in the east European countries, which are viewed contemptuously by west Europeans. The east Europeans historically never enslaved or colonised anybody, thus had no cheap access to tropical lands, and continue to have much more 'primitive' and hardly diversified local-products dependent consumption

The reader should not imagine that our argument is limited to a purely 'geographical' one or necessarily requires the absolute inability to produce a particular good by the northern country. The natural monopoly of botanic diversity in the third world countries continues to be of very great importance, but it is the limiting case of a general situation where as long as northern demand cannot be satisfied by local northern production, there will be pressure on the inelastic supply of third world land. Thus, if we consider a large country like the US which itself contains some sub-tropical areas in its southernmost states capable of growing crops like sugarcane or pineapple, we find that it nevertheless imports these commodities on a large scale, for local production can only satisfy a fraction of national demand and the crops are producible more cheaply abroad in low-wage economies. Similarly the typical temperate land fruits and vegetables other than the highly perishable ones are also profitably imported by TNCs from countries where their seasonal spread is larger and where they are often producible at a lower cost than in the temperate countries themselves, ensuring larger profits for the TNCs. That such trade is of benefit to northern countries can hardly be doubted; but the benefit to the developing country promoting agri-exports can be negative insofar as there is diversion there of land and investment away from domestically consumed goods whose availability falls.

It will not do to argue that these products imported from developing countries today make up a small fraction of total consumer expenditure in advanced countries or that raw materials and minerals are a small fraction of value added in industry, and that they are therefore unimportant. What is important is their ubiquitous physical presence in northern life-styles. One may as well argue that the air we breathe is not important because it appears to bear a zero fraction to our income.

Our argument is precisely that primary imports from tropical regions are bound to be a small proportion by value of northern incomes because they are obtained on such favourable price terms by the importers. They have very high use-value but are assigned a relatively low exchange value by the international market, which can be viewed as the expression of a historically structured set of power relations. Another way of saying the same thing is that northern living standards are high at least partly because the prices paid to the third world producers for a range of imported goods which by now are taken for granted as necessities, are so low: and are deliberately lowered further through the imposition of a specific set of loan-conditional policies (more crosscountry simultaneity of competing export thrust, more similarly competitive devaluation).

International prices for primary products do not reflect today, any more than they did earlier, the cost to the third world societies supplying them. The cost has been, and is very high; at best, there is a slow long-term trend of lowering of basic food consumption and of nutrition levels for the poorest sections of the population which may be the majority: at worst, where the initial levels of food consumption were low to begin with, there is the creation of pre-famine conditions as resources are diverted to exports, and outbreak of actual famine can then occur with any economic shock. Much of sub-Saharan Africa has already reached the second stage. The solution advocated by world lending agencies for their crisis, predictably, continues to be more income reducing and poverty creating policies: more export promotion, more 'fiscal discipline' and more devaluation.

There are quite noticeable shifts in consumer tastes among metropolitan populations which we would argue, on balance have been increasing their demands made on tropical agriculture, and which underlie the new thrust to obtain cheap importables. These shifts in the pattern of consumer demand are partly the function of

rising real income and partly the outcome of increasing health consciousness and knowledge of what constitutes a healthy diet and life-style, which from being the preserve of a few people considered eccentric earlier, has been spreading rapidly amongst the general population during the last decade in particular. Environmental consciousness has also increased greatly and the 'green' movement has had an appreciable impact on peoples' perception of organically grown food, free of artificial preservatives and colourings, as more healthy; this in turn has profitability implications in capitalist societies.

Prone to cardiac disease, cancers and digestive tract disorders, the illnesses of affluence, consumers in advanced countries are, under medical advice, cutting down relatively on fats especially of animal origin (lard and butter) as a cooking medium and shifting to vegetable oils. They are also shifting from fatty meat to lean meat, fish and sea-food; they are urged to include less carbohydrate per se and more fibre and vitamins in their diet which traditionally is based on over-refined, excessively starchy and fatty foods. To this end there is higher demand for whole grain cereals, green vegetables, fruit and other sources of fibre. Words like 'cholesterol' and 'monounsaturated oils' are today part of every educated person's vocabulary, including the well-to-do in the third world countries themselves. Food processing companies bombard consumers with valid and spurious health claims for their products.

Only a fraction of the increased demand for vegetable oils, fruits, vegetables and fibre can be met from increased local production in cool temperate lands; the main local adaptations have been to reduce the refining of a part of wheat and other cereals to retain more protein and fibre, produce more whole-grain bread and increase citrus fruit output, most of which comes from the US. The bulk of the new demand for vegetable oils, fruits and vegetables however is expressing itself as a new onslaught on the limited productive capacity of tropical to sub-tropical lands. Hence the new round of relentless pressure on them to 'open up' their agriculture and engage once more in an agriexport drive as they were obliged to do in colonial times.

It would be misleading to expect any absolute decline in the consumption levels of high-fat milk, butter cheese, etc, or even of meat in the advanced countries. On the contrary we find that there has been a large rise in their levels from austere war conditions, in the course of the long postwar European economic boom. Japan is also seeing a marked shift in consumption patterns as new generations favour a more 'western' diet model based on milk and meat products,

as indeed are the younger generation of the well-to-do elites in the developing countries. However within a rising trend of animal protein consumption, relative shifts are taking place influenced by health consciousness. The use of lard (hog fat) and butter for cooking was widespread in Europe three decades ago; it is being partly replaced and partly supplemented by vegetable oils; this is reflected in the spurt in sunflower and safflower production, replacing foodgrains especially millets, in third world countries including India, under the aegis of the TNCs engaged in agri-exports.

The per head consumption of meat has increased greatly in the course of the long post-war economic boom in Europe. The shift to lean meat from fatty meat within a rising demand trend, has necessarily involved via the activities of the transnationals, a relocation of animal-production on the hoof to warm countries. Since fat is nature's protection to animals against cold, by definition lean animals cannot be raised in cold countries easily unless they spend their . lives in heated houses; genetic engineering to breed low-fat animals does not fully solve the problem of the expense of housing them. Hence the rapid relocation of beef production on the hoof to warmer countries: this has gone very far in countries like Mexico and El Salvador, displacing human foodgrains by animal fodder for feeding exported livestock, and with a lag a similar process is underway in many other developing countries including India.

Increased production of fish and sea-food for export is not as innocuous as it sounds, prawn culture for export is currently in the process of destroying paddy land through salination and creating unemployment in India as it already has in Thailand. As the North Atlantic and Sea of Japan fish yields are currently dropping sharply owing to over-exploitation, the industrial countries demand access to the Indian Ocean, among other rich and under-exploited seas; the entry of the giant mechanised foreign owned fishing fleets displaces local fishing communities and begins to step up the rate of depletion of marine resources to nigh levels.

The TNCs also displace area under foodgrains by contracting for the production f a range of fruits and vegetables destined for northern supermarket shelves in fresh, frozen or canned forms. In India the promotion of such agri-exports has been declared an official priority area, and a larger share of falling resources are to be devoted to this.

If the north lacks bio-diversity, it lacks neither overwhelming superiority in money power for funding research nor the will to appropriate the very genetic basis of this biodiversity for developing and patenting a

applications for the advanced world in the areas of pesticides, foods, cosmetics and medicines. As the long-term adverse toxic effects become known of using synthetic chemical pesticides and weedicides, fertilisers, food flavours, preservatives, dyes and cosmetics; and the adverse side-effects of many essential drugs become clearer, there is now a premium on biological pest control, organic fertiliser, use of natural, safer vegetable sources of sweeteners, preservatives, flavours, dyes, and herbal cosmetics; and on exploring new organic sources of safe and effective drugs for treating disease. For international corporations operating out of the advanced countries there is a potential market estimated to run into nearly a trillion dollars from these applications.

All this involves a fresh onslaught by them on tropical bio-diversity; for the overwhelming bulk of the basic plant and animal resources, including microorganisms, which can provide the genetic material for these new research applications, are physically located in the developing countries. Particularly rich are the tropical rain torests, special isolated bio-niches like the Malagasay, and the sub-Himalayan ecosystems. Northern scientists closely associated with industry are already in the process of recording the traditional medical knowledge of local communities, searching for, locating and removing for research the plants, roots and other organisms used in traditional systems - all without any compensation whatever to these communities or countries. It should be noted that advanced countries have a very strong system of individual and other forms of property, but no norms are followed when it comes to physical removal of the bio-resources of developing countries. A pittance may be paid to the simple tribal people whose knowledge is appropriated and who are used to guide the northern 'ethno-botanists' to the location of the local-rare plants and organisms, local scientists can often be manipulated for similarly minute individual sums and rewards to surrender knowledge of potential importance to the developing nation.

The substance of the new 'trade related intellectual property rights' or TRIPS regime of the GATT 1994 agreement as applied to agriculture, is to ignore completely the natural monopoly of bio-diversity that the third world has, by making no provision for compensating them for the use of these products. (The International Biodiversity Convention on the other hand remains a statement of pious intentions with no teeth for enforcing the property rights of local peoples). The TRIPS provisions in agriculture make mandatory new rules of

namely, that of research funds. Existing Patents Acts in signatory countries are required to be amended in order to include product patents in all spheres (medicines and agriculture had been earlier excluded) in addition to already existing process patents, and to increase the period of patent (doubling it from seven to 14 years in the Indian case). Given the fact that only 1 per cent of all patents are filed from developing countries, the disproportionate gains likely to be derived by foreign transnationals and governments monopolising research funding, is clear.

The new patent regime relating to agriculture initiated under GATT 1994 pointedly ignores the fact that the overwhelming bulk of genetic materials have been in the past and continue to be today, stolen from the developing countries by advanced countries' corporations and scientists, without any payment whatsoever for the natural monopoly that these countries have; it concentrates instead effectively, on legitimising this filching by allowing those who do it to file patents on products obtained from these genetic materials and enjoy rent from the higher prices that can be charged once a monopoly is granted.

#### FOOD SECURITY

Returning to the question of food security, let us briefly review the experience of Mexico and of the sub-Saharan African countries first, in 'successfully' engaging in an export thrust of such dimensions as to undermine their own food security and plunge substantial sections of their populations into a spiral of declining basic food consumption.

In Mexico which had pioneered the highyielding wheat varieties and had achieved a green revolution in the 1960s, food selfsufficiency was lost by the early 1970s, as under debt-induced liberalisation a massive new agri-exports thrust was initiated. displacing foodgrains relative to exportables and turning the northern provinces of the country virtually into an enclave tied to the US market. Despite the vastly increased agri-exports however, interestingly the agricultural sector in Mexico became a net loser of foreign exchange from 1974, as imports of foodgrains (wheat, maize and beans) had to be stepped up greatly. This was aggravated by the trend of absolute fall in prices since 1979 for tropical exportables relative to constant or slowly rising price of wheat and maize exported by the developed countries (Canada, the US, and of late the EEC).

The 'metropolitan demand', as it should be defined, comprises two segments: first, the Mexican rich, whose share of national income has been rising from already high levels and who spend a higher share of their food budget on animal foods; and the US whose impact has altered cropping patterns and land use in Mexico dramatically in a matter of two decades. The US demand comprises lean meat on the one hand and a range of fresh and frozen fruits and vegetables on the other: both together have displaced the output of maize and beans, the staples produced by the small-scale peasants whose economy has been caught in a spiral of deterioration as official price policy and investment priorities have favoured the new exportables (a trend little affected by the brief Lopez-Portillo interlude of privileging food during 1980-82). The exportables are grown by farmers under contract to the US -based transnational giants of the food industry, such as Birdseye/General Foods, Pet Inc, Del Monte, Gerber, Clement Jacques, etc, and live cattle supply is controlled by Ralston-Purina, Anderson-Clayton, Ciba-Geigy and others. This has ensured a growing supply at low prices of fruits and vegetables to US and western European supermarket shelves, and meat for the fast-food industry.

While the 'new exportables' growth spurted, the production of maize stagnated at only 0.7 per cent per year and beans output fell at -1.5 per cent annually between 1965-67 and 1976-78; their output per head of the Mexican population thus declined, as did the incomes of farmers in the subsistence sector. The traditional cash crops like sugarcane and cotton also declined as the new exportables increased. Many thousands of small farmers were forced to leave farming altogether and migrate in search of wagepaid work, swelling the army of the urban poor. Some of the displaced peasants succeed in running the gauntlet of the armed antiimmigration groups patrolling the US-Mexico border, and swell the army of illegal entrants into California, offering themselves for hire at five dollars a day as against the minimum wage of 40 dollars. No other developing country, however, has the benefit of a common border with the US: the labourers in India currently being displaced by the agri-export activities of the local capitalists and the TNC's unlike Mexican peasants have little hope of emigrating anywhere.

The Mexican case illustrates the competition between foodgrains and feedgrains, reminiscent of medieval Europe, which has resurfaced in the third world but with the scales tilted decisively in favour of feedgrains, because there is a high income elasticity of demand for meat among middle income metropolitan consumers, and it is their superior purchasing power which bids away land and resources from the basic grain staples consumed by the poor (Yotopoulos 1985). Cattle raised on Mexican ranches are fed according to a strict regimen prescribed by the TNC's engaged in supplying beef for

the US groundoest and processed rood industry. The growth rate of sorghum which is used as animal feed, has averaged 10.6 per cent annually over more than a decade ending in the triennium 1976-78 (see Table 5) and has risen further giving an annual rate of 13 per cent during 1970 to 1980, the highest for all crops. The proportion of total cultivated area under fodder crops, mainly sorghum, rose from 6 per cent to as much as 23 per cent and the share of grain output ted to livestock went up from 5 per cent to 32 per cent in the course of the two decades ending in 1980 [Rodrigues 1990].

Sorghum or jowar is at present a human foodgrain in India, grown and consumed by the labourers and small farmers in the lowrainfall areas of the country. Learning from the Mexican story, clearly any decline which is likely to be taking place in food availability for humans cannot be measured by looking at simple grain production data alone but requires also looking at the end-use of grain, namely what share of it is going into animal feed particularly for export either as feed itself or converted to meat. [The substitution of meat for cereals and pulses in dicts is known to be a highly land-using phenomenon, since the most efficient-practice meat production from large animals requires on average about 8 hectares of land for producing a mere quintal of meat (a part of this being pasture and the rest arable: see Bernstein et al 1990).] The displacement of human foodgrains can be very fast, as in Mexico, once a rapid growth of meat export starts for metropolitan consumption. The similarly devastating effects of cattle tanching for export in El Salvador have been well documented by now.

In India this process has already started quietly with livestock production growing last, in response first to urban demand from the well-to-do leading to a 45 per cent rise by 1989-90 over the 1981 base; and since the export promotion drive from 1991 it has accelerated with the Gulf countries providing the main market for meat exports so far, so that total livestock product index has been rising at an annual rate more than double that of the foodgrains. Apart from direct meat exports there is a fast growth of the output and export of high-concentrate soya cakes used as animal feed; the expansion of soya-bean has been displacing the coarse grains, in the peninsular states of India (Madhya Pradesh in particular), as we will

There is an important logical corollary from this trend of what the Latin American economists have long called 'ganaderizacion' or increasingly livestock-oriented production, as domestic income distribution worsens and liberalisation subjects the "conomy to the powerful pull of richer ountries' demand patterns. The corollary

is trial the rood availability decline for human consumption is likely to be greater than the official figures indicate.

The official Indian practice (cf the annual Economic Survey) which has been followed for over 40 years, is to calculate 'food availability' by simply deducting a standard fraction (at present one-eighth) for seed and feed from gross foodgrains output. This is already out of date, for it does not take account of the accelerating trend of livestock production and its growing draft on grains for feed. Researchers need to estimate what precisely is the fraction of grain output actually remaining for domestic human consumption, before any complacent statements are made regarding the adequacy of availability for the 80 per cent of the Indian population which cannot afford anything but the basic staples. The official 'food availability' figures in grams per head per day which are widely used, no longer reflect actual availability for human populations.

The fact of the decline of per head food production in sub-Saharan Africa is well known, but what is usually neither perceived nor discussed, is its direct association with the successful drive for agri-exports. Looking at food output decline first, the calculations in UN publications (such as African Development Indicators 1992) are idiosyncratic in including palm-oil and sugarcane in 'food crops' whereas these are in fact commercial non-food crops. We adopt a more logical definition of food crops to include cereals, potatoes and other tubers, plantains and bananas; noting that although in Asia only cereals out of these are included in foodgrains, the importance of tubers and plantains as a food staple in many African countries make their inclusion mandatory. This definition of output is not the same as output available for local human consumption, as some part of bananas are in fact exported, some part of cassava used for commercial starch production, and some part of grain is used for livestock feed for export. This overstatement makes the test for our argument of decline in domestic food production affecting human consumption levels, a more stringent one.

It is the convention in countries with a large potato output like China, to aggregate tubers and grain by using the conversion rate 5 kg tubers = 1 kg grain. We follow the same convention in the table below for tubers as well as plantains in calculating total food output.

The six most populous countries (Nigeria. Ethiopia, Sudan, Kenya, Tanzania and Zaire) accounted for nearly three-fifths of the total population of the region. From our estimates above it is clear that they have seen as much as a 33 per cent decline in cereal output and 20 per cent decline in overall food per head in less than a decade. This is a faster rate of decline than colonial India saw in the inter-war period. All six countries liberalised. and engaged in a strong export drive during this period: four out of the six had 'intensive adjustment programmes' involving taking three structural adjustment loans (SAL), one took two SALS, and one started adjustment before 1986. All saw rising non-food exportables output per head at the same time that food output per head declined.

The following are country-wise figures of growth of 'non-food crops' in four of these which had taken SALs and implemented agri-export promotion (palm-oil and sugarcane have been left out since the source puts them in 'food crops' and does not give the country-wise figures of these crops so that adjustment by adding on to the other non-food crops is not possible. We had earlier presented these data in Patnaik 1992). The

TABLE 5: GROWTH RATES OF FOOD, LIVESTOCK AND COMMERCIAL CROPS, MEXICO 1965-67 TO 1976-78 (Annual Compound Rates in Per Cent)

| Some New 'Exportables' |      | Old Cash Crops |      | Food Staples |     |  |
|------------------------|------|----------------|------|--------------|-----|--|
| Sorghum                | 106  | Sugarcane      | -0.3 | Beans        | .15 |  |
| Safflower              | 95   | Cotton         | -49  | Maize        | 07  |  |
| Poultry                | 12 7 | Coffee         | 1 4  | Rice         | 1.7 |  |
| Pork                   | 8.2  |                |      | Wheat        | 3,  |  |
| Eggs                   | 5,0  |                |      |              |     |  |
| Tomato                 | 4 4  |                |      |              |     |  |
| Beef                   | 3 7  |                |      |              |     |  |
| Milk                   | 4 () |                |      |              |     |  |

Source Rodriguez (1980)

TABLE 6 INDICES OF FOODEROP AND LIVESTOCK PRODUCTION, INDIA

| Year       | 1981  | 1985  | 1987  | 1989  | 1991  | 1993   | 1995    |
|------------|-------|-------|-------|-------|-------|--------|---------|
| Food crops | 104.3 | 110 6 | 106.0 | 121 3 | 119 2 | 130 45 | 134 48* |
| Live stock | 106.3 | 133.8 | 142.3 | 155 3 | 171 7 | 200 3  | 233 6*  |

Note: Read 1981 as 1981-82 and so on \* Provisional Index base triennium ending 1981-82 = 100

Source: Economic Survey and FAO Yearbook, various years 1995-96 livestock figure estimated by projecting growth rate of 8 per cent annually on basis of FAO official's interview reported in The Statesman, June 15, 1995

crops in these countries. The inverse relation between exportables growth and food crops growth is clear though not one-to-one in the sense that the sharpest rates of decline in foodcrops is not necessarily associated with the highest rates of rise of export crops.

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The decline in foodcrops output including tubers and plantains for all 46 countries taken together (Table 8) was 11.5 per cent over the decade of the 1980s. This has effectively undermined food security, given that the initial levels were low to begin with : only 138.5 kg gross per head in 1980 compared to around 190 kg in India and 285 kg in China. By 1987-89 this had declined to only 122 kg. As we have seen the absolute figures may be underestimated; even if we revise all annual figures upwards by as much as 20 per cent, we obtain an initial figure of 166 kg, still well below the current Indian level, and a terminal figure of 151 kg. It is hardly surprising that a decline by 1989 of such a substantial magnitude in sub-Saharan Africa combined with decline in per head real income, should have created pre-famine conditions for the poorer majority of the population, such that any shock such as more than one drought year, a severe drought or accelerated inflation could set off actual famine. In 1992-93 there was a crisis in Zambia, Mozambique and Western Transvaal which most academics attributed only to the severe drought. Newspaper reports in June-July 1992 (especially *The Guardian*) however also wrote, significantly, of the substitution of locally consumed millets by horticultural exports having become very marked in the preceding years in these areas. Actual famine was only averted by a massive food aid effort, adding to the region's indebtedness. International financing and aid agencies have redefined 'food security' to mean, not self-sufficiency in food production, but making food available from donor countries in time to target populations to avert the more distressing manifestations of famine, which leaves untouched the basic structural cause of crises, namely the diversion of scarce resources to exportables.

The truth of the matter is that Africans with their low (340 dollars per head) and declining real incomes cannot compete in the global market against the superior purchasing power of northern consumers (15,000 to 18,000 dollars per head), any more than can the ordinary population of other low-income developing countries like India, Sri Lanka and Bangladesh (320-380 dollars), once their economies are opened up fully to the pull of international demand. They see their own land and resources being bid away by the pull of northern effective demand, from the production of the basic foods they need themselves to the production of exportables.

the land-use and cropping pattern of a tropical country will be substantially altered by the action of the powerful magnet of international demand with its own specific commodity structure, just as it was during the colonial period. Every time a northern consumer reaches out to the supermarket shelves for a bottle of vegetable oil, a tin of pineapple, a bunch of bananas or a packet of frozen strawberries, she is helping to bid away scarce tropical land from production of lowvalue food for locals to these exportables. These acts of 'free consumer choice' multiplied daily millions of times, translate back in to the activities of the transnationals which are busy promoting exportables production and agri-processing by contracting with local producers, displacing land and resources from foodgrains. The proposition that a reduction in food-crop production in a 'liberalised' economy leads simultaneously to a reduction in food availability is so contrary to the tenets of orthodox economic theory that an elaboration of it is in order even at the risk of some repetition. We may be asked for example: why cannot the exchange earnings from cash crop export be used to import foodgrains so that food availability is augmented rather than reduced through trade? The reason is that the very process of making exports available for the metropolitan market is one of demand deflation for food-crops, so that the supply as well as the demand for food shrink simultaneously. The foreign exchange earned from the export of cash crops is used partly for profit repatriation by the TNCs engaged in agri-business and partly for financing larger manufactured goods imports from the metropolis. Over time however even this exchange availability declines owing to the simultaneous pursuit of export promotion by a multitude of third world countries, all subject to structural adjustment; but this does not alter the fact of domestic demand deflation for foodgrains; if anything this deflation is tightened as the pressure to export increases with declining terms of trade. (Even if, taking a hypothetical case, agri-export prices declined to a point relative to the dollar prices of internationally traded foodgrains where the domestic production of the latter became profitable, such production would, given the fact of deflation, be earmarked for exports rather than domestic consumption. The link between production and availability of foodgrains in this case would have been broken but the latter would not have increased.)

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In the case of African and other countries there has been an absolute decline of between 40 to 60 per cent in unit dollar price of primary products including minerals, over the decade (depending on the composition of the exports of the country concerned) and

no min in importantes prices. Terms or trauc internationally have shifted against primary exports oriented African countries by an average of 50 per cent over the decade and the adverse movement is continuing into the 1990s. With over 80 countries competing with each other under substantially identical Fund-Bank orchestrated programmes of agriexport promotion (given continuing recessionary conditions over much of the advanced world) it is hardly surprising that world prices of primary products and minerals have declined so much, to the great benefit of the developed world. Once the economy is locked into the regime of debt-conditional export promotion, the deflation of domestic demand for foodgrains becomes an endemic feature.

TABLE 7: INDEX OF FOOD OUTPUT IN SUB-SAHARAN AFRICA 1980-89

| Country/Group        | 1980   | Three Year<br>Average<br>1987-89 |
|----------------------|--------|----------------------------------|
| 1 Six most populous  |        |                                  |
| countries            |        |                                  |
| Cereals              | 100.00 | 66.7                             |
| Tubers and           |        |                                  |
| plantains            | 100.00 | 106.8                            |
| All food             | 100.00 | 80 0                             |
| 2 Sahelian countries |        |                                  |
| Cereals              | 100 00 | 125 8                            |
| 3 All 46 countries   |        |                                  |
| Cereals              | 100.00 | 83 4                             |
| Tubers and           |        |                                  |
| plantains            | 100.00 | 105.8                            |
| All food             | 100,00 | 88 4                             |

Source: African Development Indicators 1992 (UNDP, World Bank, Washington, DC) We have reworked the basic cropwise (up to six crops each country) and country wise (46 countries) data for ten years. 1980 to 1989, to obtain new aggregates of food crops defined as follows. Cereals include wheat, maize, barley, millets. Tubers include potatoes, cassava and yams, Plantains include bananas and plantains. The Sahelian countries had no recorded tubers or plantains output and produced about one-tenth of the total food output of the entire sub Saharan region Cereals, tubers and plantains have been aggregated following the convention 5 kg tubers or plantains = 1 kg cereals.

TABLE 8: ANNUAL GROWTH RATES OF FOOD AND NON-FOOD CROPS, SLILCTED SAP-IMPLEMENTING COUNTRIES IN SSA

| Country  | Period  | Non-Food | Food* |
|----------|---------|----------|-------|
| Ethiopia | 1986    | 37       | 9.0   |
| Kenya    | 1975-80 | 6.5      | -9.5  |
| Sudan    | 1980-85 | 13.9     | -2.3  |
| Nigeria  | 1986-89 | 11.3     | -6.1  |

Source: As Table 5. Food\* refers to the cereal crops; non-food excludes palm oil and sugarcane. The date for Ethiopia is openended in the data source.

A typical exporting country has had to louble volume exports, that is have export olume growing at a compound annual rate if 8 per cent over the decade merely in order o have the same stagnant exchange earnings it the end of 10 years, given the average fall by half in unit prices. Indians will readily ecognise the similarity with the dismal ontours of their own inter-war experience, when Indian peasants similarly faced with alling international prices were desperately jushing out more and more volume exports o maintain exchange earnings and finance he large obligatory transfer abroad. Replace transfer' with 'servicing of debt' and the ame scenario holds today. With over a secade of falling per head incomes despite indeed because of -liberalisation, the SSA ountries are castigated in the latest World 3ank Reports for failing to maintain volume exports at a high enough rate to compensate or adverse terms of trade!

EMERGING INVERSE RELATION BETWEEN AGRI-EXPORTS AND FOOD AVAILABILITY IN INDIA

Until recently large Asian countries like India and China strictly controlled their trade in agricultural products and insulated their peasant producers from the harsh impact of adverse movement in international terms of trade. There was relative stability of internal te,ms of trade and farmers enjoyed improvement over most of the period, compared to periods of adverse movement and large fluctuations in the international terms of trade, as Karshenas argues for the 1960s (Graphs 1a and 1b) While India and China may not have benefited from the apswing in commodity prices in the 1970s, equally they have not been subjected to the prolonged fall in primary product prices in the decade of the 1980s, which continues into the 1990s. In India this is now changing is the agri-export thrust gets under way. In fact by virtue of being a large producer the very fact of India's entry into the world market in a number of key commodities like rice and cotton is likely to depress international price

Starting from the 1950s both India and China had followed policies of promoting toodgrains production and building food security, China with greater success than India after the mid-1960s owing to its more egalitarian economic structure. In output Herais the Indian achievement was creditable sua e food output nearly quadrupled between 19 11 and 1991, from 46 mt for a population of 363 m to 170 mt for a population of b : m. The distorted pre-independence trend of a 10 times higher growth rate for exportable creps compared to near-stagnation for foodgrains, was altered dramatically to a phore normal equality of the two rates of In with: food output grew 30 ames faster at around 5 per cent while the non-tood crops growth also trebled to a similar rate. The earlier fall in per head production was reversed and a modest 16 to 18 per cent rise secured, which still has not compensated for the 25 per cent fall under colonialism. Moreover the composition of the average diet for ordinary people has worsened with a halving of the availability of pulses, hitherto the main source of protein for the poor.

During the five years since trade liberalisation in agriculture, foodgrains growth has slowed down, the average of annual growth rates being only 1.71 per cent. Within foodgrains while wheat and rice have an average percentage growth of 3.48 and 2.53 the pulses growth rate has averaged only 1.1 per cent while the coarse grains show the most alarming picture with lowest average growth rate of a mere 0.37 per cent. The gross area under foodgrams has declined by about 4 m ha over the reform period (Table 9): coarse grams have declined markedly by about 3 m ha and combined with decline in the pulses area accounts for the 4 m ha decline, which is quite substantial As we have been led to expect from the experience of all the liberalising countries discussed so far, the output of potential or actual exportables has grown much faster than the foodgrams in general within which the sub-category of coarse grains in particular is stagnant. Indeed the 1995-96 output is expected to finally be around 30 mionielower than the 1990-91 output of 32 mtorine The oilseeds like sunflower, sattlower mustard and soya are replacing the coarse groups in the low and ciratic rainfall areas of Andl va-Pradesh, Maharashtra, Madhya Pradesh, Gujarat and Rajasthan where the coarse or ons are traditionally grown as food scaples.

With such a decline in the production of coarse grains as a result of displacement by the exportables catering to domestic and foreign metropolitan demand, what is happening to the consumption of the labourers and small farmers in these areas for whom these coarse grains like bajra, jowar and ragitare the traditional food staples? This is a question that researchers should examine carefully. Not the most ordent

theraisers can argue, given the fall in real wages of rural labour and rise in poverty, that these classes are switching over to superior cereals. In fact the demand compression through real income decline of labourers and small farmers is the economic mechanism through which diversion of resources is made possible from the local food staples to the exportables. Their level of consumption must of necessity have declined.

#### SUPPORT FOR AND OPPOSITION TO NEW POLICIES

What are the main forms of growing agriexports; who will gain, and who will lose, from the new export-orientation of Indian agriculture? These are the questions we address briefly here. Foreign companies entering into agreements for agro-related business in India numbered 293 during 1986 93 compared to 111 during the 35 preceding years. A number of domestic large companies like Tata and Modi have also shown an interest in this area. The commodifies which are expanding today and are tikely to grow in future to meet metropolitan demand are rice, cotton, vegetable oils, animal feeds, vegetables, flowers, ornamental plants and orchids, prawn and other sea food, and hardwood timbers for luxury furniture and house fittings. All of them involve problems by way of displacing food growing land, displacing hired labour, and some by causing Ereversible forest and land degradation. A minority of capitalist farmers enter into these areas for short-term profitability and act as the conduits through which exportables are pumped out to meet metropolican demand

At the current exchange rates are is compensive on the international market and the expect of the its prowing fact from a low of an base. The main area of commercial tree production is North India which has been supplying so for ever two thirds of the rice production system (the areas where rice is a traditional staple crop for the growers are in eastern and southern India but only one-third of output is sold compared to overninetenths in northern India. With exporting albering momentum the government has to

Table 9. Add a Union rate. I opion obsessio Onsolite

(mha)

|                                    | All Cereais | Whent and<br>Rice | Coarse<br>Grains | Pulses | Oilseeds |
|------------------------------------|-------------|-------------------|------------------|--------|----------|
| 1989 90                            | [0]3        | 65 7              | 18 6             | 244    | 22.8     |
| 1990-91                            | 103.2       | 66.9              | 36 3             | 24 -   | 24.1     |
| 1991-92                            | 99 4        | 66 ()             | 33.3             | 22.5   | 25.9     |
| 1992-93                            | 100.8       | 5r. 4             | 34.4             | 22.4   | 25 3     |
| 1993-94                            | 100.5       | 67.6              | 32.9             | 22.2   | 26, 9    |
| 1994-95                            | 100.4       | 67.8              | 42.6             | 23.2   | 25 3     |
| Per cent change<br>1991-95/1989-91 | 291         | 0.98              | -11 08           | -6.13  | 10/23    |

Source Economic Survey 1995/96. Appendix Table S/17 Coarse grains area obtained by deducting wheat and rice area from ecre its inna

compete with the global market to keep its own ration shops supplied. The result has been a sharp rise in the administered prices of foodgrains. In the new atmosphere of licence to profiteering, a larger fraction of stocks meant for the ration shops appear to be getting diverted to the free market. Ration rice when available at all, costs now double what it did five years ago, making the gap between the open-market and ration-shop price so small that many lakhs of the poor have been priced out, and offtake from the ration shops is exceptionally low.

It has been argued cogently that since India is a large producer accounting for 22 per cent of world rice output whereas world trade in rice is around 4.4 per cent only of world output, India's entry on any scale into the world market, is likely to depress the price (Nayyar and Sen 1994). Thus by exporting a mere 5 per cent of its own output India would augment world market supplies by 25 per cent exerting a downward pressure on the price. We are very likely to be caught in the current African scenario of larger volume exports at falling prices. Groundnut (35 per cent of world output), cotton, wheat, sugarcane (all around 8 to 10 per cent) are other crops where India has a substantial weight in world output.

Raw cotton demonstrates the problem to domestic consumers posed by indiscriminate and unregulated agri-exports. Even before full scale liberalisation, there was a ten-fold rise in exports in 1990-91 compared to 1989-90. While volume exports have fluctuated since 1991, it has averaged 148 thousand tonne annually during 1991-92 to 1995-96 or over four times the average level of 35 thousand tonne before 1990-91. The price of raw cotton has trebled and yarn price has doubled over the same period. Lakhs of handloom weavers whether independent or in co-operatives are facing sharp income decline while small powerloom enterprises are also reportedly closing down. In Andhra Pradesh in 1990 many weavers had committed suicide as they were ruined by the sudden rise in yarn price. With the present sharp inflation economic distress faces weavers again, to the extent that the government has been forced by their acute distress to announce a temporary hank yarn subsidy scheme, despite subsidies being anathema in the Fund-Bank theology.

Large industrial houses have been acquiring agricultural land in the traditionally paddy growing coastal areas of Orissa, Andhra Pradesh and Tamil Nadu for conversion to prawn fisheries while rich farmers have also joined in since at present the returns are high. The rapid growth of prawn fisheries in coastal and paddy-producing land during the last five years, is generating enormous tensions between the companies and individuals engaged in this

and environmentalists, fishermen and the local labourers displaced from paddy production, on the other. Illegal and semilegal land-grabbing by the exporters, prawn raising leading to salination of soils making them unfit in the long run for paddy, depletion and salination of groundwater resources by the prawn fisheries affecting neighbouring farmers, diseases caused by effluents, loss of traditional access by local fishermen to the coast and beaches with privatisation, are some of the many issues involved. The immediate loss of livelihood for agricultural labourers with the labour-intensive paddy being replaced by the fisheries, has provoked resistance by labourers in Tamilnadu, organised by the octogenarian Gandhian leader, S.Jagannathan. However given the vertiginous rise of carnings at present from sea-food exports of which prawns comprise over three-quarters, and with the government strongly backing it, the expansion is likely to continue. As with every exported commodity such as cashewnuts earlier, prawns which today are highly prized by the Northerner as a protein source, have also been priced out of the reach of the Indian domestic middle class whereas it routinely figured in its consumption basket a few years ago. However as long as exports affected the consumption basket of the middle class alone the argument against it was still weak. This is no longer the case; the export drive has started affecting the basic availability of staple foodgrains for the poor.

Other avenues of ongoing displacement of foodgrains meant for human consumption, include vegetables and fruit production under contract to the TNCs which started with Pepsico International's activities in Punjab; the dissemination of genetically engineered sorghum seeds by Cargill in an apparent attempt to initiate a replication of the Mexican story in Karnataka (which has been stemmed by opposition from the militant farmer's movement, expansion and export of cut flowers; and the rapid growth of sunflower and soya production in hitherto millets producing land in northern and peninsular India. (The sunflower is processed to give 'healthy' oil for export, the soya is exported as livestock feed concentrate). There has also been a mushroom growth of companies promising (via press advertisements) upto 70 per cent rate of return on investment in teak plantations and horticulture for export The land for these ventures have been acquired very often by dubious means and by encroaching on common property resources. With proposals to amend the existing law regarding 'ceilings' on landholding, some state governments are sending clear signals that implementation of the existing land reform laws are to be shelved and indeed reverse land reform caried out

lucrative export business on the one hand, • in tayour of the untettered growth of exportand environmentalists, fishermen and the oriented agro-capitalism.

It is reasonably clear that the new trends will lead to an accentuation of the economic differentiation which already exists strongly in rural society, to a point of sharp dualism between a minority of export-oriented capitalist farmers and companies out for quick profits regardless of social costs on the one hand, and a mass of cultivators whose returns from the domestically consumable crops falls as a direct result of the relative price shifts inherent in the new policies and their active promotion by government. The livelihood of rural labourers is under threat and irreversible environmental problems are in the making.

There have been two diametrically opposite sets of responses from the farmers' movements in India: a minority response. strongly backing the new policies, and clearly representing the interests of the capitalists and business houses anticipating quick profits. It would be fair to say however that the majority of farmers are alarmed by the implications of the new policies by way of the displacement of foodgrains, loss of employment, environmental damage and extension of control by big industrial houses and TNCs. The movements led by Nanjundaswamy in Karnataka, by Jagannathan in Tamil Nadu, by Banka Behari Das and others in Orissa, by Sunderlal Bahuguna in UP are all in their different ways, against

TABLE 10. SELECTED TIEMS OF AGRICULTURAL AND MARINF OUTPUT AND EXPORT VOLUME, 1991-92 to 1995-96

|                    | Average of Annual<br>Growth Rates<br>(Per Cent) |
|--------------------|-------------------------------------------------|
| Rice               | 1 94                                            |
| Wheat              | 1.5?                                            |
| Pulses             | 0.90                                            |
| Coarse grains      | 0.27                                            |
| All foodgrains     | 1.27                                            |
| Oilseeds           | 4 93                                            |
| Marine products    | 6 56                                            |
| Exports of         |                                                 |
| a) Marine products | 21.96                                           |
| b) Oilcake (feed)  | 13.29                                           |

Source Economic Survey, 1995-96

TABLE 11 PER CAPITA DAILY AVAILABILITY
OF FOODGRAINS

|         | Availability in Gm<br>Per Day Per Head |
|---------|----------------------------------------|
| 1989 90 | 494.5                                  |
| 1990-91 | 476.4                                  |
| 1991-92 | 510 1                                  |
| 1992-93 | 468.8                                  |
| 1993-94 | 462.7                                  |
| 1994-95 | 469.5                                  |
| 1995-96 | 501.9                                  |

Source Economic Survey, 1995-96.

The new policies. The struggle of the labourers in Tamilnadu is supported by the Communist parties as well. These protests are buttressed by the protest against environmentally damaging industry such as the proposed Du Pont-Thapar acrylic plant in Goa, which has led to police firing and deaths.

Some very limited successes have been scored for example in the widespread public campaign against the provisions of the Dunkel Draft during 1993-94, which put pressure on the Indian government to ensure the continuation of the public food distribution system (though it is being contracted) and to clarify that farmers' rights to grow and exchange their seeds will not be affected. The amendment to the Patent Act 1970 in accordance with GATT '94 requirements, has been blocked so far by widespread opposition in Indian parliament. Direct action by farmers and local environmental activists has prevented the plans of Cargill to set up sorghum seed dissemination in Karnataka and a giant saltproduction project in Gujarat.

Decline in area sown to foodgrains and other crops in a particular year is not uncommon if rains fail; but recovery is usually fast. For the first time in Independent India, we find a persistent decline in the absolute area under foodgrains; the figures for all the years after 1990-91 are distinctly lower than that for any year between 1980-81 and 1990-91 (Table 11). It is hardly surprising that per capita food availability, looking at comparable years has declined (Table 10). This is on the conventional official definition of availability, without taking account of any possible increased diversion of grain to sustain fast growing livestock production. The actual situation may of course be much

[This is a revised and enlarged version of a paper presented at an international workshop on Agrarian Questions in May 1995 at Wageningen, Netherlands and also incorporates material from Patnaik (1992) and Patnaik (1993). I am especially grateful to Henry Bernstein and Prabhat Patnaik for their comments.]

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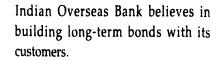
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### **Imperatives of Institutional Reform**

### A Vaidyanathan

This paper underscores the crucial importance of institutional reform, particularly in the domain of public systems, for sustained technical progress and output growth in agriculture. The scope for privatisation is limited in irrigation, research and extension and other infrastructure facilities. All of these will continue to be mainly the responsibility of the public sector. Unless the public sector's efficiency in mobilising resources and managing these facilities is vastly improved, trade and price policy reform will not make a significant difference to the pace of agricultural growth.

THE current debate on 'state vs markets' centres on the desirability of the state getting directly involved in production and distribution, as well as on the extent to which it should seck to control the activities of individual enterprises. It is widely acknowledged that the record of government and its agencies in implementing their programmes, using resources efficiently, maintaining satisfactory standards of service and showing resilience and the capacity to innovate, has been less than satisfactory. Attempts to regulate private sector activities in pursuit of equity and other social objectives has proved to be not only cumbersome, but their effectiveness is also in doubt. Part of the problem is that those who are sought to be regulated often succeed in capturing the regulatory authority. Attempts to control the behaviour of enterprises has also reduced the incentives for efficiency and innovation, and restricted the freedom and flexibility to pursue these goals. There is therefore a growing clamour for the state to drastically reduce its involvement in production/ distribution and give up discretionary controls operated by the bureaucracy. Enlarging the scope for private initiative and leaving it free to function in a competitive market environment will, it is argued, result in greater efficiency, faster growth and speedies elimination of poverty.

The 'state vs market' debate in India which started with the state's role in relation to industry has spilled over into agriculture. There is an articulate lobby advocating total free trade in agricultural products along with a phase-out of input subsidies and regulations which interfere with the free market. As in industry, these measures are expected to result in more efficient use of resource and faster growth. This essay questions the above on the following grounds: (a) the government's 'control' over agriculture is far less in scope and detail compared to industry; (b) removal of controls per se will not bring about faster technological change and larger investments essential to accelerate agricultural growth; and (c) 'privatisation' is neither the only nor the best solution to the deficiencies of the public sector. Many activities needed to sustain agricultural growth must necessarily be in the public domain, so that the restructuring of public agencies, broadly defined, to ensure that the support facilities are made available in adequate measure and efficiently is as important as making the markets work.

### Institutional Features of Indian Agriculture

Agriculture in India is perhaps the least affected by government participation or regulation. Of the various resources used in agricultural production, arable land is almost entirely owned and cultivated by millions of peasant households. The bulk of them have very small holdings (56 per cent of the holdings are less than 1 ha). Owner cultivation is preponderant. Reported tenant cultivation - which is likely to be an underestimate-currently accounts for barely 15 per cent of the area, A sizeable, but declining, amount of land in rural areas is classified as 'common land' whose use and access is regulated by village communities on the basis of traditional custom and usage. Much of the wastelands and forests are state owned. But communities living near forests are permitted restricted rights of access to and use of forest produce.

There is hardly any direct government intervention in the production and investment decisions of the farmers. But the government does influence the legal, material and economic environment in which farmers operate Regulations concerning weights and measures, produce grading, seed certification and produce markets seek to ensure that farmers are not exploited by traders' unfair trading practices. Ownership and cultivation of land is subject to laws and regulations concerning ceilings on landholding, tenancy arrangement and development and use of water resources. The right to property is protected by the Constitution but it is not an unrestricted right. The state can, and has, enacted laws modifying or even abrogating existing rights in order to serve social objectives. Land reform legislation (including those relating to tenancy and

ceiling on land holdings) is meant to ensure a more equitable distribution of land, the basic productive resource of agriculture. Laws for consolidation of holdings and regulations concerning exploitation of forests are meant to facilitate more efficient use of land

Government directly owns a substantial part of waste and forest land and is, in principle, the ultimate 'owner' of water resources. The construction and management of large surface irrigation is entirely in the hands of government. Substantial development of small surface irrigation works took place in the distant past mostly through local effort and currently account for approximately one-eighth of the total irrigated area. The government has increasingly assumed responsibility for maintenance of main structures and for major repairs/renovation of small surface works. It does not, however, interfere or regulate their internal management. They are maintained and run by the user communities based on local usage and customs. Wells, tubewells and pumps for lifting groundwater are mostly in the hands of individual farmers. But they are subject to government regulations meant to serve the interests of equity and sustainability.

The state plays a major role in providing other infrastructure, notably research and extension, road networks, marketing yards and rural electrification. Electricity generation and distribution are mostly in the hands of government and its agencies. Public enterprises play a substantial role in production of improved seeds and fertilisers. A significant proportion of these inputs and credit is also distributed to farmers through co-operatives and other public financial institutions. The private sector is the principal source of agro-chemicals and all forms of agricultural and irrigation equipment. Processing and trade are mostly in the private sector and agricultural markets are largely

The state has actively promoted the cooperative form of organisation in the sphere of agricultural credit, marketing and processing. Besides defining the legal framework in which the co-operatives are to function, the government has provided them substantial resources by way of loans at subsidised rates, underwriting losses and occasionally writing off principal and interest due on outstanding loans.

Finally, government policies relating to support prices, procurement of agricultural products, taxes and subsidies and foreign trade affect the allocation of resources via the prices of agricultural output relative to inputs, the relative prices of different crops, and prices of farm products relative to those of manufactures. Over the years, Indian government policy has resulted in substantial and growing subsidies on agricultural inputs. While most crops are guaranteed minimum support prices, restrictions on internal market and on foreign trade are claimed to have depressed product prices. Manufacturers have the benefit of high tariffs which are denied to agriculture. This means that agricultural products have received a much lower degree of effective protection compared to manufacturers.1

During the last five decades, agricultural output has grown by 2.5 per cent to 3 per cent per annum: more than double the overall rate recorded in the first half of the country. Since the scope for extending cultivated land has steadily diminished, the sustained growth in overall output reflects a progressive acceleration in the rate of yield improvement. There is little doubt that massive government investments in irrigation, research, extension, and other infrastructure, together with the expansion of institutional credit and the policy of guaranteed support prices and subsidised inputs have contributed significantly to this process. However government's role in agriculture has attracted

One major strand of criticism is that policies have discriminated against agriculture by depressing domestic agricultural prices relative to prices prevailing in the world market and relative to manufactures. This, it is alleged, has acted as a strong deterrent to private investment in agriculture, spread of improved technology and hence yield improvement; tilted income distribution to the disadvantage of rural areas; and encouraged wasteful, and ecologically undesirable, ways of using inputs like water and fertilisers.

The other major criticism relates to the unsatisfactory performance of public sector programmes for land and water development, research, extension and other agricultural infrastructure Unsatisfactory performance in these activities is manifest in the nonfulfilment of targets for irrigation and fertilisers; inflated costs; poor quality of service; uneven progress of research as between crops and between irrigated and rainfed agriculture; the persistence of large gaps between actual yields and potentials demonstrated by researchers. Regulations, intrastructure and supply of inputs. Hence on production and distribution of fertilisers. seeds and other current inputs by private sector and co-operatives has contributed to inefficiency and high costs.

In this context the advocates of liberalisation attach great importance to (a) removing all restrictions on imports and exports of agricultural products; (b) phasing out subsidies on agricultural inputs; (c) opening the input production and distribution to the private sector along with removal of all controls on their production, distribution and pricing; (d) enlarging private sector participation in surface irrigation, research and extension; and (e) the removal of land ceiling legislation and restrictions on the land lease market, and allowing private corporations (domestic and foreign) to acquire land for raising crops and forests. That non-price factors (irrigation, technology and cultivation skills) have a role and need improvement is conceded, but changes in the incentive environment are seen to be more important and urgent. There are of course strong differences on these issues.

There is little disagreement about the need for eliminating input subsidies. They are inequitable, inefficient and a heavy drain on budgetary resources. Free trade seems likely to raise the average domestic price of agricultural products by a substantial extent. Relative prices would change significantly. Reduction in the tariffa - currently in process should contribute to improving agriculture's terms of trade if it results in lower prices of manufactures. These effects will however be partly offset by the elimination of subsidies.

Whether such a package, which will benefit some classes of farmers and some regions at the expense of others, will be politically feasible is one question. The more fundamental issue is whether, even if these reforms result in a sizeable net improvement in the overall terms of trade, they would by themselves induce a strong aggregate supply response leading to a sustained faster rate of output growth.

Available evidence is patchy and consists of a very limited number of studies for the country as a whole. They show that the aggregate supply response to price changes is quite low; that they can account, if at all, for a small fraction of the observed growth; and that the growth of production is largely determined by non-price factors, specifically the availability of land, water, fertilisers and other key inputs, the stock of proven techniques (embodied in the seed varieties, agro-chemicals agronomic practices, energy sources) and the rate at which they grow.2 How effectively these techniques and inputs are used is conditioned in an essential way by the agrarian structure and the efficacy of organisations responsible for the basic

the importance of focusing on institutions involved in, and influencing, agricultural production.

#### AGRARIAN ORGANISATION

Discussions on institutions used to centre on agronomic structure modes of production and the role of land reforms in promoting agricultural growth. Over the years, attention has shifted to the role of different types of state intervention to help poor segments of rural society to raise the productivity of their resources and augment their resource base. The current debate on liberalisation in its preoccupation with the question of state vs markets appears to have relegated land reforms and agrarian organisation into the background. Indeed questions are being raised about the desirability of persisting with the kind of land reform programme which has been pursued so far.

There is a school which argues that restricting the extent of land which individuals and households can own and redistributing the surplus to achieve a more egalitarian distribution of land-which has been the central thrust of land reforms so far-are not only unsuccessful but also impede efficient use of technology. Abolition of land ceilings, allowing greater scope and freedom for tenancy arrangements mediated by the market and permitting private corporate enterprise to develop large-scale farms would, according to this view, promote more effective use of technology and contribute to faster growth.4

There is little evidence of any significant scale economies in agriculture. There is far more compelling basis to believe that smaller farms have an incentive to use labour more intensively and that this leads to higher production per unit of land. Experience shows that small farms have, in due course, adopted new varieties and inputs as widely and as intensively as large farms. Any move which will dispossess small holders of their mair source of the subsistence is not feasible and certainly not politically acceptable.

The disadvantages of small units in respecof access to inputs can be substantially overcome by public intervention to ensure them better access to credit both in terms of quantity and cost. The solution to fragmentation of holdings is consolidation of holdings. Both these have been part o government policy. That the interventions have been less effective than expected especially in the case of consolidation, is essentially an institutional failure.

Some of the disadvantages of small fragmented holdings can in principle be overcome by co-operative organisation. It theory, co-operative farming, where members' land is pooled and cultivated as

a single unit, could make octici use of failu and also reduce costs by improved bargaining strength in both input and output markets. Co-operatives in processing and marketing potentially offer similar advantages. In the case of credit, a co-operative whose membership consists of both depositors and borrowers (who know each other, are linked in social ties and are familiar with each other's activities) will be able to better monitor use of credit, reduce risks of default and therefore can borrow at a lower cost. This, along with the moral appeal of cooperation as a form of mutual help meant to promote the collective interest of the group rather than maximise profit, has been the rationale for the government policy of actively promoting co-operatives.5

In point of fact, co-operatives have made no headway in cultivation. Co-operatives have come to be a noticeable presence in processing and marketing. It is in the sphere of rural credit that they have become widespread and significant. But they in general do not meet the criteria of democracy, mutual help and self-reliance. Excessive dependence on borrowed funds and government subsidies, high costs, high incidence of overdues and defaults are all indicative of their poor state of health. Nor has the policy of channelling rural credit increasingly through the commercial banking system been conspicuously more successful.<sup>6</sup>

#### ROLE OF PRIVATISATION

There are also several problems with the way infrastructure support and production and distribution of inputs for agriculture are organised and managed. The poor performance in all these activities has attracted well deserved criticism. In this context, privatisation of production and distribution of inputs is being advocated by those who see the free market mechanism as the best guarantor of efficiency.

It is however necessary to distinguish the question of ownership from the need to eliminate in some cases, and drastically reduce and simplify in others, governmental intervention in investment, production and marketing decisions of individual enterprises. Where a commodity or service can be defined unambiguously, every user or buyer can access and use them independently of others, and the quantity bought or used by individual buyers/users can be measured accurately at a reasonable cost, there is no need for detailed government direct controls on individual enterprises be they private, co-operative or government. This is the case with fertilisers, agro-chemicals seed and farm equipment. In all these activities, a process of reducing government intervention is under way. But clearly much more needs to be done for example in the case of fertilisers. Whether existing public sector enterprises in these activities should be privatised and their role in further expansion should be restricted, depends crucially on whether public enterprises will be made fully autonomous and left to fend for themselves without any budgetary support.

Privatisation is, however, not the solution in the case of public goods (like research and extension) and of improvements to common pool resources (of which water and watersheds are the most important examples). The prospect of private sector involvement in research is limited: private companies are mostly interested in investing in research on hybrids and bio-engineered speciality crops from which they expect high returns. Producers of fertilisers, plant protection chemicals and farm equipment also invest in developing and propagating new or improved varieties of these inputs. But their efforts tend to be focused on promoting the sale of their particular products. The task of varietal improvement for open pollinated staple crops, evolving cropping systems and management practices appropriate under different agro-climatic and soil moisture conditions, promoting more efficient and eco-friendly use of chemical inputs, and developing more cost effective techniques for soil and moisture management (especially on rainfed lands) have not and are unlikely to attract private enterprise. The improvements resulting from much of this research being in the nature of public goods are best handled by public agencies. It is not surprising that almost everywhere these activities are vested with public agencies.

The potential of technology developed and proven in the research stations for raising productivity and/or lowering costs is not fully exploited. It is argued that the government extension service is neither equipped nor has the incentive to transmit all this knowledge to the farmers and provide location-specific advice on appropriate crop varieties, input use and management practices. If this is true, there should be a significant role for non-government agencies to render these services to farmers on a commercial basis. But the fact is that private enterprise and non-government organisations have not entered the extension field while they have spread rapidly in providing tractors and other farm equipment services on hire. It is essential to understand the reasons for this before the role of privatisation in extension services can be discussed meaningfully. Many elements of infrastructure (especially elementary education, rural roads and electrification) are also in the nature of public goods or generate large externalities. Public provisioning to ensure all segments of the population access to these facilities is therefore socially desirable. Large surface irrigation systems involve huge investments which are beyond the capacity of beneficiaries to mobilise. Considerations of equity in access are important here also. Similar problems exist in defining rights and obligations of different groups in areas covered by soil conservation or watershed projects. Groundwater lends itself more readily to private exploitation largely because the scale of the facilities can be adjusted (over a wide range) to the needs of individual users and their capacity to mobilise the needed resources.

However, where - and this is invariably the case - a number of farmers draw from the same aquifer or reservoir, there is need for some mechanism to make sure that exploitation is equitable and sustainable. In all irrigation works as well as soil conservation and watershed improvement schemes, uses and users are linked in a complex interconnected network not only within the command of a particular scheme but as between different schemes falling within the same river basin. Under these circumstances it is essential to lay down the principles on which the claims of different users in a given system and between different systems falling within a drainage basin are to be decided; the basis for sharing costs and benefits among the concerned groups; and the institutional framework in which these principles are to be implemented. This can be done only by the government.7

### IMPROVING THE REGULATION FRAMEWORK OF RULES AND REGULATIONS

On a broader plane, government per se defines the legal framework in which individuals and organisations (public and private) function; and sets up mechanisms for ensuring that the rules are complied with by all concerned (including government) and that conflicts are resolved in a fair manner. No other entity can perform this function. Deficiencies in both the design of the legal framework and the way it works affects the performance of the economy as a whole and its various components, including agriculture. The plethora of existing laws and regulations are complicated, cumbersome and, not infrequently, detective. Some laws are administered in ways quite contrary to their intent and spirit and enforcement is genarally weak, if not ineffective.

Take, for example, the case of water. Being a common pool resource, it is important to have clearly defined rules for determining the rights of ownership and use of different claimants to a common source (be it a particular reservoir, aquifer or a river basin). The state is recognised as the ultimate owner of water resources with the right to regulate its development and use. In the case of surface water, no impounding or diversion

approval. The development of groundwater is also subject to government regulation. Being a common pool resource, clearly specified rules are needed for determining the rights of access and use to different areas, different uses and different users.

There are laws (Inter-State River Disputes Act and the River Based Act) which provide for institutional mechanisms to settle issues concerning relative entitlements of different riparian states in a river basin and to ensure optimal use of the basic resources. But the principles by which the entitlements are to be decided have not been codified. The task of deciding which of the several principles (such as prior use, quantum of water originating in a state, 'just and optimal use') should be used, in what combination and how have been left to be decided by tribunals.

The central legislation however applies only to allocation between states. The determination of relative rights within a particular state have been left to be decided by their respective governments. None of them have enunciated any clear principles for deciding this matter. Disputes are taken to courts which have generally upheld the rights of prior use, but this principle is not always respected, sometimes even in the face of explicit court judgments.\*

In the case of specific surface projects, users' entitlements in small, and usually old, works serving individual communities are defined by tradition and usage rather than by formal legislation. Significantly, however, though the conditions of agriculture and, in many cases, even the character of traditional local systems have changed, the traditional allocation rules apparently remain the accepted points of reference in the communities. The government does not enter the picture.

Even in the case of systems constructed and managed by the government, the legal status of the entitlements of even registered ayacutdars is not clear. Nor is there a well specified contract spelling out the rights and obligations of the system and the irrigators. Wide divergences between declared entitlements and actual allocations are commonplace. And there are no codified principles for tackling this situation. This disjunction gets adjusted in practice more or less in an ad hoc manner reflecting ground realities of geography and power.

Similar problems exist in the case of groundwater. There are government regulations to check over-exploitation. A landowner, by law, has the easement right to tap whatever resources exist under his land. Neighbours are also entitled to be protected against adverse consequences of an individual's exercise of this right. But the procedural and resource costs (or transaction costs in current parlance) of securing this

is unlimited open access to this common resource. The problems of defining what sustainable use is, the basis on which it will be determined in specific areas and the specification of individual rights remain largely unaddressed.<sup>10</sup>

Lacunae are also apparent in land laws. For instance, the basis for determination of land ceilings varies widely. Some define it with reference to individuals, others in relation to households; some take into account variations in household size and variations in land quality, others do not; some allow exemptions for specified uses, others do not. The problem is not so much the lack of uniformity as the lack of a rational link between the specification of the ceiling and the objectives meant to be accomplished by it. The preconditions for making the law effective-in terms of the availability of accurate information regarding existing land rights, its accessibility to all affected parties, and creating speedy and affordable procedures for settling claims and disputes - are often missed out even in the design of the legislation and invariably in implementation.

Innovative schemes-like integrated watershed management, community participation in afforestation and forest management, and promoting user involvement in management of irrigation works-have been impeded by inadequacies in legal provisions. There are of course inherent difficulties in organising collective action in a society marked by economic inequalities and social differentiation. But these are compounded by the lack of the legal framework to facilitate their functioning. Thus if integrated watershed management is to be workable, there should be some explicit codification of the rights, as well as attendant obligations, of the affected communities and their constituents in respect of land which are 'owned' by the panchayat, the revenue department, the PWD and the forest department. Similar problems exist in the case of forests as well.11 This aspect has not so far been addressed seriously. In the case of irrigation, attention has for the most part concentrated on the forms and functions of the user organisation at the level of individual villages or outlets, without addressing issues regarding their place in, and their relationship to, the system management as a whole.<sup>12</sup>

Defects in the law are compounded by weak enforcement. In part this reflects difficulties of monitoring compliance. In the case of ensuring correct weights and measures, grading of produce and checking adulteration, the activities are so dispersed that monitoring by a centralised bureaucracy is both impractical and far too costly. Also, there is a high chance that functionaries responsible for enforcement – who are the

with the violators and fail to act on complaints. To some degree, functionaries responsible for enforcing the law are handicapped by the inadequacy of resources to monitor violation. Incentives for strict and fair implementation are weak. These problems are greatly compounded by wide-spread bureaucratic and political interference in the constitution and functioning of regulatory authorities either to please vested interests, or for fear of political agitation, law and order problems and attendant loss of electoral support.

Since violation of any regulation benefits some at the expense of others, one may ask why those adversely affected do not take recourse to legal remedies or exert direct pressure on the enforcement agencies to take appropriate corrective action. That this does not happen at all, or does not manifest itself strongly, is one of the puzzling features of the Indian scene. Inadequate knowledge of the relevant laws and procedures among the affected public, the high cost (in terms of time and resources) of seeking and securing redress are surely part of the explanation. In the absence of an informed public opinion, backed by strong non-governmental organisations in civil society, it is not possible to mobilise the resources and effort needed to ensure corrective action.

Finally, there is the problem of abuse of laws: co-operatives being an excellent case in point. The law on co-operatives, as it stands, gives the state bureaucracy far too much power to interfere in their working. The opportunity and the occasion for such intervention has grown partly because the societies did not have to mobilise their own resources and have come to depend mostly on soft loans from the government and public sector financial institutions. Under these conditions, societies have little incentive for prudent management of their resources. The tendency of governments to condone defaults and even write off large parts of accumulated arrears from members for purely political reasons has further weakened these institutions. Over a period of time they have come to be used as conduits for government subsidies and political patronage to a point where political interference in the affairs of societies has become rampant. In many states elections of societies' office-bearers by their respective general bodies, though mandated by the law, have been suspended and the government has taken to appointing the key functionaries on political considerations.

One of the major areas of institutional reform would be to drastically reduce government supervision and control over co-operatives and its power to suspend the democratic functioning of the societies. At the same time it is essential to reduce reliance of the co-operatives on state financial support

n the form of loans and subsidies (especially waivers of loans). Societies must be required o mobilise a sizeable part of their resources lirectly through deposits and to observe forms expected of prudent and well managed inancial institutions. The capacity of societies at all levels to access the financial narket should be contingent on their record of prudent management.

Attempts to correct the deficiencies in the egal framework thus involve far more than eview of gaps and defects in writing laws and regulations and rewriting them to make sure that the rights of various agents involved, he rules governing their mediation and nechanisms for conflict resolution are made :learer, more complete and coherent. This by itself is not enough because the problems are complex and vary across space and time. However, our knowledge of these problems and their solutions is inadequate. Therefore even as the formal laws must enunciate clear general principles, they must leave sufficient oom for flexible application of these in specific contexts and for adaptation in the ight of changing circumstances, new cnowledge and experience. Agencies charged with enforcement of rules and adjudication of disputes must be assured of adequate personnel and resources; and the freedom to make and enforce decisions on violations and disputes without any executive or political interference.

But one cannot rely wholly or even largely on government regulatory agencies. It is necessary to give much more attention to ways of internalising incentives for monitoring, enforcement and conflict resolution. Several possibilities are available: (1) provide space for parties affected by a particular project to negotiate a mutually acceptable contract of cost and benefit sharing consistent with clearly stated general principles; (2) make the public more aware of the regulations and ensure free and public access to relevant information on the working of concerned institutions; and (3) actively encourage non-governmental organisations to keep a watchful eye on violations and take them up with the competent authority.

### IMPROVING EFFICIENCY OF PUBLIC SYSTEMS

Improvement in the framework of rules and regulations and in the way they are administered, together with changes in the incentive environment resulting from dismantling of controls, will generate both pressures and opportunities for greater efficiency in the private sector. But by themselves they are unlikely to make a significant difference to the performance of government and its organisations. The volume of resources which the public sector can mobilise for land development, irrigation, research and other supporting infrastructure,

and the efficiency with which these facilities are managed has a direct bearing on the growth of agricultural production. Without considerable improvement of public sector performance in both respects the availability of these supporting facilities, their quality and cost could make even the sustenance of past growth rate, not to speak of accelerating it, difficult.

In addressing this problem, a clear distinction must be made between government per se and government agencies/undertakings engaged in production and distribution of goods and services. The redefinition of the relationship between the two is an essential first step to more efficient functioning of the latter. The other ingredients of reform should focus on redefining the manner in which decisions of public undertakings are made, implemented and evaluated, and on restructuring of their internal management to make it more conscious and capable about efficient functioning.

The concept of the public sector also needs to be broadened to include not just undertakings owned or controlled directly by government, but also of non-government organisations (including co-operatives, public trusts, charitable institutions and other constituents of civil society) which are informed by purposes other than private profit maximisation. The public space, in other words, is much wider in scope and more differentiated than government and undertakings under its direct control. Providing space and encouragement to the activities of such autonomous, nongovernmental organisations besides being desirable in itself, would contribute to improving the functioning of public sector institutions.

A general problem with all government and public sector undertakings is that technical and economic scrutiny of investment proposals is not as searching and strict as it should be. Even in the case of projects involving large investments the process is entirely internal to government. Watchdog institutions (such as the Comptroller and Auditor General) come into the picture only after – and usually long after – the project has been implemented. By which time it is too late to correct mistakes. Moreover these institutions do not have the resources or the expertise to conduct a proper techno-economic audit.

Information regarding the details of investment projects and their implementation in the public domain is usually far too limited; and access to this information is deliberately restricted. Often, the necessary expertise is not easy to assemble outside of government. Public agitations on projects like Narmada, Tehri, nuclear power and chemical factories have faced these handicaps. They have set in motion attempts on the part of NGOs to

tap non-official expertise to examine the projects and alternatives. But this needs to be done on a wider scale and in a better organised manner. Moreover measures to promote greater transparency and to provide opportunity for public scrutiny of decisions on major projects are essential to achieve public accountability.

The other general problem has to do with the criteria for assessment of the performance of government and public sector projects. Not all government activities can of course be judged by their ability to make profits, or even to cover costs. The provision of public goods and facilities with sizeable externalities belong to this category. But public sector activities engaged in production and distribution of marketable goods can be subjected to this test. Profit maximisation may not be the purpose of public investment, but this does not mean that they should be absolved of the responsibility to produce the output expected of them at as low a cost as possible; and that, except where the government as a matter of explicit policy decides otherwise, they earn sufficient revenues to cover their operating and capital costs.

That public sector undertakings are required to serve strategic and social objectives (employment, balanced regional development, protection of vulnerable groups, etc) is often used to argue that financial profits or losses are no basis to judge their performance. This is a specious argument. For the costs which public undertakings have to bear on account of these functions can be quantified, even if only approximately, provided their social obligations are explicitly stated. The problem arises because governments find it politically convenient to obfuscate the issue by not specifying these obligations and by keeping the boundaries of the undertakings' finances and government budgets deliberately fuzzy.

This makes it difficult to judge how much of the losses (or low profits) of public undertakings is attributable to inefficiency in conducting their principal business and how much to the cost of fulfilling social obligations thrust on them. And so long as governments are willing to use their budgetary resources to underwrite the losses of public undertakings, the latter have no incentive to raise the issue on their own. At that same time since there is no threat of bankruptcy or closure, the pressure on their managements to improve efficiency is greatly weakened. This undesirable situation has also become untenable because of the deteriorating finances of both governments and their undertakings. Reforms are imperative.13

All public undertakings engaged in production or trade must be sharply differentiated and separated from government proper. This has already happened to a large extent and

limited companies, statutory corporations and boards. However there are a few activities which are still managed by departments of the government. In relation to agriculture, surface irrigation is perhaps the most important activity in this category and one which should be vested with separate organisation(s) outside the government.

Far more important than organisational separation is managerial autonomy. Apart from the overall policy framework of the government relating to the economy and particular sectors, and stipulations regarding the minimum return on investment, the government and the legislatures should not interfere with decisions relating to investment, personnel, contracts, production and pricing policies of individual undertakings. These decisions, as well as matters regarding internal organisation and staff deployment, should be left entirely to the management. The government should also accept and adhere strictly to the principle that it will not bear any part of the losses of such undertakings and that they will have to mobilise their additional capital needs directly from the market. If the government decides, on larger considerations, that any of the undertakings should provide concessions to particular regions or classes of users, these stipulations should be made explicit, the cost involved (in terms of extra costs or revenue foregone) quantified in the accounts of the enterprise and reimbursed from general revenues.

Where the economies of scale and scope are large and the potential for monopoly is high, the government will have to put in place a regulatory system to ensure that monopoly power is not used in fixing or revising prices. It is the function of the regulatory authority to lay down (and periodically revise) norms regarding capital costs, capacity use and rate of return to capital; and to decide on proposals from individual utility undertakings for fixing or changing rates. Such authorities are conspicuously absent in India. All the decisions are taken by the government. The creation of regulatory authority independent of government is essential even if the utilities are to be wholly in the public sector; and more so if private enterprises (whether independently or in joint venture with the public sector) are permitted to play a larger role.

These reforms would generate external pressures for improving efficiency and enable the organisations to take appropriate steps to this end. But they need to be reinforced by reforms in their internal organisation. In some cases, (e.g., small, local irrigation works, elementary schools and rural roads) considerable gains in efficiency of operation and use of available facilities as well as collection of charges would accrue if their

entrusted to user communities or cooperatives subject only to maintenance of certain general standards. But this is not always possible. A large and crucial segment of agriculture-related activities in the public sector – especially major irrigation and electricity – has to be managed as integrated, multi-tiered systems calling for specialised professional expertise. The organisational arrangements in such cases are necessarily more complex.

The inefficiency of existing arrangements in these two sectors is partly due to the strangle-hold governments have on their functioning and partly to their extremely rigid internal organisation, manned and run entirely by government bureaucracy. Being complex operations demanding high level of technical expertise a strong, professional management is of course essential. But as in most other public systems in India, there is much room for improving in the way activities are organised, co-ordinated, and monitored. Among various measures to this end, user participation in all phases of their management and decentralisation of decision-making as well as monitoring would stimulate greater efficiency.

In the case of power, the possibility of 'unbundling' generation, transmission, and distribution open up possibilities of handing over distribution to panchayats, co-operatives or even private enterprise. Experiments for encouraging competition in generation, with transmission grids being operated as a separate entity, are also under way in countries like the US. These developments point to options for the reorganisation of the electricity industry and its regulatory system.<sup>14</sup>

A more detailed blueprint of organisational reform for large irrigation works has been proposed by a committee of the Planning Commission. 15 It envisages that each system should be constituted into a separate entity wholly autonomous in respect of management and finance. The management will be in the hands of a professional bureaucracy answerable to a board comprising representatives of farmers in the command along with nominees of the government. Depending on the size of the system, management committees of similar composition could be constituted at the intermediate levels. Tertiary facilities are to be vested entirely with users served by each outlet.

It is envisaged that user representatives will be fully involved in formulating (or modifying) the rules as well as implementing them. The system management defines the allocation rules and procedures. Subject to these, the system managers contract to supply specified quantities at designated times and for a specified charge. Each group would then be responsible for deciding the allocation

management, it not the creation, were as well as the revying and confecung charges entrusted to user communities or co-from individual users within its territory.

Under such an arrangement, the chances of evolving generally acceptable allocation rules and ensuring compliance will be greater than when these tasks are entrusted wholly to the state bureaucracy. Users' incentives to keep a watchful eye and exert pressures for efficiency in construction and subsequent management of the systems are likely to be stronger if they have a direct financial stake in their construction/improvement of the facilities. The committee therefore recommended that users should be required, in future, to contribute a sizeable part of the capital costs of new or improvement works.

Autonomy, decentralisation and user involvement are also germane principles for restructuring agricultural research, education and extension services. 16 The present system is far too centralised and rigid to adapt programmes to the varying needs and circumstances of different states and regions. Greater flexibility and encouragement of initiatives on the part of the state government and agricultural universities to correct this defect is one aspect of reform. Being in the nature of public goods, financial viability (judged by their ability to recover the cost of services rendered) is not an appropriate criterion of performance. Performance has to be judged more directly. But there is need for devising more meaningful indices of performance.

Measuring the output of research establishments in terms of the number of improved seed varieties released is quite unsatisfactory. A more meaningful index would be the rate at which they are pushing up the yield potential for different crops under different agro-climatic conditions (a good measure would be the maximum yield obtained by research stations on their experimental stations and in controlled trials on farmers' fields for different crops and under different agroclimatic and irrigation conditions); focusing on the behaviour of actual yields relative to the proven potentials and the extent of interaction between research system and extension workers/farmers and its role in shaping research programme; and periodic independent, professional evaluation of the performance of the research system and its constituents.

Similarly, in the case of extension services, the number of demonstrations conducted, the number of soil samples tested, or the number of farmers who sought and were given advice are not adequate measures of performance. Periodic sample surveys to assess the extent to which farmers in fact adopt the advice, and their opinions about the promptness and quality of advice received would provide a far better basis to asses the efficacy of the services, identify the weaknesses and corrective action.

### DECENTRALISATION

These activities, as indeed much of the planning for agriculture and rural development, suffer from over-centralisation. Under the Indian constitution, practically all aspects of agricultural and rural development fall within the domain of the states. Laws relating to land tenure, co-operatives, water resource development, forests and marketing are enacted by the state legislatures and implemented by the state governments. The public sector programmes for agriculture are supposed to be planned and implemented by the states. The centre's powers are limited to agricultural research, financial institutions and water resource development on interstate rivers. However, the centre has come to exercise - through party channels, through the Planning Commission and above all by virtue of its superior command over resources - influence states' programmes and priorities for agriculture over a much wider area.

The central government has, over the years, taken the lead in proposing new programmes in the field of agriculture and in funding them. In doing so the scope and content of agricultural programmes which are supposed to be exclusively in the domain of the states, are being increasingly shaped by the centre. The result has been a needless proliferation of programmes often involving duplication and waste. It also tends to impose on the states schemes of a uniform pattern, unmindful of the great diversity of conditions in the country. If this process is to be reversed; as it must, the states must give up their passive acquiescence of centrally sponsored schemes. They should be encouraged to take greater initiative to experiment, innovate and evolve strategies and programmes appropriate to their specific situations.

Local governments did not, until recently, have any constitutional status. Nor did they have much authority or resources to decide on the scale and content of local programmes. Practically all public sector projects under the state plans and their distribution between different districts are decided by the state government and implemented through the state bureaucracy. The situation, however, is expected to change significantly in the wake of the recent constitutional amendment for setting up elected local governments as the third tier of government.

Decentralisation is necessary not only from the centre to the states but also from the state to the local (district) levels. Agricultural and rural development programmes can be divided into two broad categories, namely, programmes (like research, major irrigation projects, river basin planning, afforestation of catchment) which have to be planned and implemented by the state or the central governments and those schemes (minor irrigation, roads, integrated micro-watershed development, elementary schools and the like) which are best implemented and managed locally.

Development schemes which are essentially local in character constitute perhaps as much as one-fifth of the public sector plan outlay in India. They offer much scope for simplification, rationalisation and decentralisation. In the first place, all programmes in this category (including all poverty alleviation, special area and crop programmes, programmes for vulnerable segments, rural development, basic health care and elementary education), could be pooled and divided into two broad categories: one for augmenting employment, productive capacity and incomes on a sustained basis and another to ensure that all people in all areas have access to a minimum standard of basic social amenities (schools, hospitals, water supply).

The total resources under the first category could be allocated among the states and through them to the individual districts in proportion to the number of poor and unemployed or some index which captures these magnitudes with reasonable accuracy. The resources for ensuring basic amenities could be distributed to districts through the states on the basis of the deficiency in the current level facilities available relative to the accepted minimum standard. The resources for the two categories of local programmes should be transferred to elected local governments leaving them free, with such technical help as they may need from the state and the central professionals, to decide the composition of the programme in the light of local conditions.

Once the constitutional provisions regarding mandatory elections to the local government are implemented, political accountability for the effective use of available funds will be substantially strengthened. This could be further reinforced over time by insisting that local governments supplement resources (in cash, kind or labour contributions) to finance such activities. They should also be given powers to determine their own manning policies. These steps together would help bring about a better match between programme content and local needs/possibilities, reduce the necessity for central monitoring and interference to ensure effective implementation and reinforce the incentive for local governments to make proper use of resources available to them.

### Conclusion

The purpose of this essay is to underscore the crucial importance of institutional reform, particularly in the domain of public systems, for sustained technical progress and output growth in agriculture. There is limited scope for privatising irrigation, research and extension, and other infrastructure facilities. All of these will continue to be mainly the responsibility of public sector. Unless the public sector's efficiency in mobilising resources and managing these facilities is vastly improved, trade and price policy reform will not make a significant difference to the pace of agricultural growth.

Specific ingredients of desirable reforms have been better studied and worked out in some areas than in others. For instance, we know more about what needs to be done in the case of surface irrigation than in the case of groundwater. The framework of laws and regulations in which institutions function and the mechanisms of public regulation in the context of agriculture are not as well studied. The articulation of a blueprint for reform will require further detailed studies. The burgeoning theoretical literature on transaction costs, incentive systems, principal-agent problems, enforcement mechanisms, collective action and other aspects of social and economic institutions provides a promising basis for this purpose.

An action blueprint must not only specify what is desirable but also a strategy for getting it accepted and implemented. Such a strategy has, by its very nature, to be political. Any disturbance of the existing arrangements, and the manner in which they function, affects some groups adversely, some favourably and some in a mixed way. Overcoming the resistence of those adversely affected by mobilising potential beneficiaries of the reform is often not easy, especially when they are large in number and not so well endowed in terms of resources. The necessary combination of a long term systemic vision, statesmanship and power is to be found rarely, if at all. More commonly, politicians and the bureaucracy, who play the key role in mediating the reform process, face precarious tenures and stand to lose as a result of reform and are unlikely to be enthusiastic about it. But they do act under pressure of extreme circumstances. The emergence of chronic and unsustainable fiscal imbalances at the centre and in the states is one such circumstance. This, together with the growing clamour from the users of facilities and services provided by the public sector, could be the basis for a political initiative to initiate urgently needed reforms.

### Notes

[This is revised version of a paper piepared during April-May 1995 as Visiting Fellow at the World Resource Institute, Washington, DC. Thanks are due to the WRI for enabling me to work on it without any distraction. The preparation of the paper, and its subsequent revision, has greatly benefited from discussions, comments and reactions from Robert Repetto, Francis Colaco, S Neclakantan, T N Srinivasan, C T Kurien and

responsibility applies Thanks are also due to P S Syamala for typing the paper.]

- 1 For a comprehensive review and critique of governments trade and pricing policies relating to agriculture from the liberalisation perspective see Gulati and Sharma (1991).
- 2 Nearly three decades back Dantwala drew attention to the paucity of empirical studies on aggregate supply response to price incentives. He further argued that the role of price policy as a determinant of agricultural growth was greatly exaggerated; and that non-price factors, especially technology and public investment in infrastructure, are far more important. His arguments remain valid even now [Dantwala 1967, 1976].
- 3 It is noteworthy that a recent conference on liberalisation and agriculture did not have any paper on agrarian structure and reform; nor, it seems, did it figure much in the discussion [see Bhalla 1994].
- 4 For a different viewpoint on this issue, see Indian Journal of Agricultural Economics, July-September 1991 and January-March 1992 (pp 28-30).
- 5 Co-operatives are of course not the only form of organisation based on collective action. There is growing interest in other forms of the community-based development and use of land, forests and common pool resources like water [e g, Moench 1993, Chopra 1990, Kothari 1996] There is also an extensive literature on the theory of collective action, the more well known contributions being that of Marcur Olson and Elinor Ostrom
- 6 For a comprehensive review of the rural credit system and co-operatives see Khusro (1988).
- These arguments for an active role as regulator and participant for the public sector are questioned on the grounds that it has proved to be inefficient and that the regulatory authority is liable to be captured and rendered ineffective. However, all public systems are not inefficient, inefficiency is not confined to them, nor is such inefficiency inherent or irremediable If public intervention is essential for social purposes, it is essential to focus on how the nature and modalities of such intervention and institutional arrangements in public systems can be made more effective.
- 8 For an overview of the current state of water laws in India see Singh (1991, 1992). This review covers only formal laws. The nature and basis of informal community regulations based on custom as well as the case law reflected in court judgments remain largely unanalysed.
- 9 These issues have not received adequate attention in the literature on irrigation institutions. For a review of this literature see Vaidyanathan (1986)
- 10 The legal and institutional prospects of ground water regulation have received some attention in recent years. They focus on the role of markets along with proper pricing of energy as an alternative to regulations [Shah 1993] and on the merits of social regulation by local communities [Moench 1993, Saleth 1996]. But the literature reflects inadequate appreciation of the inherent difficulties of defining enforceable property rights over groundwater [Vaidyanathan 1996].
- 11 See Singh (1986), Saxena (1995).

- organisations in irrigation see GOI 1992.
- 13 Public sector reform is a widely discussed subject. The need for ensuring autonomy and accountability has been emphasised by numerous committees of government and parliament, and in plan documents. But the fundamental issue of insulating managements of public undertakings from executive and political interference and devising mechanisms of accountability in such an arrangement are consistently evaded.
- 14 For a review of issues involved in relation to electricity see Hema (1996).
- 15 See GOI, Planning Commission (1992)
- 16 The ICAR was reviewed by a high-power committee in 1988 [Rao 1989] but the review was mostly limited to organisation, personnel and management. It did not come to grips with the problem of evolving meaningful measures of performance.

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# Economic Reforms, Employment and Poverty Trends and Options

### Abhijit Sen

If poverty reduction is to be a serious part of the agenda of economic reforms, the reforms will have to have an explicitly redistributive content. This will require cuts in subsidies to the rich and also higher taxes to maintain and increase the expenditure relevant for the poor. In addition, the old issues of land distribution and provision of universal primary education and health must be put back on the agenda.

But, more than anything else, it must be recognised that a reforms strategy which aims to withdraw the state from investment, liberalise finance and thus divert finances from the state to the private sector, liberalise agricultural rade and thus enrich the rich at the direct cost of the poor and seeks to control inflation and balance of payments problems through deflation and devaluation is at its root a fundamentally inequitous adventure.

HIS paper is concerned with the possible pact of the economic reforms undertaken the government of India in the 1990s on e nature and incidence of poverty in India. ne point of departure is the observation om NSS data that poverty, which had not owed any time trend at all till the mid-70s, declined significantly between the id-1970s and the end-1980 but appears to ive increased again in the 1990s. In other ords, poverty appears to have declined ity in the decade and a half beginning the id-1970s during which there was an plosion in public expenditure leading up the fiscal crisis which, among other things, ecipitated the economic reforms in 1991. us suggests that there might be a much ionger link between public expenditure id poverty reduction than is usually opreciated, and this in turn has the iplication that the reforms process may tually impinge adversely on the poor if its cus continues to be on the reduction of iblic expenditure.

For this reason it is important to identify e direct and indirect effects of public openditure, and of other aspects of the conomic reform policies, on poverty leviation. This paper is a very preliminary fort in this direction. In the first section, brief outline of the trends in and structure I poverty in India is presented, with a view identifying the important characteristics f the poor population. This allows for an stimation of the likely effects of such policies n the material condition of the poor and iose close to the poverty line. Since poverty found to be closely related to employment nd occupational characteristics, a discussion n past employment trends and poverty trends included in the next section. In the llowing section, there is a more detailed onsideration of the recent trends in poverty; ad this is followed by a section which deals pecifically with the statistical determinants 1 poverty as well as the relationship between is and economic growth. Finally, the last section sets out some brief conclusions in terms of different policy options for economic reform which make poverty reduction an explicit objective.

### I Long-term Trends and Profile of Poverty

The Economic Survey 1995-96 has claimed that "the percentage of India's population below the poverty line has declined from 25.94 per cent in 1987-88 to 18.96 per cent in 1993-94". This claim is based on estimates made by the Planning Commission using a methodology whereby the consumption distribution obtained from the National Sample Survey (NSS) are applied to total estimates of consumption expenditure as obtained from the Central Statistical Organisation's (CSO) compilation of National Accounts. On this basis, the rural poverty ratio declined from 28 37 per cent in 1987-88 to 21.68 per cent in 1993-94 while the urban poverty ratio fell from 16.82 per cent to 11.55 per cent. These figures, which have been used to claim that there has been no increase in poverty following the economic reforms initiated in 1991, have in turn been challenged by independent analysts. The criticism takes two forms. First, that even using the Planning Commission method, poverty in 1993-94 was higher than in 1990-91 just before reforms began and so the comparison with 1987-88, a drought year, gives a misleading trend. Second, and much more importantly. that the Planning Commission method is itself flawed as was pointed out in 1993 by the high-level Expert Group on Estimation of Proportion and Number of Poor. Using the methodology suggested by this expert group, not only are the poverty figures much higher, these show that there is no real trend decline in poverty since around 1986, that poverty increased massively between 1989-90 and 1992, and that although poverty fell in 1993-94 this was still higher than in the immediate pre-reform years 1989-90 or 1990-91.

Some of the issues which arise from these different estimates are discussed in a later section. Here, we need to outline the longterm trends in poverty, and for this we present in Table 1, estimates from a third source altogether - that compiled by the Poverty and Human Resources Division of the World Bank,2 also using NSS data. This source gives a long series from 1951 onwards, and the main message which emerges is important. This is that there was no longterm time trend in poverty from 1950-51 to 1973-74 by that there was thereafter a sharp decline in poverty till 1986-87. After 1986-87, the decline continued at a slower pace till 1989-90 when it was reversed, with a particularly sharp increase in poverty in 1992. Poverty declined again in 1993-94 so that rural poverty in 1993-94 although higher than in 1989-90 or 1990-91 just before the reforms, was at about the same level as in 1986-87. Urban poverty, which had not increased particularly in 1992, was, however, lower in 1993-94 than in any pre-reform

These trends are important for a number of reasons. First, the trend in rural poverty shows a very close similarity with trends in agricultural wages. Estimates of real agricultural wages from a number of sources also show stagnation till the mid-1970s with sharp increases thereafter till the end-1980s when there is a slow-down again. Second, the period of declining poverty (mid-1970) to end-1980) was relatively short, and one which was marked by increasing government expenditure leading to severe fiscal imbalances by 1990. Third, that this period of declining poverty was infact one when rural poverty declined faster than urban poverty. Fourth, that rural poverty stopped talling, and indeed increased, as soon as fiscal stabilisation was attempted after 1991, and during this latest period the gap between increase. These trends require explanation and analysis, and this is the main focus of this paper. In the remaining part of this section, we provide a brief outline of the profile of Indian poverty.<sup>3</sup>

The most comprehensive data on the structure of poverty remains the information that can be gleaned from the NSS large sample survey of 1987-88, since details of the more recent large sample survey conducted in 1993-94 are not yet available. It seems reasonable to assume that in broad contours the picture that emerges for 1987-88 remains valid for the early 1990s.

Some of the evidence on the structure of poverty in India in 1987-88 is provided in Table 2. The first and most obvious point to be made relates to the dominantly rural nature of the poor population. The poor in rural areas constituted around three-fourths of the total poor population. This has to be juxtaposed with the fact that subsequently urban poverty has declined at a faster rate, so that poverty has become even more rural in nature. Within the rural areas, there is also evidence of greater regional concentration of poverty, with some backward regions displaying a very high incidence of poverty as discussed below.

In the rural areas at an all-India level, the worst off economic group is that of rural labour, both agricultural and nonagricultural. This is true both in terms of depth of poverty and its severity in terms of distance of average incomes from the actual poverty line. Within this broad category of rural labour, casual labour on non-permanent contracts is the most susceptible to absolute poverty. There is no discernible difference in poverty ratios between agricultural and non-agricultural casual labourers, which is not surprising, since the casual labour populations tends to move between agricultural and nonagricultural occupations as they become available The self-employed rural households, whether agricultural or nonagricultural, tend to experience much lower levels of economic deprivation than other rural groups.

Female-headed rural households recorded a higher than average incidence of poverty, both in terms of prevalence and severity. Those rural households classified as poor tended to have higher than average representation of adult females and lower than average representation of adult males. Also, poor households in general tended to have higher dependency ratios, so that children dominated in the number of poor persons, and were over-represented in the poor population relative to the total population. Also, there are definite social dimensions to material deprivation, with the category of scheduled castes and scheduled

of poverty than the general rural population. In fact, scheduled tribe groups are even worse off than scheduled castes on average, and tend to be the most economically destitute of all the rural population.

The urban areas present a slightly different picture. Firstly, the poor are more economically and socially heterogenous. Thus, the most important occupational groups among the poor urban population are those employed in casual labour, as well as a section of the self-employed. The selfemployed category is highly heterogenous in urban areas, comprising both highly paid professional occupations as well as informal sector low paying activities. The latter constitutes among the poorest of the urban population, along with workers employed in insecure casual contracts. Clearly, the irregular and insecure nature of such incomes, which are also typically low, is the major source of poverty in urban households. Scheduled castes and tribes were less significant among the poor in urban areas than in rural ones, and there was no real poverty. However, the problem of poverty among female-headed households was far more serious in the urban areas. Despite this, the dependency ratio among poor urban households was slightly lower than among their urban counterparts.

In terms of regional concentration of poverty, only two states - Bihar and Uttar Pradesh - together accounted for 34 per cent of the total poor population in 1987-88. In Bihar in particular, there was a large overrepresentation of poor people, and there is no reason to believe that this has altered dramatically. Another six states - Andhir Pradesh, Madhya Pradesh, Maharashitar Orissa, Tamil Nadu and West Bengal accounted for a further 43 per cent of the poor. For rural poverty in particular, there was over-representation of the poor in Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu. In the states of Gujarat, Rajasthan and Orissa, scheduled castes and tribes accounted for more than half of the poor well above their share in total population. Scheduled tribes, especially in these states,<sup>†</sup>

TABLE 1: POVERTY ESTIMATES 1951-94

| NSS   | Period        |       | Rural |       |       | Urban |                    |
|-------|---------------|-------|-------|-------|-------|-------|--------------------|
| Round |               | Н     | PG    | SPG   | Н     | PG    | SPG                |
| 3     | Aug 51-Nov 51 | 47.37 | 16.05 | 7.53  | 35.46 | 11.14 | 4 82               |
| 4     | Apr 52-Sep 52 | 43 87 | 14 64 | 671   | 36 71 | 10 91 | 4 4 1              |
| 5     | Dec 52-Mar 53 | 48.21 | 16 29 | 7.56  | 40.14 | 13 25 | 5.96               |
| 6     | May 53-Sep 53 | 54.13 | 19 03 | 9.12  | 42.77 | 13 83 | 6.29               |
| 7     | Oct 53-Mar 54 | 61 29 | 21 95 | 10.26 | 49.92 | 17.24 | 7.74               |
| 8     | Jul 54-Mar 55 | 64.24 | 25.04 | 12.50 | 46 19 | 15.76 | 7.02               |
| 9     | May 55-Nov 55 | 51.83 | 18 44 | 8.80  | 43.92 | 14.65 | 6 40               |
| 10    | Dec 55-May 56 | 48.34 | 15 65 | 671   | 43.15 | 13 34 | 5.41               |
| 11    | Aug 56-Feb 57 | 58.86 | 19.45 | 8.50  | 51.45 | 18.16 | 8.51               |
| 12    | Mar 57-Aug 57 | 62.11 | 21.69 | 10 01 | 48 88 | 16.31 | 7 25 %             |
| 13    | Sep 57-May 58 | 55 16 | 19 01 | 8 78  | 47.75 | 15 95 | 7 00 1             |
| 14    | Jul 58-Jun 59 | 53.26 | 17.74 | 7.88  | 44.76 | 13.75 | 5.87               |
| 15    | Jul 59-Jun 60 | 50 89 | 15.29 | 6.13  | 49.17 | 15.83 | 6.75               |
| 16    | Jul 60-Aug 61 | 45.40 | 13.60 | 5.53  | 44.65 | 13.84 | 5 83 '             |
| 17    | Sep 61-Jul 62 | 47.20 | 13.60 | 5.31  | 43.55 | 13.79 | 6.05               |
| 18    | Feb 63-Jan 64 | 48.53 | 13.88 | 5.49  | 44.83 | 13.29 | 5 17               |
| 19    | Jul 64-Jun 65 | 53.66 | 16.08 | 6 60  | 48.78 | 15.24 | 6.38               |
| 20    | Jul 65-Jun 66 | 57.60 | 17.97 | 7.60  | 52.90 | 16 82 | 6.98               |
| 21    | Jul 66-Jun 67 | 64.30 | 22.01 | 10.01 | 52.24 | 16.81 | 7.19               |
| 22    | Jul 67-Jun 68 | 63 67 | 21.80 | 9.85  | 52.91 | 16.93 | 7 22               |
| 23    | Jul 68-Jun 69 | 59.00 | 18.96 | 8.17  | 49.29 | 15 54 | 6.54               |
| 24    | Jul 69-Jun 70 | 57 61 | 18 24 | 7.73  | 47.16 | 14.32 | 5.86               |
| 25    | Jul 70-Jun 71 | 54.84 | 16 55 | 6 80  | 44.98 | 13.35 | 5.35 '             |
| 27    | Oct 72-Sep 73 | 55.36 | 17.35 | 7.33  | 45 67 | 13.46 | 5.26               |
| 28    | Oct 73-Jun 74 | 55.72 | 17 18 | 7.13  | 47.96 | 13.60 | 5.22°              |
| 32    | Jul 77-Jun 78 | 50.60 | 15.03 | 6.06  | 40.50 | 11.69 | 4.53le             |
| 38    | Jan 83-Dec 83 | 45.31 | 12.65 | 4.84  | 35.65 | 9 52  | 3.561.             |
| 42    | Jul 86-Jun 87 | 38.81 | 10 01 | 3.70  | 34.29 | 9.10  | 3.40               |
| 43    | Jul 87-Jun 88 | 39.60 | 9.70  | 3 40  | 35.65 | 9.31  | 3 25 <sub>1L</sub> |
| 44    | Jul 88-Jun 89 | 39.06 | 9.50  | 3.29  | 36.60 | 9.54  | 3.29               |
| 4.5   | Jul 89-Jun 90 | 34.30 | 7.80  | 2.58  | 33.40 | 8.51  | 3.04               |
| 46    | Jul 90-Jun 91 | 36 43 | 8.64  | 2.93  | 32.76 | 8.51  | 3.12               |
| 47    | Jul 91-Dec 91 | 37.42 | 8.29  | 2.68  | 33.23 | 8.24  | 2.90               |
| 48    | Jan 92-Dec 92 | 43.47 | 10.88 | 3.81  | 33.73 | 8.82  | 3.19               |
| 50    | Jul 93-Jun 94 | 38.74 | 9.41  | 3.27  | 30.03 | 7.62  | 2.76               |

Notes: H: head count ratio of poverty; PG poverty gap ratio; SPG: squared poverty gap.

Source: B Ozler, G Dutt and M Ravallion, 'A Database on Poverty and Growth in India', The World Bank, January 1996, for estimates up to the 48th round; For 50th round, NSS data has been used to calculate the estimates using exactly the same methodology as in the rest of the series.

re round to be among the most absolutely rived and destitute of all Indians.

here is a close relationship between the rent of poverty and patterns of employment dreal wages. In the rural areas in particular argued in the section below – two factors. critical (in addition to food prices) in taining the incidence of poverty bother time and across states and regions: the haviour of employment including the gree of diversification away from purely icultural employment, and movements in all wages. For this reason, trends in the hand pattern of employment are very antindicators of the extent and severity poverty.

### II Trends after Mid-1970s

The essential point which emerges from previous section is that a sustained decline poverty is observable only after 1973-74, I that thus process was over by 1990-91. Tact, the decline was almost certainly a nomenon which began after 1975-76. The years 1972-75 were difficult years with inflation was low growth, and the prin poverty in 1977-78 as compared 1973-74 is to a large extent attributable the comparison of an excellent agricultural rewith a year when output was belowed. For this reason it is more reasonable late the beginning of the poverty decline around 1977-78.

As is well known by now, during the 10d 1977-91 (and particularly during the ')s) the Indian economy underwent a umption-led boom, spuried on by increaevenue deficits of the government, and ced in large part by high deficits on the nal current account. This is the boom th went bust in 1991, laying the basis reforms'. But since this boom and bust te is paralleled fairly closely by what pened to rural poverty, it is worth ounting some of its more important teatures. First, the boom was possible at all ise, with increased access to external and with agricultural growth higher the long-term average, the Indian my was much better placed on the y side, with both of her two traditional y constraints greatly eased.

ond, during this boom it was the nised sectors of the economy which, fastest in terms of incomes and output, withis growth did not lead to much increase in organised sector employment. The rate of sowth of organised sector employment be lerated significantly, and the 1980s of the foundation of the propulation growth. Within this, employment in the private organised sector was the most sluggish, averaging a growth rate of only

0.2 per cent per annum, and there was slow growth also of employment provided by the Central government and its industrial undertakings. In fact, whatever employment growth occurred in the organised sector was provided mainly by state governments and certain quasi-government organisations, for example the nationalised banks. Moreover, during this period there was also a sharp drop in labour absorption by the agricultural sector, and agricultural employment also grew at a rate substantially below the rate of population growth, and below rates of growth achieved in the past at times of lower output growth. Thus, the rapid growth of output in agriculture and in the organised private sector failed to translate itself into higher direct employment in these important

Nonetheless, and this is the third important point, this decade was characterised by rising real wages and a fairly sharp drop in both the incidence and the severity of poverty, particularly in rural India. According to calculations made for this paper, using data from the National Sample Survey and following the methodology recommended by the Expert Group on Estimation of Propotion and Number of Poor, there was a steady decline in the head count measure of poverty for the rural population from 56.4 in 1973-74 to 53 1 per cent in 1977-78 to 45.6 in 1983, 38.3 in 1986-87 and to 37.9 per cent in 1989-90.4 The urban poverty ratio similarly fell steadily from 49.2 per cent to 32.4 per cent during the same period. This meant that the incidence of poverty which had fluctuated, positively with inflation and negatively with agricultural output, with if anything a positive underlying trend up to the mid-1970s began to decline thereafter. The most important reason for this was the fact that real wages of unskilled labour increased significantly in both urban and rural areas. Several alternative sources of data are available for agricultural wages, and all of these suggest that real agricultural wages increased by around 50 per cent during the decade – an increase almost double the increase in labour productivity in agriculture during this period.

These observations indicate that there were important changes in the nature of intersectoral and other linkages in the economy. One important point is that, although agriculture continues to be the largest employer of the workforce and productivity increases here are of major weight in the economy, the rest of the Indian economy appears to have become progressively less dependent on the behaviour of agricultural output during the 1980s. This is evident from the fact that the period of relative stagnation in agricultural output 1983-87 was nevertheless marked by high growth rates in non-agriculture, and, more generally, econometric evidence suggests that the earlier dependence of aggregate economic growth on the behaviour of the monsoon seems to have diminished. There are three major reasons for this. First, the sharp decline in the employment elasticity of output of the organised sectors of the economy meant that increased output in industry and services today involves a much lower concomitant increase in the demand for wage goods.

TABLE 2 PROFILE OF POVERTY IN INDIA 1987-88

|                      |                     | Rural            |                           | Urhan               |                  |                           |  |  |
|----------------------|---------------------|------------------|---------------------------|---------------------|------------------|---------------------------|--|--|
| Groups               | Population<br>Share | Per Cent<br>Poor | Per Cent of<br>Total Poor | Population<br>Share | Per Cent<br>Poor | Per Cent of<br>Total Poor |  |  |
| Self-emp agriculture | 44 3                | 38.3             | 179                       |                     |                  |                           |  |  |
| Self-employed non-   |                     |                  |                           |                     |                  |                           |  |  |
| agriculture          | 12.5                | 39 ()            | 10.8                      |                     |                  |                           |  |  |
| All self-employed    | 56 7                | 38.5             | 48 7                      | 38 8                | 415              | 43 0                      |  |  |
| Agricultural labour  | 27 1                | 62,7             | 41.8                      | 12.1                | 68 I             | 25 9                      |  |  |
| Other labour         | 8 1                 | 48.7             | 92                        | 43 7                | 25 9             | <b>27</b> .3              |  |  |
| Others               | 79                  | 26.4             | 4.5                       | 5.5                 | 32.6             | 4.7                       |  |  |
| Scheduled castes     | 18 4                | 56.1             | 22 9                      | 117                 | 53.3             | 17 0                      |  |  |
| Scheduled tribes     | 10.5                | 62.7             | 147                       | 3.8                 | 48 3             | 5.0                       |  |  |
| Female-headed HH     |                     | 47.0             |                           |                     | 43 4             |                           |  |  |
| All households       | 100.0               | 44 9             | 100.0                     | 100 0               | 36 5             | 100.0                     |  |  |

TABLE 3. COMPOSITION OF RURAL EMPLOYMENT (NSS USUAL STATUS DATA)

|                     | Males   |           |          | Females |           |          |  |
|---------------------|---------|-----------|----------|---------|-----------|----------|--|
|                     | Primary | Secondary | Tertsary | Primary | Secondary | Tertiary |  |
| 1977-78 (July-Junc) | 80.6    | 8.8       | 10.5     | 88 1    | 67        | 5.1      |  |
| 1983 (Jan-Dec)      | 77.5    | 100       | 12.2     | 87.5    | 7.4       | 4 8      |  |
| 1987-88 (July-June) | 74.5    | 12.1      | 13.4     | 84.7    | 100       | 5 3      |  |
| 1989-90 (July-June) | 71.7    | 12 1      | 16.2     | 814     | 12 4      | 6.1      |  |
| 1990-91 (July June) | 71.0    | 12.1      | 16.9     | 84 9    | 8 1       | 7 0      |  |
| 1991 (July-Dec)     | 74 9    | 112       | 13.9     | 86.3    | 79        | 5.8      |  |
| 1992 (Jan-Dec)      | 75.7    | 10.4      | 139      | 86.2    | 7 8       | 6.0      |  |

based industries fell sharply so that agricultural raw materials played a less significant role as industrial inputs than earlier. The boom sectors of the 1980s – chemicals, consumer durables and high-tech services – had very little linkage to agriculture. Thirdly, the combination of an easier import situation and an enhancement of government operations meant that government policy instruments were more effective in insulating the non-agricultural sector from the effects of monsoon fluctuations.

This last, i.e., government policy, operated on both the supply and demand sides. Given its higher foodgrain stocks and easier access to foreign debt, the government could better ensure agricultural supplies to nonagriculture during periods of low agricultural output by running down its stocks and by resorting to higher imports of other agricultural commodities. And, the demand consequences on non-agriculture of lower agricultural incomes during such periods were also better mitigated because, at such times, the government stepped up its revenue expenditure in rural areas, by expanding employment programmes and by generating more self-employment opportunities either directly through its own rural development schemes and/or by instructing banks to extend more credit. Thus, although there were features in the nature of organised sector growth which tended to weaken agriculturenonagriculture linkages, the extent of this weakening depended considerably on a particular type of government involvement. Because of this, the continuing importance of agriculture cannot be wished away easily, since a fall in agricultural output can still have severe negative implications for the economy, both in terms of output and inflation.

Indeed, what is striking about the experience of the 1980s is that despite the declining dependence of non-agricultural sectors on the performance of agriculture, the prices of agricultural goods rose faster than the general price level. This meant a reversal of the earlier terms of trade movement against agriculture, and this also went against the international trend of a worldwide movement of terms of trade against agriculture. That this increase in agricultural prices did not have unbearable inflationary implication was partly because of the tendency described above of weakened inter-sectoral linkages, and partly because of the way the food procurement and public distribution systems functioned. Government procurement of foodgrains was more than adequate and government stocks generally sufficient, the procurement prices were typically close to the market prices and domestic tood prices were also not too far speculative pressures, and the PDS, along with the government's free market operations, worked to some extent to keep the prices of essential foodgrains under control.

In fact, from the point of view of poverty, an important trend during this period was that while agricultural prices as a whole increased faster than the general price level, cereals prices increased slower, so that it was possible for real wages to rise without increasing product wages correspondingly. This was an important contributory factor behind the decline in poverty which occurred during the period. As will be discussed later, these equations appear to have changed in the post-reform period.

Moreover, there was another important development concerning linkages in the economy. This was the rapid growth of nonagricultural employment in rural areas. After a long period during which agriculture's share in the labour force had remained constant, there seems to have been a change somewhere in the mid-1970s when this share began to decline. Since the urban population has grown faster than total population, this is of course related to some extent with urbanisation. But it is important to note that during the 1980s, the pace of urbanisation was in fact less than in any decade since independence. For this reason it may be said that the really important development was the growth of the rural non-agricultural sector.

According to NSS surveys, the share of agricultural workers among all male rural workers declined steadily from 80.6 per cent in 1977-78 to 77.5 per cent in 1983 to 74.5 per cent in 1987-88 to 71.7 per cent in 1989-90. For rural females this share dropped from 88.1 per cent in 1977-78 to 87.5 per cent in 1983 to 84.7 per cent in 1987-88 to 81.4 per cent in 1989-90. The true significance of this shift is probably better understood in incremental terms: these figures imply that non-agriculture absorbed about 70 per cent of the total increase in the rural work-force between 1977-78 and 1989-90. And this rapid growth of rural nonagricultural employment provides the main explanation for what would otherwise be a puzzle: how did agricultural wages rise and

rurar poverty rain during a period when employment in both agriculture and the organised sector was growing slower that population? That this development, rather than the somewhat faster growth of agricultural output during the 1980s, was the major driving force behind rising wages and declining poverty becomes clearer when it is noted that while agricultural growth was regionally diverse (with agricultural output per capita decreasing in many states), the rapid growth of rural non-agricultural employment was a phenomenon which occurred in almost every state in the country. and almost every state recorded rising rural real wages and falling rural poverty between 1977-78 and 1989-90. In other words, there is need to modify the conventional view among Indian economists that the main factors determining rural poverty are agricultural productivity and the rate of inflation. Although both these continue to be very important, the growth of rural nonagriculture has emerged as an additional crucial link from the mid-1970s onwards

What then explained this growth of rural non-agricultural employment? The Indian literature on the subject has been dominated by two debates. First, whether the growth of rural non-agricultural employment is a positive development at all, or is it simply a reflection of the fact that agricultural employment has been sluggish and certain non-agricultural activities have emerged as 'residual sectors'. Second, to the extent that the growth of rural non-agricultural employment is not a 'residual', is it driven by developments in agriculture or are the growth impulses external? The idea that non-agricultural employment is 'residual' is now somewhat discredited because not only are average wages seen to be higher in such employment than in agriculture, but, more importantly, because agricultural wages have increased as non-agricultural employment has grown suggesting that what is involved is a pull factor which tightens the agricultural labour market. Nonetheless, NSS data show that the actual picture is more complicated and suggests that 'distress' movement into non-agriculture has continued to be important for a significant section of rural workers, as well as that the main dynamic source of rural

TABLE 4. COMPOSITION OF URBAN EMPLOYMENT (NSS USUAL STATUS DATA)

|                     |                    | Males         |        |                    | Females      |        |  |  |
|---------------------|--------------------|---------------|--------|--------------------|--------------|--------|--|--|
|                     | Self-<br>Employmen | Regular<br>it | Casual | Self-<br>Employmen | Regular<br>t | Casual |  |  |
| 1977-78 (July-June) | 40 4               | 46 4          | 132    | 49 5               | 24.9         | 25.6   |  |  |
| 1983 (Jan-Dec)      | 40 9               | 43.7          | 15.4   | 45 8               | 25 8         | 28.4   |  |  |
| 1987-88 (July-June) | 41.7               | 43.7          | 14.6   | 47 1               | 27.5         | 25.4   |  |  |
| 1989-90 (July-June) | 42.3               | 41.3          | 16.4   | 48 6               | 29.2         | 22.2   |  |  |
| 1990-91 (July-June) | 40.7               | 44.2          | 15.1   | 49.0               | 25.9         | 25.1   |  |  |
| 1991 (July-Dec)     | 42.9               | 39.9          | 17.2   | 47.0               | 28.0         | 25.0   |  |  |
| 1992 (Jan-Dec)      | 41 2               | 39.4          | 19 4   | 42.5               | 28 8         | 28 7   |  |  |

employment generation over this period has been the external agency of the state rather than forces internal to the rural economy.

There are several planks to this argument. Within agriculture, all the available evidence points to the decreasing ability of agriculture to absorb more labour, as the overall crude clasticities of employment to output are seen to be low in other major states and on an all-Indiabasis. However, there are substantial variations across states, with the agriculturally less advanced regions showing much higher elasticities than the developed states like Punjab and Harvana. Since some of the less advanced states (such as West Bengal and Bihar) actually showed the highest rates of output growth over the period, there was less of a dampening effect on the overall elasticity as well as a pointer to the importance of regional spread of agricultural growth for employment generation Moreover, an interesting observation relates to the flow of person day employment in agriculture, which, after 1977-78, was seen to be increasing more than stock measures of usual or weekly status workers. In a very rough and approximate sense, this suggests that the supply of agricultural labour (as measured by the stock of agricultural workers) was actually increasing slower than the demand for agricultural labour measured in person-days. Simultaneously there appear to have been contractual changes under way in agriculture, with a greater emphasis on casual contracts.

The natural question consequent upon such a finding is what caused the slow growth in the stock measures of workers in agriculture. Here it was found that pull factors out of agriculture were significant. The relationship between agricultural prosperity and the growth of non-agricultural opportunities was found to be weak and nonlinear, being significant only in states such as Punjab and Haryana where not only have agricultural incomes crossed a threshold but where further increases in agricultural output are accompanied by labour displacement rather than absorption. Outside this limited region, the pull is provided mainly by external stimuli. In certain regions, for example along the Bombay-New Delhi and the Bombay-Bangalore highways, there is clear evidence that industrial development, and the growth of services linked to this, have made deep inroads into rural society creating opportunities not only in the tertiary sector but also in small-scale industry. In addition, in the hinterland of industrially or commercially developed regions, there is growing incidence of workers who live in iural areas but commute to urban areas - a endency which has been enhanced by the iact that the organised sector has tended to prefer casual workers to regular employees, and because rising urban rents and falling transport costs have influenced workers' choice of residence. However, given the limited geographical spread of such direct links to modern industry and commerce, in most areas the pivotal role in the expansion of rural non-agricultural employment appears to have been played by the expansion of government expenditure.

As noted earlier, the 1980s were a period when, along with a rapid increase in all sorts of subsidies and transfers to households from government, there was a very large increase in revenue (as opposed to capital) expenditure on agriculture by state and central governments, and this was also a period when the expenditure on Rural Development expanded manifold. More generally, throughout the period political developments tended to give rural interests greater power and they were able to command an improvement in the historically low share of government expenditure benefiting rural areas. Although this improvement in share should not be exaggerated, an indication may be had from the fact that nearly 60 per cent of all new government jobs created accrued to rural areas during the decade. Moreover, NSS data suggest that, despite a low average contribution of only around 5 per cent of total rural employment, the government's contribution was around a fifth when it comes to either total rural nonagricultural employment in 1987-88 or the increments in total rural employment between 1977-78 and 1987-88. Moreover, in 1987-88. about 60 per cent of the regular nonagricultural employees in rural areas were employed by the government which created almost 80 per cent of the increments in such regular jobs during the decade covered.

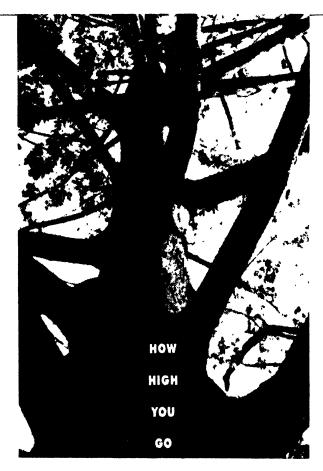
Thus, given the magnitude of what is now commonly accepted to have been a profligate growth of government expenditure, the total quantum of increased flow of public resources into rural areas must have been significant. Besides the large growth in agricultural subsidies already mentioned, this flow of resources took two predominant forms. There was, first, a fairly large expansion of 'rural

development' schemes with an explicit redistributive concern.6 This included not only the various rural employment and IRDP programmes but also a plethora of special schemes for a variety of identifiable 'target' groups. Motivated by the realisation that income growth by itself would not 'trickle down' in adequate amounts, these programmes were however less than entirely successful. They spawned a large bureaucracy and they became a focal point for the politics of 'distributive coalitions'. Yet, though the intended beneficiaries often got short-changed because of such leakages, these programmes represented a fairly massive net transfer to rural areas. The second avenue by which resources flowed from government to rural areas was through the greater accessibility of the rural elites to the government's normal gravy train. In part this was a result of greater mobility due to better infrastructure, but to a large extent it was also the outcome of the fact that with governments changing frequently (particularly at the state level) more new favours, not just jobs, but also various types of agencies and contracts, had to be distributed more often and the rural areas got a greater share in such electorally motivated largesse than they get at other times. The resulting flow of resources and the resulting generation of rural demand led to growing opportunities for diversification of the self-employed from agriculture to non-agriculture.

To a very large extent, the direct access to government permanent employment and also to many of the other resources was confined to the better-off and more powerful groups in rural society, to whom such incomes were more lucrative than agriculture. Associated with this was a large and significant increase in the proportion of the 15 to 29 age cohort which continued in education rather than join the work force. In part this must have been a result of the expansion of educational facilities as part of the general expansion of government in rural and semi-urban areas, but to a sub-

Table 5 Changes in Employment 1989-90 to 1992. (NSS Usual Status Unadjusted) (Million persons)

|                         | Rural   |       | Urban   |       | Lotal   |       |
|-------------------------|---------|-------|---------|-------|---------|-------|
|                         | 1989-90 | 1992  | 1989-90 | 1992  | 1989 90 | 1992  |
| Self-emp agriculture    | 122 2   | 132 3 | 46      | 5 3   | 126 8   | 137.6 |
| Regular-emp agriculture | 5.6     | 3.8   | 0.3     | () 3  | 59      | 4 1   |
| Casual-emp agriculture  | 70 5    | 74 9  | 2.8     | 3.3   | 73 3    | 78.2  |
| Self-emp secondary      | 17 7    | 11.3  | 6.8     | 7 ()  | 24.5    | 18.3  |
| Regular emp secondary   | 3 3     | 4.1   | 7.3     | 8.8   | 10.6    | 129   |
| Casual-emp secondary    | 112     | 99    | 4.6     | 69    | 15.8    | 16.8  |
| Self-emp tertiary       | 18.9    | 16.9  | 14.5    | 15.6  | 334     | 32.5  |
| Regular-emp tertiary    | 10.6    | 91    | 15.4    | 16.0  | 26 0    | 25 1  |
| Casual-emp tertiary     | 4 1     | 3.6   | 3.1     | 4 2   | 7 2     | 7 8   |
| Unemployed              | 2 8     | 29    | 2.3     | 3.3   | 51      | 6.2   |
| Total workforce         | 266.9   | 268.8 | 61.7    | 70.7  | 328 6   | 3395  |
| Total population        | 602.7   | 608.9 | 176 3   | 200.9 | 779 ()  | 809.8 |



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motivational change (to acquire necessary qualifications for a regular non-agricultural job) among the youth in the relatively well-off sections of rural society. There was thus a movement out of agricultural work at the margin by workers and potential workers from such better-off rural groups, which meant that sections of the relatively rich vacated agriculture either to obtain regular employment, mainly in the service sector, or to take up non-agricultural self-employment.

This increased the ability of members of the less well-off rural households to find agricultural work, and also created a demand for certain types of rural services and industry. The relative tightening in the agricultural labour market which resulted, helps to account for the increase in real wages observed from the late 1970s. However, although such increases in employment and wages did improve the condition of the poorest rural workers, their employment diversification into non-agriculture continued to have many characteristics of a 'distress' process, given the overall tendency of labour use in agriculture. Dictated by the need to ensure economic survival, they increasingly entered into casual work not only in agriculture but also in nonagriculture. The main sectors providing this type of non-agricultural employment were secondary sectors like construction, mining, and small-scale manufacturing, and there is evidence that over time the incidence of poverty among those employed in some of these sectors became larger than in agriculture Moreover, the agency of the state was important in terms of the diversification of opportunities for the rural poor. Thus, 22.3 per cent of all casual labour days spent on non-agricultural activity in 1987-88 were on public works programmes of the government, this percentage having increased from 17.7 in 1977-78 and 14.9 in 1983. And, although there is little evidence of any increase in non-agricultural selfemployment among the bottom 40 per cent of the rural population (such increase was largely among relatively richer households), income generation scheme such as the IRDP, must also have had some effect.

This is of course an extremely schematic presentation of what is a much more multifarious and regionally diverse scenario, and there were variations in the pattern across states and over time. However, the fact that the developments described above occurred in every state, irrespective of the rate of growth in agriculture or organised industry, does imply the increased importance of external stimuli to rural employment and, in particular, the crucial role of the state. More importantly, these trends mean that the rural labour demand is no longer determined only by what is happening within the

also by macro-economic processes and policies which do not at first appear to have any direct link with rural well-being.

Moreover, because much of the government spending involved is project funded, because most of the private enterprises involved are small and lack staying power, and because most of the wage employment thus created are casual, the vulnerability of the rural non-agricultural sector to overall public expenditure cuts and to restrictive monetary policy is almost certainly greater than for its urban counterpart. This has very important ramifications in the current macroeconomic context, in which the reform measures have particular implications for patterns of government expenditure as well as on internal and external trade.

It is important to note in this context that the pattern of structural adjustment and government economic strategy since 1991 has been one which has involved a continued stagnation in employment generation in the organised sector, both public and private. Moreover, this strategy involved.

- actual declines in Central government revenue expenditure on rural development (including agricultural programmes and rural employment and anti-poverty schemes), as well as on the fertiliser subsidy, in the budgets of 1991-92 and 1992-93. Some of these cuts were however reversed subsequently in 1993-94
- declines in public infrastructural and energy investments which affect the rural areas.
- (3) reduced transfers to state governments which have been facing a major financial crunch and have therefore been forced to cut back their own spending, particularly on social expenditure such as on education and on health and sanitation.
- (4) reduced spread and rising prices of the public distribution system for food.
- (5) financial liberalisation measures which have effectively reduced the availability of credit, especially to small borrowers particularly agriculturists.

rnus, in the early 1990s, there was a reversal of several of the public policies which contributed to more employment and less poverty in the rural areas in the earlier decade. It should, therefore, not be entirely surprising that rural non-agricultural employment appears to have declined fairly sharply as soon as the stabilisation and structural adjustment policies were put into place in 1991. According to NSS survey data, the non-agricultural proportion among rutal male workers was 28.3 per cent in 1989-90 and 29 per cent in 1990-91, before the reforms, and this fell to 25.1 per cent in July-December 1991 and 24.3 per cent in 1992. For rural female workers, the corresponding figures were 18.6, 15.1, 13.7 and 13 8 per cent. This represents a decline of somewhere between 9 and 11 million in the number of workers in rural nonagriculture, or a drop of 13-15 percent in the first 18 months of the initiation of the reform process 7

This fall occurred almost all over India, with only Karnataka and Madhya Pradesh being significant exceptions. In terms of sectors, this decline in employment was divided roughly equally between manufacturing, construction and community and other services, along with a smaller drop in transport; while mining, electricity, trade and financial services were immune among the self-employed and casual workers that the decline was greatest, with regular employment being largely maintained, except for some drop among regular male employees in the tertiary sector. Thus, the pattern of the decline in rural non-agricultural work suggests that it occurred not because of any large-scale retrenchment of regular employees by the government or the organised private sector, but because of a cut back in activity in the unorganised sector and, possibly, some retrenchment of casual workers by the organised sector. In this context, it is significant that, according to the NSS, this drop in rural non-agricultural employment was not accompanied by a corresponding drop of such employment

TABLE 6. TENDELKAR-JAIN ESTIMALLS OF POVERTY

|                  | Urban |       |      |       | Rural |       |
|------------------|-------|-------|------|-------|-------|-------|
|                  | Н     | PG    | SPG  | H     | PG    | SPG   |
| 1970-71          | 45 89 | 13.39 | 5.32 | 57 13 | 17 57 | 7.31  |
| 1972 73          | 47 00 | 13 57 | 5 32 | 57 21 | 17 93 | 7 54  |
| 1973-74          | 49.20 | 13.88 | 5.31 | 56 17 | 16 75 | 6 72  |
| 1977-78          | 42.98 | 12 16 | 4.81 | 54.47 | 16.59 | 6 88  |
| 1983             | 38.33 | 9 95  | 3.66 | 49 02 | 13.86 | 5 45  |
| 1986-87*         | 35,39 | 9 48  | 3.54 | 45.21 | 12 21 | 4 60  |
| 1987-88          | 36 52 | 934   | 3 38 | 44 88 | 11 26 | 4 ()4 |
| 1988-89*         | 36 98 | 9.61  | 3 49 | 42 23 | 10.20 | 3 54  |
| 1989-90*         | 32 41 | 8 03  | 2 84 | 37 94 | 8 80  | 2 95  |
| 1990-91*         | 32 43 | 8 03  | 2 88 | 36 55 | 8.81  | 3 03  |
| 1991 (July-Dec)* | 32.02 | 7 9() | 2 84 | 42 06 | 10.02 | 3 19  |
| 1992*            | 33 87 | 8 43  | 2 97 | 48 07 | 12 59 | 4.58  |

Notes: \* Denotes small sample, Poverty measures are same as in Table 1

workers this did not lead to any large increase in open unemployment or to any large fall in the work participation rate. Rather, the self-employed and the casual workers displaced from non-agriculture appear to have reverted back to agriculture, leading to disguised (rather than open) unemployment. However, as a result, real agricultural valueadded per agricultural worker dropped significantly, by over 8 per cent, even if comparison is restricted to the years 1989-90 and 1992-93 when monsoon conditions were very similar. Unfortunately, later data (particularly from the 1993-94 NSS large sample) is not yet available to verify whether this reversal of trend has continued, but clearly the early post-reform impact was adverse.

In the urban areas, regular employment has continued to stagnate, especially in the organised sector. During 1991-95, the growth rate of employment in the organised sector halved from its already low growth rate during the 1980s to only 0.8 per cent per annum, mainly because of a massive slowing down of employment growth in the public sector. The increases in employment that are discernible are essentially in casual employment, and this is evident for the secondary and tertiary sectors according to both usual and weekly status definitions. However, these increases in employment are still below the estimated increases in urban population over this period. The continued process of casualisation of work in urban areas has to be seen in relation to two other recent tendencies which are highlighted by several micro-level studies. First, there is the growth of subcontracting in manufacturing, which increasingly integrates formal and informal sector productive activities, and allows for a substantial part of the production to be undertaken by very small informal and unorganised units at the bottom of the production chain. These imply that a growing part of manufacturing production is formal protection of any sort to labour. Second, and related to the first tendency, there is evidence of some 'feminisation' of employment, that is the growing share of female employment to the total, particularly in export-oriented activities, and with wages and working conditions that are typically inferior to those of male counterpart workers.

It is evident that these processes will have direct and indirect links to the spread of poverty, throughout India but especially in rural areas. These links, and the more general relation between economic growth and poverty, are considered below.

# III Post-reform Trend in Poverty

In earlier sections it has been observed that there was a declining trend in poverty after the mid-1970s but that this trend was reversed in the 1990s. However, while the earlier declining trend is officially accepted, the reversal during the 1990s is not. As discussed earlier, the main difference between the official view and those of independent observers arises because till now the official estimate is based not on the NSS data directly but on adjusted figures obtained by blowing up the NSS consumption estimates for every decile group by a common adjustment factor equal to the ratio between the CSO estimate of private consumption and the corresponding NSS estimate. Because this adjustment factor has increased sharply in recent years, the official estimate has diverged increasingly from any estimate based directly on NSS data. The Expert Group which recently went into this matter concluded quite categorically that the practice of 'adjusting' NSS data was arbitrary and was likely to give wrong results because as against the implicit assumption in the official method that any underestimation of consumption is distributed uniformly over the entire population, it is better to assume who are non-poor.

In fact, several alternative series which use the unadjusted NSS figures are available. In addition to the World Bank series given earlier, a series calculated by Tendulkar and Jain is available for the period 1970-92.x This uses the same reference poverty lines at 1973-74 prices as the official and World Bank series, but using a different deflator they obtain an even larger increase in poverty between 1990-91 and 1992 (Table 6). In addition, it has been possible to obtain measures of rural poverty for All India and the major states, based on the Expert Group Method using NSS data covering the years from 1972-73 to 1993-949 (Table 7). Unlike the other series this is not obtained from the national-level NSS data but is obtained by applying state-specific poverty lines to state level NSS data. It must be noted that the figures given here for 1993-94 are preliminary, being based only on partial data (not yet officially released) from the 50th round of the NSS. Moreover, the data for 1986-87 and for 1989-90 to 1992 are based on the so-called 'thin' surveys by the NSS involving a much lower sample size than the other survey points. With only three survey points available for the post-reform period. and given the above qualifications for whatever data is available, any conclusion about post-reform trends must necessarily be rather tentative.

Nonetheless, using the mutually comparable thin samples alone, it is evident that poverty increased sharply during the first 18 months of the reform period (i.e., the second half of 1991 and 1992), particularly in the rural areas. The partial data relating to 1993-94 suggests, however, that this upward trend was reversed thereafter. Taken together, these data suggest that there was a very large increase in rural poverty in the first 18 months of reform but that this trend has been moderated, thereafter. Rural poverty in 1993-94 continued to be higher than in

TABLE 7 ESTIMALES OF RURAL HEADCOUNT POVERTY BY THE EXPERT GROUP METHOD

|                | 1973-74 | 1977-78 | 1983        | 1986-87 | 1987-88 | 1989-90 | 1990-91 | 1992 | 1993-94 |
|----------------|---------|---------|-------------|---------|---------|---------|---------|------|---------|
| Andhra Pradesh | 48.4    | 38 1    | 26 5        | 14 6    | 20,9    | 19.5    | 22.1    | 27 4 | 16.0    |
| Assam          | 52 7    | 59.8    | 42 6        | 39 7    | 39 4    | 35.2    | 33.7    | 51.7 | 45.0    |
| Bihar          | 63.0    | 63.3    | 64 4        | 50 1    | 52 6    | 52.4    | 46.3    | 61 1 | 58.0    |
| Gujarat        | 46 4    | 41.8    | 29 8        | 30.3    | 28.7    | 14 8    | 21.6    | 33.7 | 22.2    |
| Haryana        | 34 2    | 27 7    | 20.6        | 19.5    | 16.2    | 13.3    | 19.5    | 177  | 28 7    |
| Karnataka      | 55.1    | 48.2    | 36.3        | 36,6    | 32.8    | 45.4    | 34 9    | 45.5 | 28 2    |
| Kerala         | 59.2    | 51.5    | 39.0        | 33.5    | 29 1    | 34 4    | 30.3    | 26.0 | 25.9    |
| Madhya Pradesh | 62.7    | 62.5    | <b>∔8.9</b> | 47 8    | 41 9    | 39.5    | 42 4    | 47 9 | 40.8    |
| Maharashtra    | 57 7    | 64 ()   | 45.2        | 44 6    | 40.8    | 34.8    | 35.9    | 53.6 | 38.6    |
| Orissa         | 67.3    | 72 4    | 67.5        | 55.2    | 57.6    | 52.9    | 36.5    | 49.0 | 49.9    |
| Punjab         | 28.2    | 16 4    | 13.2        | 13 0    | 12.6    | 3.2     | 9.3     | 10.2 | 12.5    |
| Rajasthan      | 44.8    | 35.9    | 33.5        | 29,2    | 33.2    | 26.1    | 25.9    | 31.7 | 27.5    |
| Tamil Nadu     | 57.4    | 57.7    | 54.0        | 41 2    | 45.8    | 38 4    | 37.5    | 44.3 | 32.6    |
| Uttar Pradesh  | 56.5    | 47.6    | 46.5        | 36.6    | 41 1    | 30.5    | 34.8    | 47 9 | 42.6    |
| West Bengal    | 73 2    | 68.3    | 63.1        | 47.3    | 48.3    | 37.2    | 49.5    | 44.0 | 40.3    |
| All India      | 56 4    | 53.1    | 45.6        | 38.3    | 39.1    | 34.4    | 35.0    | 44.0 | 37.5    |

1989-90 and 1990-91 but was less than in 1987-88. Urban poverty, on the other hand, appears not to have increased much during the first 18 months of the reform period and, indeed, appears to have declined significantly in 1993-94. Nonetheless, there were about 30 million more people in poverty in the latter year than before the reforms began. 10

Thus, the post-reform trends in poverty do not suggest either an unambiguous improvement or an unambiguous worsening. They do suggest, however, that the initial impact of the stabilisation/structural adjustment package was adverse, that this impinged particularly on the rural sector, with less impact on the urban sector, and that there was some general reversal of the adverse trend subsequently. Nonetheless, it is important to note that the state-wise figures show that, as far as rural poverty is concerned, in most states the poverty ratios in 1993-94 were significantly larger than in the immediate pre-reform period. This is particularly true of the two largest Indian states, Uttar Pradesh and Bihar, and also of the hitherto successful 'green-revolution' states of Haryana and Punjab. The exceptions are the Southern states of Andhra Pradesh. Karnataka, Kerala and Tamil Nadu in all of which the poverty ratio in 1993-94 was lower than in the immediate pre-reform period. However, it must be noted that in these states, and in Maharashtra and Gujarat, the year 1993-94 was exceptional in that the tood prices actually fell in absolute terms as against rapid increases in both preceding and following years. For this reason, the calculated poverty ratios for 1993-94 are likely to be somewhat lower than the underlying trend.

More importantly, these trends in poverty need to be viewed in the general context, discussed earlier, that the stabilisation and stuctural adjustment policies carried out so far in India involved a fairly sharp contraction in fiscal and monetary policy in 1991-92 and 1992-93, followed by a return to high fiscal deficits from 1993-94 onwards. The revival of growth after an initial period of stagnation also followed a pattern broadly coincident with that of the government's fiscal stance, so that both the initial worsening of the poverty situation and the subsequent improvement seem to be broadly in line with the overall growth performance of the economy. Yet, there are a few surprises, the most important of which is that although the reform measures did not directly involve much changes in agriculture, it was rural poverty which appears to have been more sensitively affected by the post-reform developments.

This has led some analysts, for example Fendulkar and Jain (along with many other conomists who are generally in support of the reform process), to argue that, although

poverty did increase during the first 18 months of reform, the reforms were not the principal cause for this increase. This argument rests on the observation that "the rural sector in general and agriculture in particular were not the major focus of structural adjustment and were only indirectly affected by fiscal compression" and on the assumption that the reforms "would have adversely affected primarily the urban organised sector with second-order impact on the urban informal sector and weaker effect on the rural sector". Because, in fact, it was rural poverty which increased sharply, they attribute this increase not to reforms per se but to weather and to the higher postreforms inflation for which, moreover, they hold the reforms only indirectly responsible. However, although the reform process has indeed neglected agriculture, there are two major difficulties with the argument that, therefore, it could not have increased rural

First, although there was a 2 per cent drop in agricultural production in 1991-92 compared to 1990-91, and although the inflation rate did increase sharply (particularly for foodgrains), these adverse factors were simply not large enough to explain the very large increase in the incidence of rural poverty. As discussed in the next section any econometric model fitted to the data prior to reforms linking the incidence of rural poverty only to some measure of agricultural production or productivity and to the inflation effect, breaks down as soon as the post-reform data is included. And, indeed, all such models are outperformed by models incorporating relative food price, rural non-agricultural employment and some measure of commercialisation, in addition to agricultural production. The latter not only fit the prereform data better, but when fitted to prereform data accurately track the post-reform increase in poverty, unlike models not including government expenditure and/or rural non-agricultural employment which predict much lower poverty increase than that which took place actually.

The important point to note is that this phenomenon of rural non-agricultural employment, which Tendulkar and Jain ignore, was almost certainly the major factor which drove rural real wages up, and caused poverty to decline, during the 1980s. And, in turn, this was based largely on increasing government expenditure and on the availability of cheap credit to the small-scale sectors. As has been pointed out in a previous section, the onset of stabilisation and structural adjustment appears to have led to a rather quick and large decline in such rural non-agricultural employment, pushing millions of self-employed and casual rural non-agricultural workers back to agriculture, thus reducing per-worker incomes in agriculture. It appears, therefore, that just as the expansion of the 1980s involved a rapid increase in rural non-agricultural employment without any concommitant increase in organised sector employment, the stagnation in the first 18 months of reform saw a cutback in rural non-agricultural employment with not much effect on either organised sector or urban employment. This suggests that, contrary to popular opinion, the employment multipliers associated with the government's fiscal stance are larger for rural nonagriculture than for the urban or organised sectors. If this is accepted, the trend in the magnitude of employment decline and poverty increase are not surprising, particularly because, as noted earlier, the contractionary tendencies generally impinged much more adversely on smaller enterprises than on the corporate sector 11

In addition, it is obvious that the effect on poverty of the rather small decline in agricultural output in 1991-92 could have been mitigated if rural employment policies had been used effectively, as they were during 1987-88 a year of much larger decline in agricultural and foodgrains output than

TABLE 8 BASIC REGRESSION RESULTS ALL-INDIA DATA (Dependent Variable Is Log of Headcount Poverty Ratio)

| Constant | Per Capita<br>Agriculture<br>Income | Per Capita<br>Non-Agri<br>Income | Commerce   | Public<br>Dev<br>Expenditure | Relative<br>Price of<br>Cercals | R Bar<br>Squared |
|----------|-------------------------------------|----------------------------------|------------|------------------------------|---------------------------------|------------------|
| Rural    |                                     |                                  |            |                              |                                 |                  |
| 11.34    | 0 72 (1 2)                          | -0 36 (2 1)                      |            |                              |                                 | 0.73             |
| 9 56     | -0.68 (1.1)                         | -0 78 (1 2)                      | 1 11 (1.5) |                              |                                 | 0.77             |
| 8 83     | -0 45 (1.9)                         | -2 38 (4 0)                      | 3 20 (4 8) | -0 76 (9 4)                  |                                 | 0.96             |
| 1.37     | -() 49 (2 2)                        | -1 62 (3 3)                      | 173 (31)   |                              | 1.45 (9.8)                      | 0.96             |
| 4 68     | -0 45 (2 4)                         | -2 15 (4 3)                      | 2.65 (4.6) | 0.39 (2.7)                   | 0.80 (3.0)                      | 0 97             |
| Urban    |                                     |                                  |            |                              |                                 |                  |
| 11 16    | -0 75 (2 0)                         | -0.32 (3.0)                      |            |                              |                                 | 0.86             |
| 8 57     | -0 69 (2 0)                         | 1.35 (1.8)                       | -1.63(2.3) |                              |                                 | 0.88             |
| 8.24     | -0 58 (2 4)                         | 0.07(0.1)                        | 0.31 (0.4) | 0 34 (4 0)                   |                                 | 0.94             |
| 4.61     | -0 59 (2.7)                         | 0.19 (0.4)                       | 0 26 (0.5) |                              | 0.70 (4.8)                      | () 95            |
| 5.23     | -0.58 (2.8)                         | . ,                              |            | -0.08(1.5)                   | 0.60(2.7)                       | 0.95             |

Note: T values in parenthesis.

1991-92. Indeed, a state-wise analysis shows that between 1989-90 and 1992 rural poverty increased in every state except Kerala, i e, it increased even in those states (Haryana, Karnataka, Madhya Pradesh, Orissa, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal) where the 1991-92 foodgrains output was higher than in 1989-90, thus indicating a rather weak link between the fall in output and the increase in poverty. Moreover, it is interesting to note that the largest post-reform increases in poverty were registered in the two states, Gujarat and Maharashtra, which were most enthusiastic about the reforms process. Here, there was a fall in foodgrains output in 1991-92 as in 1987-88, but, unlike in 1987-88, the state governments neglected rural employment and drought relief schemes

Secondly, although inflation is clearly important, Tendulkar and Jain are not entirely correct when they claim that the large rise in inflation (to over 25 per cent for the Consumer Price Index for Agricultural Labourers) during the first year of reforms was only indirectly related to the reform process. Their argument is that inflation occurred because crop output fell in a year when foodgrain stocks were low and the balance of payments position did not permit large imports; and because the government succumbed to rich farmer demands to increase procurement prices following the (necessary steps of) devaluation and cut in fertiliser subsidy.

In fact, because of a record harvest in 1990-91, public foodgrain stocks were high, over 21 million tonnes, when the government embarked on its reforms at the end of June 1991. And inflation accelerated principally because of the expectations set-off by devaluation and the impression given that all discrimination against exports of agricultural goods would be removed. 12 This led to an immediate speculative increase in private stocks, forcing the government to run down its own stocks faster, and also contemplate food imports. However, the decision on such imports was postponed till after the next harvest. And when this turned out to be somewhat less than expected, the government was faced not only with low stocks but also with low procurement because farmers withheld sales in the expectation that it would be politically and economically difficult for the government to justify imports at prices well above domestic free market prices which in turn were higher than the procurement prices. In the event, the government was forced to increase both its procurement prices massively (linking this with withdrawal of fertiliser subsidies) and also import wheat at prices higher than the increased procurement prices.

The entire problem was thus clearly driven by the fact that devaluation was linked

explicitly with the idea of removing trade discrimination against agricultural goods and, therefore, with a central tenet of the liberalisation argument. If this had been followed through fully, food prices would have risen much more than they actually did and farmers would have received more than what they allegedly obtained as a result of their political clout. In fact, prices began stabilising only when the government made it clear that not only would some export restrictions continue on foodgrains but also that it would continue with its earlier policy of importing foodgrain to stabilise domestic prices, even if this meant making a commercial loss. For this reason, it can be surmised that the inflationary problem could have been avoided to a large extent had devaluation been accompanied at the outset by an explicit policy of increasing the wedge between world and domestic prices through higher export duties and a definite announcement that canalised imports would continue. That it was not, and led to an inflationary spurt which was contained only when the government backtracked, is one among a number of instances of how fidelity to the liberalisation world-view was extremely costly in the short-run without being sustainable in the longer run.

Thus, the massive increase in rural poverty, by over 60 million people, in the first 18 months of reform was to a very large extent a direct result of the stabilisation-cumstructural adjustment policies. The later data, for 1993-94, which shows a moderation in poverty does not necesarily contradict this conclusion because, after all, public expenditure cuts were to a large extent restored (and so rural non-agricultural employment might have risen somewhat) and stability was returned to foodgrains markets by removing the expectation that Indian agricultural prices were to soon reach international levels. Thus, although nothing firm c in be said about employment trends till the full data from the 1993-94 survey is released, the decline in poverty appears only to confirm that changes in public expenditure levels and announcements regarding liberalisation of international trade in agricultural products have a large and quick impact on rural poverty.

#### IV Determinants of Poverty

This brief review of trends in poverty bring us to the central issue of this paper: that is how liberalisation and structural adjustment may be expected to affect the incidence of poverty. Given the limited data and the somewhat conflicting empirical trends reviewed above, the remaining discussion will focus on past discussions of the determinants of poverty in India, and how the conventional logic needs to be modified in the light of subsequent developments. Since the Indian literature is mainly on rural poverty, this discussion will also focus largely on the rural sector.

Past literature has tended to focus on two types of variables; some measure of agricultural output or productivity and some price variable. And past writings have debated both the relative significance of these variables, and, more importantly, their proper specification.13 Thus, although the level and growth of agricultural production per capita of rural population is obviously an important variable determining levels of welfare in a predominantly agricultural rural community, it is also obvious that such a relationship would be affected by whether agricultural growth is accompanied by increasing inequality and whether there are other sources of rural incomes. The link between poverty and prices is even more complex. For example, when Dharm Narain presented regression results showing that poverty was related positively with higher food prices, his specification was challenged because his use of the nominal food price as an explanatory variable ran counter to the prior, common to most economists, that what really matters are relative prices, and, that if absolute prices need to be incorporated, this should be done by considering the rate of inflation rather than the price level.

As far as the importance of agricultural output as a determinant of rural poverty is concerned, it is obvious that, unless the

TABLE 9 ALL INDIA RURAL POVERTY EQUATION

| Variables              | Ravallion-   | Dutt Model   | Our Model    |              |  |
|------------------------|--------------|--------------|--------------|--------------|--|
|                        | 1960 to 1989 | 1960 to 1992 | 1960 to 1989 | 1960 to 1992 |  |
| Constant               | 4 6(5 01)    | 3.3(2.79)    | -0.6(0.67)   | -0 1(0 10)   |  |
| Ag Productivity        | -0 3(2 69)   | -0.1(0.56)   | -0.4(4 21)   | 0.4(3.36)    |  |
| Real Wages             | - 0 5(3 26)  | -0.7(3.53)   | 0.3(3.29)    | -0.4(2.79)   |  |
| Relative price cereals |              |              | 0.9(7.69)    | 0.9(6.25)    |  |
| Non-ag employment      |              |              | -0.5(3.97)   | -0.4(3 65)   |  |
| Commercialisation      |              |              | 1.0(6.45)    | 0.9(4 92)    |  |
| Time Trend             | 0.0(3.85)    | 0.0(1.86)    |              |              |  |
| Lagged Dependent       | 0.5(4 74)    | 0.4(2.75)    |              |              |  |
| R Bar Squared          | 0.94         | 0.89         | 0.98         | 0.97         |  |
| DW                     | 1 63         | 1 28         | 2.27         | 2.37         |  |

manner in which higher agricultural output is brought about is sharply inequalising, any increase in agricultural output per capita would tend to benefit most rural people. It is precisely the fear of the possible inequalising impact of the 'green revolution' which had triggered off early work on this area. But, by now, it may safely be conceded that although relative inequalities may have increased, the 'green revolution' certainly reduced the incidence of absolute rural poverty in the regions where it was successful. But, although proponents of the trickle down hypothesis may have proved more correct than the detractors in this matter, the really striking feature of the post green revolution period is that, nonetheless, there is a rather weak link across states between the rate of agricultural growth per capita and reductions in rural poverty.

The simple fact is that, with the green revolution limited in geographical coverage, most states in India did not record any significant increase in agricultural value-added per head of rural population during the 1970s and 1980s, although almost all of them recorded significant declines in poverty.

With poverty reduced even where agricultural output did not increase, there has thus been a reversal of the earlier apprehension that agricultural growth could occur without reducing poverty. But this very disassociation between poverty reduction and agricultural growth is a feature which merits more attention than has been given so far. For example, it is significant that, while early work on the subject invariably chose some measure of agricultural output per capita, some recent research finds agricultural output per hectare to be the measure of agricultural performance better correlated with poverty decline. 14 This measure has the advantage, for those persistent in viewing agricultural growth as the main engine for the reduction of rural poverty, that on this basis almost every region in India recorded some agricultural growth during the period when poverty declined, and, in most cases, this growth was also larger than during the earlier period when rural poverty did not decline.

Yet, given the stagnation of agricultural output per head in most parts of rural India, this shift in the measure used surely serves to obfuscate matters rather than to clarify them, especially because in actual fact the underlying shift in Indian agriculture from expansion of cropped area to yield increases has been accompanied by a sharp decline in the output elasticity of agriculture's demand for labour. As a result, poverty has declined in most regions of rural India in a context not only of stagnant agricultural output per head of rural population but also one where agricultural employment has grown much slower than the growth of the

rural labour force. This latter feature would normally be expected to depress agricultural wages and thus affect adversely the poorest among India's rural residents. But, in fact, real agricultural wages increased sharply in most parts of India between the mid-1970s and late 1980s, and this was, in fact, one of the main reasons why poverty declined.

Some researchers do note the rise in wages but chose to 'explain' this rise also by reference to the increase in output per acre. This, however, stretches credulity because by almost every measure the rise in real wages was at least twice as much as the increase in real output per worker, and cannot, therefore, be ascribed mainly to technical progress in agriculture. As has been argued already, the real explanation for the rise in agricultural wages hes in the rapid growth of rural non-agricultural employment and the dynamics behind this. The Indian literature on this has in the past toyed with two ideas; that rural non-agriculture is itself driven by agricultural growth through the operation of Engel's law; and the opposite idea that the process of commercialisation of agriculture leads to displacement of agricultural labour which finds distress employment in certain 'residual' sectors of non-agriculture. However, both these ideas are now somewhat discredited. The link between agricultural growth and that of rural non-agriculture has been found to be nonlinear, and, with the exception of the limited prime 'green revolution' area there is little evidence that agricultural growth has provided the impetus to rural non-agriculture Also, despite considerable evidence that commercialisation is inequalising and leads to casualisation of the rural labour force, the 'residual' sector hypothesis stands discredited because this does not square with rising real wages. The evidence overwhelmingly supports the thesis that the main impetus for the growth of rural nonagriculture has come from outside the rural areas, in considerable part from the expansion of government expenditure. This observation suggests that rural incomes are no longer derived only from agricultural production. and that the process by which rural areas have got integrated into the wider economy are important. One aspect of this has been commercialisation with its inequalising effects, but the other is that external stimulii

have provided employment opportunities and incomes which are related not so much with agriculture but with developments in the wider macro-economy.

However, many economists continue to view agricultural growth as the main solution to poverty. One reason for this is precisely because such an association fits neatly with the view that in countries like India, which protected industry in the past and therefore require 'structural adjustment' today, got it wrong not only on efficiency but also on equity. Indeed, during the 1970s, when the World Bank pushed its growth with redistribution slogan, the argument was that the pro-industry policies followed by countries such as India hampered agricultural growth and thus meant higher poverty than was necessary. Even today, some World Bank analysis tries to show that rural poverty is unaffected (or even worsened) by industrial growth while agricultural growth reduces not only rural but even urban poverty.18 This view continues to be a central component of the structural adjustment policies, wherein it is argued that greater liberalisation of trade and industry would shift resources towards agriculture and this would not only be more in line with India's comparative advantage but would also reduce poverty much more than earlier policies. In other words, although no one will dispute that higher agricultural output is very likely to reduce rural poverty, it is no accident that in circles where 'structural adjustment is seen as a good thing there is also an almost single-minded obsession with this causation, to the point of excluding from consideration other possible determinants of the incidence of poverty.

However, given Dharm Narain's critique of earlier work which concentrated only on agricultural output, these more recent analysts of rural poverty in India do not entirely forget the price dimension as a possible determinant of poverty. But, interestingly the focus in such recent analysis is almost entirely on how inflation is bad for the poor Thus, either an inflation term is added to agricultural output in statistical models explaining poverty or real wages are added as an explanatory variable to the poverty equation and an inflation term is added to the equation explaining real wages. The argument is the entirely plausible one that

TABLE 10: POOLED TIME SERIES AND CROSS SECTION ACROSS STATES (Dependent Variable Head Count Poverty Ratio)

| Constant                          | 5 3(9 61) | 5 8(16 59) |
|-----------------------------------|-----------|------------|
| Ag output per rural person        | 0.2(2.87) | -0.2(3.67) |
| Per capita state domestic product | 0.1(0.89) |            |
| State development expenditure     | 0.2(5.42) | 0.2(7.61)  |
| Relative food price               | 0.6(5.16) | 0.6(5.45)  |
| Inflation rate                    | 0.1(1.42) |            |
| R Bar Squared                     | 0.87      | 0.88       |
| DW                                | 2 21      | 2 22       |

rural money wages (and possibly certain other components of rural income, such as the proceeds of the previous harvest) are not index-linked and therefore are not immediately protected against inflation, although these are likely to adjust in the longer-run.

But, although very plausible as an explanatory variable of short-run variations in poverty, the choice of inflation as the preferred price variable is again not entirely accidental. For reformers, this leads to the happy coincidence that while structural adjustment is good for poverty because that is likely to shift resources towards agriculture, stabilisation is also good for poverty because this will reduce inflation. Most importantly, this way of incorporating prices avoids facing the essential trade-off that Dharm Narain was pointing to: that between the possible beneficial effects of higher agricultural output on poverty and the possible losses involved if the preferred strategy for increasing agricultural output consists of higher agricultural prices

This is a trade-off particularly relevant for the structural adjustment policy as it relates to agriculture. As has been pointed out by many, this policy seems to have given no serious consideration to agriculture in terms of new programmes or investment, although it purports to be a virtual overhaul of the entire economy. But this is no accident either. In the liberatising worldview, most economic problems can be resolved by a greater recourse to markets and allowing the price mechanism 'tree' play. A similar position governs the attitude to agricultural growth, in that it is supposed that relative price movements and profitability ratios will be sufficient to ensure that supply responsiveness in agriculture will lead to higher rates of growth. And the critical variable here is the ratio of agricultural to other prices in the economy, which is sought to be increased by reducing trade protection to industry, through devaluation which makes non-traded goods cheaper relative to traded goods, and through removal of restriction on international trade in agricultural goods which would have the effect of increasing the domestic relative price of most agricultural products, including foodgrains.16

In other words, the very mechanism through which agricultural output is expected to increase under structural adjustment involves increasing the price of agricultural goods, notably food, relative to all other prices in the economy. This essential rise in the relative price of agricultural goods is thus not seen as a transient phenomenon like inflation, and it would leave the rural poor unaffected adversely only if the prices of goods and services they sell rises in line with the rise in price of food which makes up most of their consumption basket. The effect would

certainly be adverse if money wages are sticky. But, even with flexible wages and tull employment, wage workers would invariably lose if they got a substantial part of their income from non-agricultural activities in relation to which agricultural prices would require to rise. Unlike inflation whose control may be benign (if not accompanied by deflation), this essential relative price implication of structural adjustment is permanent by design and so also is its likely adverse effect on poverty. It is, therefore, noteworthy, and hardly accidental, that in the new set of poverty models, such a relative price variable is hardly ever included.

Moreover, deflationary policies designed to control overall inflation during a transition when domestic price relatives adjust to international levels may have a disproportionate adverse effect on the rural poor if the latter obtain sizeable parts of their income from non-agricultural activity. In Indian discussions on the subject, it is sometimes almost assumed that income and employment multipliers associated with fiscal and monetary policy never spill across municipal boundaries into rural areas. Nothing could actually be further from the

truth. With agricultural output determined from the supply side, and agricultural prices made inflexible downwards by government support operations, it may indeed be the case that the income multipliers of a deflationary package are borne entirely by nonagriculture. But given that most organised sector workers still have secure employment at pre-determined wage rates, the entire burden of the employment multiplier falls on the unorganised non-agricultural sector. This sector does not respect rural-urban boundaries and cut-backs in employment demand here are likely to have knock-on effects on the incomes of the rural poor: through a combination of lower nonagricultura' employment, falling real wages, and an increase in the extent of disguised unemployment in the agricultural sector.

That this latter effect might be important has already been indicated by the data so far presented on rural poverty and nonagricultural employment. Its plausibility is enhanced because much of the government spending which is important for rural areas is project or programme funded and thus more susceptible to expenditure cuts, because most rural non-agricultural enterprises are small and lack staying power, and because most of the wage employment thus created is casual. As a result, it would be no exaggeration to claim that the vulnerability of the rural non-agricultural sector to overall public expenditure cuts and to restrictive monetary policy is almost certainly greater than for its urban counterpart. This has very important ramifications in the current macroeconomic context.

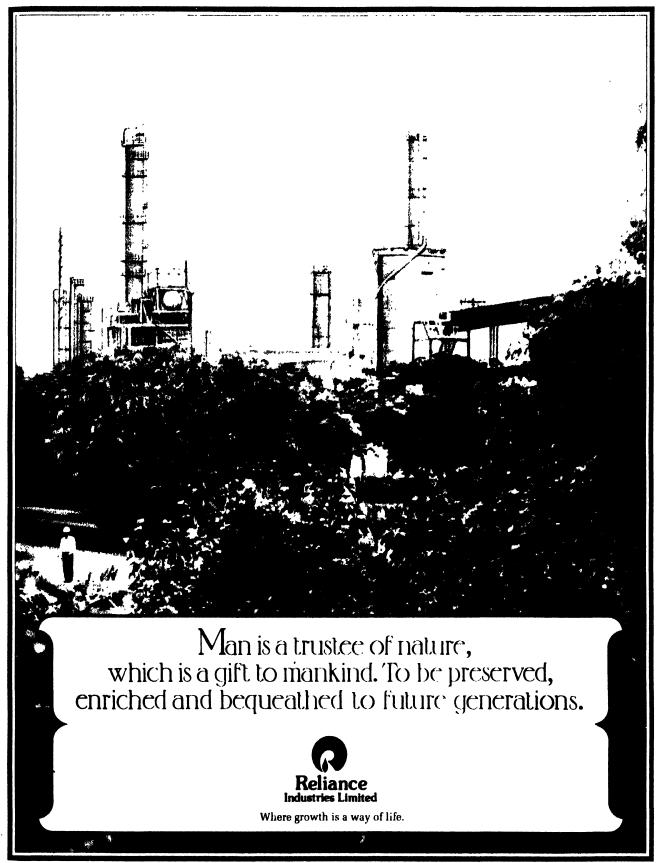
Thus, there are two possible stories which can be told about the impact of structural adjustment and stabilisation on rural poverty. The first is the benign one: that by increasing agricultural output and controlling inflation, these act to reduce poverty. Alternatively, there is the less optimistic but no less possible outcome that structural adjustment acts adversely on the poor because 'getting prices' right' leads invariably to a rise in the relative price of food, because greater reliance on market forces spurs inequalities inherent in the commercialisation process, and because these adverse effects are compounded by contracting non-agricultural employment and falling wages in the unorganised sector if the government wishes to contain, through contractionary stabilisation policies the inflationary fall out of adjustment.

Which of these actually transpires is an empirical matter, and one would expect economists to have tested for which of these effects are more likely. But oddly, the benign agricultural output/ inflation story of rural poverty seems to hold the fort without being tested seriously against the alternative hypothesis involving relative price changes, commercialisation, rural non-agricultural employment and the government's fiscal and monetary stance.

On the other hand, the discussion of actual developments earlier in this paper suggests that the simple agricultural outpu / inflation story about the determinants of rural poverty can be quite misleading. Thus, any explanation of falling rural poverty during the mid-1970s and 1980s would appear to be incomplete if it did not incorporate the fact of increasing rural non-agricultural

TABLE 11 DUTT-RAVALLION CROSS-SECTION AND TIME SPRIES POOLED (Dependent Variable Head Count Poverty Ratio)

| Fime Va. jing Variables |             |            |
|-------------------------|-------------|------------|
| Mean consumption        |             | 1 1(15.62) |
| Ag productivity         | -0.1(2.58)  | -0.0(0.79) |
| Rate of inflation       | 0 6(6 57)   | 0 2(2 35)  |
| State dev expenditure   | -0.3(5.12)  | 0.1(3.33)  |
| Initial Conditions      |             |            |
| Irrigation              | -0.6(3 08)  | -0 4(3.32) |
| Female literacy         | -().4(2.59) | -0.1(1.09) |
| Infant mortality        | 0 9(4,69)   | 0.4(3.18)  |
| R Bar Squared           | 0.86        | 0.94       |



INTERACT # VISION RILAVIS

employment and the role of government policy behind this. Similarly, our critique of the Tendulkar-Jain explanation of the increase in poverty post-reforms is also essentially that they fail to go beyond the agricultural output/ inflation story. In the remaining part of this section we attempt a statistical investigation.

To begin with, we regress head count measures of poverty for the period 1960-61 to 1993-94 at the all-India level in both urban and rural areas against per capita agricultural and non-agricultural incomes (with agricultural incomes defined per head of rural population and non-agricultural incomes defined per capita of total population). As the accompanying table 8 shows, both income variables are significantly negative in both rural and urban areas, and in both cases the agricultural income variable appears more important Next, the per capita non-agricultural income variable is split into per capita income from trade and transport (an indicator of commercialisation) and other non-agricultural incomes. The rationale for this is that many commentators (e.g., Vaidyanathan 1986) have argued commercialisation this tends to increase rural inequalities. In these respecified equations, agricultural incomes continue to be negatively related to poverty. but now there is a difference between the urban and rural equations. In urban areas, the commercialisation variable appears to reduce poverty while the remaining nonagricultural incomes have a positive effect. But exactly the opposite pattern appears in rural areas. Next, we include a public expenditure variable (development expenditure per capita, i e, government expenditure less interest payments and expenditure on defence and administration). This variable is strongly significant, reducing poverty in both rural and urban areas, with, interestingly, its coefficient almost double in rural as compared to urban areas. Moreover, on inclusion of this variable, the non-agricultural income variables become insignificant in urban areas, while in rural areas the earlier pattern is maintained.

These observations suggest a much more complex relationship between growth of nonagricultural incomes and poverty than usually appreciated As expected, commercialisation does indeed seem to be associated with increased rural inequalities, but it seems also to be associated with some increased opportunities for the urban poor. On the other hand, the expansion of other nonagricultural incomes appears to have reduced rural poverty while doing nothing to reduce urban poverty. This suggests that to the extent that the benefits of such income growth do percolate down to the poor, this spills over disproportionately to the tural sector, either because of rural-urban migration or because, as suggested earlier, employment multipliers are higher for rural non-agricultural employment. This latter suggestion finds some confirmation from the coefficients on the government expenditure variable, whose significance suggests also that such expenditure has a much larger impact on poverty than a general increase in non-agricultural output.

Surprisingly, on including an inflation term in these equations, this is found to have an insignificant effect on poverty in both rural and urban areas. Replacing the inflation term with a relative price variable (the relative price of cereals to all commodities in the wholesale price index) does however make a difference. This variable turns out to be highly significant in both areas, and also serves to reduce the significance of the public expenditure variable, which however continues to be significant.

These results need to be interpreted with caution because the mutual correlation between these explanatory variables is often high. But three points emerge quite strongly. First, that agricultural incomes are important not only for rural but also urban poverty. Second, that non-agricultural impulses, particularly public expenditure, are not only important but that they are especially so in the determination of rural poverty. Third, that, as far as the price variable is concerned, the relative price effect is if anything much more important than the effect of inflation per se.

Taken together, these results suggest that we need to modify the view that the principal determinants of poverty are agricultural output and inflation, and that, therefore, both structural adjustment and stabilisation are good. To consider this matter further, we replicated the version of this story as it emerges from the World Bank publication Growth and Poverty in India.17 This is more sophisticated than most other versions of the story in that it is a two-equation model whereby the incidence of rural poverty is 'explained' by the agricultural real wage and the lagged and current agricultural output per net sown acre. In addition the model includes the lagged dependent variable and a time trend. In turn, the level of the agricultural real wage is explained' in another equation by the inflation rate and the earlier agricultural output variable, in addition to a lagged wage term. In this model, therefore, higher agricultural output reduces the incidence of poverty both directly and through its positive effect on the wage rate; and inflation works on poverty only indirectly through the wage rate.

Table 9 gives the coefficients of the Ravallion-Dutt poverty equation obtained when fitted it to the periods 1960/61-1989/90 and 1960/61-1992 with all-India data. The first fit, which does not include the post-

•reform period, is almost the same as that reported in their original paper and appears to be a fairly good fit. However, the second fit, that of the same model fitted to data extended to the post-reform period shows that the model breaks down almost completely since the most important variable. agricultural output per acre, turns totally insignificant. Furthermore, the breakdown of the model occurs essentially because the magnitude of the actual increase in poverty is well beyond anything that this model can predict. In fact, when the model estimated with data up to 1987-88 is extrapolated, it is able to explain only a small part of the large actual increase in 1992, and also predicts an increase in poverty in 1993-94 as against an actual decline.18

This table also gives the details of an alternative model fitted to the same data incorporating our observations in the preceding discussion. Here in addition to the agricultural output and real wage variables we included the relative price of cereals, the proportion of non-agricultural workers in rural population and the commercialisation variable (the per capita GDP from trade and transport). An interesting observation is that on inclusion of these variables, the time trend and the lagged dependent variable used by Ravallion-Duttt turn insignificant, suggesting that in fact the adjustment of poverty to real factors is much faster than that suggested by the Ravallion-Dutt model. This alternative model not only fits past data much better than the Ravallion-Dutt version, but also, unlike theirs, remains robust when extended to the post-reform period. In parti-cular, the massive increase in rural poverty in 1992 is predicted with complete accuracy by the model fitted up to 1987-88.19

These results not only emphasise the importance of the relative price variable and of non-agricultural factors, they cast strong doubts on the simple agricultural output/ inflation paradigm. This paradigm is further compromised because it is seen that the wage equation in the Ravallion-Dutt model also collapses in the sense that inclusion of alternative variables, e.g. real government expenditure per capita, renders the agricultural output variable insignificant. Indeed, the significance of the government expenditure variable here confirms the possible importance of government expenditure for non-agricultural employment, the rural real wage and, therefore, rural poverty. And, indeed, including a government expenditure variable along with lagging the employment variable yields our preferred equation. Interestingly, this equation fitted to data up to 1987-88 accurately tracks the subsequent movement in rural poverty, including both the sharp upward movement in 1991 and 1992 and the reversal in 1993-94.20

Nonetheless, these observations on the basis of All-India data, though indicative, cannot be conclusive given that the degrees of freedom are few and because a number of possible explanatory variables are mutually correlated. For this reason, the excercise was repeated using state level data, in the form of a pooled time-seris and crosssection analysis with data up to 1992. In this exercise, poverty was regressed against agricultural output per rural person, state per capita SDP, a relative food price index calculated by dividing the index of the food price in the CPIAL by the SDP deflator, an inflation index based on the SDP deflator, and per capita real state development expenditure. All variables except the per capita SDP were significant, but, in addition, the inflation term was small and just crossed the significance level. The relative food price variable was easily the most statistically significant variable and it also was the most important in terms of its impact. The next important variable was state development expenditure, followed by agricultural output.

These results with pooled cross-section and time series data at the state level are in many ways similar to results obtained recently by Dutt and Ravallion (1995) with more or less the same data set, but restricted to the period up to 1989-90.21 In their model they regress poverty measures against agricultural output per hectare, state development expenditure and an inflation term, along with certain indicators of initial conditions (e.g., irrigation, infant mortality and female literacy). All the variables had the expected sign, and, interestingly, they find that state development expenditure was the most significant variable and that, unlike agricultural output which reduced poverty only by increasing mean consumption, state expenditure reduced poverty by increasing both mean income and improving income distribution. They did not include any relative price variable but our experiments with the same data suggest that this would have swamped the inflation term had they done so. Hence, the importance of state expenditure and of the relative food price appears to be fairly robust as factors explaining poverty both across time and space.

However, perhaps the most important result of this Dutt-Ravallion exercise is that it shows that, quite apart from the contemporaneous effect of prices, output and government spending, the extentio which a particular state could reduce poverty over time depended also on the *initial conditions* with respect to physical and human infrastructure, in terms of irrigation, female literacy and infant mortality, with which that state began. Thus, of the difference of 1.8 per cent per annum between the rates of poverty reduction in Kerala and Madhya Pradesh, fully 1.6 per cent per annum could

be attributed to the fact that Kerala began with higher female literacy (1 per cent) and lower infant mortality (0.6 per cent). Our own preliminary experiments with such *initial conditions* confirm the long-run importance for poverty reduction of health and education status, though much less so of irrigation, and suggest furthermore the importance of initial land distribution.

Clearly, this analysis suggests that both the benign agricultural output/inflation model and the relative price/state expenditure/rural non-agricultural employment models mentioned earlier are relevant for the determination of rural poverty. But the really important conclusion is that, of the two, the second is by far more important; agricultural output and inflation do matter, but as determinants of the incidence of poverty, the relative price of food and the level of government expenditure are even more important. In addition, the analysis points to an important and hitherto ignored longrun synergy between efforts at improving the health and education status of a society and its ability to bring down poverty over time.

#### V Policy Conclusions

The results above do not lead to any very optimistic prognosis about the effect of structural adjustment or of further 'marketist reform' on poverty. It is true that ceteris paribus an increase in agricultural output would reduce poverty and that, therefore, there is a case for diverting more resources to this sector. It is also true that any expansion of employment in the unorganised sectors, say through the rapid growth of labourintensive exports, would also reduce poverty And it remains extremely plausible that any policy which can moderate inflation without leading to a cut-back in employment opportunities would in general benefit the poor. Nonetheless, there are trade-offs involved in achieving each of this goals in the structural adjustment package, and it is precisely these trade-offs which are cause for pessimism.

The basic thrust of the structural adjustment strategy is to allow greater play to market forces and to ensure that domestic relative prices reflect the opportunities available in international trade. In theory, domestic liberalisation would cause a greater degree of commercialisation, and liberalisation of international trade would cause shifts in relative prices in favour of agriculture and exportables. Taken together, these are expected to bring about the desirable shift of resources towards agriculture and labour-intensive exports. However, the problem with this is that not only do these very mechanisms, commercialisation and a rise

in the relative price of agricultural products, act directly to increase poverty, but also that the magnitudes of the elasticity of poverty to these make it extremely unlikely that the direct loss on this account can be made up by the indirect benefits accruing from the better resource allocation that is expected to result thereby. For example, in almost every poverty equation reported above, the positive coefficient on the relative price variable is twice the absolute size of the negative coefficient on the agricultural output variable - implying that the elasticity of food production to the relative price of food would have to be greater than two if such a change in relative price is to reduce poverty through higher food production.

This cautions against any sudden opening up of the foodgrains sector to international trade, and, indeed, the caution here should be greater than simply one of managing a careful transition to world prices. The fact that the relative price specification is more important than the inflation specification suggests that the underlying problem is caused by more than a stickiness of money wages in the face of price increases. If such stickiness existed without any long-run impact of relative prices on poverty, the problem would have only been a transitional one which could be managed by keeping inflationary pressures in check either by a graduated movement to world prices or through a mofe effective stabilisation policy. However, since poverty is extremely sensitive to relative prices there is more than a transitory problem with opening up agriculture to international trade. Also, with government expenditure important for poverty, there is the further important trade off between this direct effect and the indirect effect, through inflationary pressures, of the fiscal policy stance. Given the relative importance of the government expenditure and inflation variables in the poverty equations, attempts to use contractionary expenditure policies to deal with inflation pressures, say as a result of a greater opening up to international trade, could prove to be a case of the medicine being worse than the desease.

In any case, there appears to be considerable evidence that the increased government spending during 1976-90 was among the principal reasons why India could record rather impressive declines in poverty during this period. However, it is also true that the sustainability of such expenditure increases in the future is more doubtful than ever before. During 1976-90, real per capita government, development, expenditure increased at an annual rate of 6 per cent per annum as against only a 3 per cent growth in per capita real GDP. Real government expenditure per capita fell 15 per cent during 1990-93, but increased again by 6 per cent

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in 1993-94. The earlier expansion of government expenditure had led to large fiscal imbalances despite the fact that tax-GDP ratios had then grown quite significantly. On the other hand, both GDP growth rates have been lower and tax-GDP ratios have been falling in the post-reform period. It is therefore unlikely that the pace of growth of government expenditure can be sustained unless GDP grows at least 8 per cent per annum or there is a definite policy of increasing the tax-GDP ratio significantly.

Given this fiscal reality, and the fact that non-agricultural GDP does not appear to have much impact on poverty except through its effect on the sustainability of government expenditure, it is obvious that there will be problems with maintaining the pace of poverty reduction. Even if GDP growth increased, the current fiscal priorities make it unlikely that this would be reflected fully in public expenditure. One possibility discussed in this context is to alter the composition of government expenditure so that it is more directly focused on poverty alleviation. But, although this is possible and desirable, a note of caution must be sounded on this at the outset. In our regression excercises, we played around with different components of government expenditure, and the results suggested, somewhat surprisingly, that it was the broader measures of such expenditure which had a greater poverty alleviation effect, at least when poverty is measured by the head count ratio, than narrower and more focused measures such as that on agriculture and rural development.22

There are two possible reasons for this First, it may well be the case that the existing poverty alleviation programmes are not particularly effective and that their impact on poverty is no greater than other government expenditure. If so, there is room for improvement in the design of expenditure focused towards poverty alleviation. And, indeed, a case can also be made out that it may be possible to transfer funds from such programmes to rural capital formation without endangering the poverty alleviation impact. But, secondly, it also appears that what is really at issue are much broader multiplier effects of overall government expenditure. Clearly much more work is required in this area to identify wavs in which the impact of a given amount of expenditure can lead to more poverty alleviation, but, although there are certainly likely to be ways of achieving this, it should not be expected that it will be possible to cut-back overall government expenditure without any adverse effect on poverty. The real significance of government expenditure appears to be that it is this which imparts any 'trickle-down' characteristic to the growth process, something which appears quite weak if only GDP growth is considered.

Nonetheless, since this effect is likely to be greater if government expenditure is properly targeted, it is necessary to attempt a brief evaluation of the contribution of government anti-poverty schemes in the reduction of poverty. There have been numerous evaluations of these made by the government and by independent researchers, and no attempt will be made here to review this literature which attempts to measure the effectiveness with which particular schemes have been able to target the poor. Suffice it is to note that such evaluations have by and large found that asset-creation schemes. such as the Integrated Rural Development Scheme, have had less success in alleviating immediate poverty than rural employment programmes, although even the latter have leakages and are often criticised for being a palliative whose effectiveness at permanent poverty reduction are rather low. However, comparing the official figures on employment schemes with independent data from the NSS, four points are worth making. First, with the NSS reporting a quantum of employment in public works which matches official data well, fears about large leakages may be rather exaggerated. Secondly, the schemes appear to be reasonably welltargeted in that they are availed of most by casual labour households which have both the highest poverty and the highest personday unemployment, but the regional distribution of employment through such programmes appears to be concentrated in a few western Indian states, and also public works appear to have been much more effective in 1987-88, a drought year, than in more normal years. Thirdly, it seems unlikely that the effective transfer through such schemes was much lower than the wage cost as a result of incomes foregone by the workers to take up such employment.23 Fourthly, possibly because they are well targeted, public works appear to have been more effective in moderating the severity of poverty rather than its head count incidence 24

Conceptually, if viewed primarily as an anti-poverty measure, a well targeted public works programmes should not provide incentives for the non-poor to participate and nor should there be impediments to participation by anyone who is poor. At least till 1987-88, Indian schemes seem broadly to have passed the first test but, except possibly in Maharashtra, failed the second both because of a paucity of funds and a lack of official commitment, except at times of natural disasters. Since then, confusion about the intention behind such schemes seem to have increased. First, wages offered have been increased to the statutory minimum wage rate which is often higher than locally prevailing wages, thus making participation more attractive. Second, despite this, funds available for such schemes have been cut in real terms, causing job availability to be even more rationed. Finally, as a result of a misplaced importance given to the head count poverty incidence measure there is a feeling that these schemes have failed to reduce poverty, and this, combined with a general presumption that investment rather than doles are what is really necessary, have led many to argue for an increase in the materials and expertise content of these schemes, at the cost of their unskilled labour content, so as to make them more viable instruments of rural investment.

These reactions are confused because the primary goal of an anti-poverty measure is not the creation of assets and not is its purpose a general redistribution of income, say by increasing the general wage level. This is not to argue that these are not laudable objectives but simply to point out that attempts to chase too many objectives without substantially increasing the budget available risks diluting the primary goal of poverty alleviation. Both higher wage rates and a lower component for unskilled labour in these schemes reduce their transfer content And, these objectives, by attracting richer workers and/or by directing employment to regions where viable investment projects. rather than the poor, exist are also likely to make for much less effective targeting. Possibly, the correct approach would be to make employment guarantee the primary concern of such programmes, setting the wages paid to levels where the demand for such employment would broadly match the funds available. Clearly, if more funds can be directed into such programmes the wage rate paid can be increased, and with sufficient expenditure even the general wage rate influenced within the employment guarantee framework. The employment guarantee aspect should, however, be the primary concern and higher wages the secondary concern because only this priority would keep out the relatively rich while allowing the poor unimpeded access.

Secondly, the best way to dovetail productive investment into such a programme would possibly be to give a wage subsidy equal to the employment guarantee wage rate for each unskilled worker working on a class of well-defined approved investment projects, delinking project choice from the agency implementing the guarantee scheme and treating the rest of the project cost and benefit on par with any other. With the employment guarantee scheme in place, this need not cost the exchequer any more and yet the linkage between poverty alleviation and productive investment through labourintensive schemes could be decentralised Needless to say, this means that other project costs would have to be met from outside the

employment guarantee budget. But this is the proper way of proceeding because while there is a case for subsidising employment if there is paid underemployment at the normatively chosen employment guarantee wage rate, there is no case to subsidise any particular investment more simply because it is selected by the agency implementing the employment guarantee scheme.

However, the main lesson from earlier sections is that the basic thrust towards permanent reduction of poverty must take the form either of increasing employment in agriculture, mainly through better irrigation and multiple cropping, or of increasing the stock of viable selfemployment opportunities or regular jobs in non-agriculture. It is towards these objectives that rural investment should be encouraged while employment guarantee provides the framework within which this can be done without sacrificing the need to combat poverty immediately. Yet, because the reforms themselves have aspects which tend to increase poverty, and because fiscal considerations mean that it might be difficult to increase both agricultural investment and the expenditure on anti-poverty schemes, there will be difficulties in the future.

Under these circumstances, it is clear that if poverty reduction is to be a serious part of the agenda in the reform period, the reforms themselves should have an explicitly redistributive content. This would require cuts in subsidies to the rich and also higher taxes to maintain and increase the expenditure relevant for the poor. In addition, the old issues of land distribution and the provision of universal primary health and education must again be put back on the agenda. But, more than anything else, it must be recognised that a 'reform' strategy which aims to withdraw the state from investment, liberalise finance and thus divert finances from the state to the private sector, liberalise agricultural trade and thus enrich the rich at the direct cost of the poor, and seeks to control inflation and BOP problems through deflation and devaluation is at its root a fundamentally inequitous adventure.

#### Notes

[This is a slightly revised version of a paper delivered at the Workshop on Economic Reforms and Poverty Reduction organised jointly by the Institute of Development Studies, Sussex and the Lal Bahadur Shastri National Academy of Administration, Mussoorie, and held in Mussoorie in February 1996.]

- 1 See e.g. C.P.Chandrasekhar and Abhijit Sen: 'Has Poverty Declined with Reforms?', Macroscan, Businessline, January 23, 1996. See also Jaya Mehta, 'Poverty Figures and the People of India' in Alternative Economic Survey 1995-96, published by the Delhi Science Forum for the Alternative Survey
- 2 Ozler, B, G Dutt and M Ravallion, 'A Database on Poverty and Growth in India', Poverty and Human Resources Division, Policy Research Development, The World Bank, January 1996. This data base which is available in diskette form contains data up to the 48th Round (January-December 1992) of the NSS. It also has compilations of the poverty line for the 50th Round (July 1993-June 1994), but does not contain poverty estimates for this round because the NSS data was not available. The poverty estimates for 1993-94 are ours, using the World Bank poverty lines (which use the Planning Commission benchmarks of Rs 49 and Rs 57 at 1973-74 prices for rural and urban India but use somewhat different deflators) and the World Bank computer programme POVCAL for poverty estimate calculations with the 50th Round NSS estimates.
- 3 This relies heavily on Tendulkar, S, D K Sundaram and L R Jam, 'Poverty in India 1970-71 to 1988-89', ILO ARTEP, 1993.
- 4 See the next section, and particularly

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- Jayati Ghosh, 'Trends in Rural Employment and the Poverty-Employment Linkage', ILO-ARTEP, New Delhi, 1993.
- 'Rural Development', including special area programmes, makes its appearance as a separate plan head only in the Sixth Plan (1980-85). The actual expenditure under this head was 7.8 per cent of total plan expenditure. of the central and state governments taken together, during the Sixth Plan rising to 8.6 per cent in the Seventh Plan (1985-90). The share of Plan expenditure under the different head 'Agriculture and Allied Sectors', dropped from 12.3 per cent in the Fifth Plan (1974-79) to 6.1 per cent in the Sixth Plan to 5.8 per cent in the Seventh Plan. Plan expenditure on 'Irrigation and Flood Control' also fell as share of total plan outlay from 9.8 per cent in the Fifth Plan to 10 per cent in the Sixth Plan to 7.6 per cent in the Seventh Plan. Thus, the total of these heads maintained a roughly constant share of total Plan expenditure, but there was a shift from specifically agricultural to wider concerns. In addition to these a considerable amount of government expenditure under other heads, notably Social services, occurs in rural areas. The rural share of these is likely to have increased.
- All these figures are on the basis of the NSS usual status activity concept. However, very similar results are obtained on the basis of the NSS weekly status concept also. Unfortunately, figures are not available by the more sensitive daily status concept for the NSS 'thin' samples between 1989-90 and 1992 The range of values indicated above are necessitated by the fact that NSS population estimates vary somewhat from the figures issued by the Registrar-General. The absolute fall in non-agricultural employment is greater if the unadjusted NSS figures are used, the lower estimates assume the NSS ratio of workers to population but the Regist.ar-General's population estimate Sometimes doubts are expressed about the validity of employment estimates from the NSS 'thin' samples, but see Bhalla, S 'Workforce Restructuring, Wages and Want Recent Events, Interpretations and Analysis', Presidential Address at the 37th Annual Conference of the Indian Society of Labour Economics, printed in The Indian Journal of Labour Economics, January-March 1996.
- Tendulkar, S D and L R Jain, 'Economic Reforms and Poverty', Economic and Political Weekly, June 10, 1995.
- For the methodology recommended, see Planning Commission, GOI, Report of the Expert Group on Estimation of Proportion and Number of Poor, July 1993. For details of actual calculations, see Chandrasekhar, C P and Abhijit Sen, 'Has Poverty Declined with Reforms?', Macroscan, Businessime, January 23, 1996.
- An important point which needs discussion relates to the use of thin sample data. It is sometimes suggested that these data should not be used because of their small sample size, especially at the state level. However, since what matters really is the effect of small samples on the variance of the estimates, these variances were calculated and confidence tests were done. The results of

- these confidence tests show that, comparing 1989-90 with 1992, poverty increased significantly in all states except Kerala and Karnataka. Comparing 1989-90 with 1993-94, poverty increased significantly in Assam, Bihar, Gujarat, Haryana, Maharashtra. Punjab and Uttar Pradesh, it declined significantly in Andhra Pradesh, Karnataka, Kerala and Tamil Nadu; and the changes were statistically insignificant in the remaining states.
- It is interesting to observe that the share of private investment in GDP has fallen in the post-reform period. But this conceals a major asymmetry between investments in the corporate and the household (i.e., small scale) sectors: gross fixed capital formation of the household sector declined from 9.5 per cent of GDP in 1990-91 to 5.3 per cent in 1993-94, while corporate investment increased from 3.8 per cent of GDP to 7.2 per cent. Similarly there is an asymmetry in the growth rates of corporate and non-corporate entities in the manufactured sector. Compared to a decadal average of 8.2 per cent per annum during the 1980s, and 8.9 per cent in 1990-91, the index of manufacturing output tell by 0.8 per cent in 1991-92, and grew only 2.2 per cent in 1992-93 and 5.6 per cent in 1993-94, before returning to a pre-reform growth rate of 8.7 per cent in 1994-95 Significantly, however, the large-scale private corporate sector performed better than the economy. This sector weathered the crisis year 1991-92 rather well, managing a sales growth of 9 per cent in real terms, the same as the 1980s average Real sales growth slowed down to 2 per cent in 1992-93 because of public expenditure cuts. but rebounded to 8 per cent in 1993-94 and soared to 16 per cent in 1994-95 as spending cuts were restored Moreover, the share of gross profit in corporate sales has risen continuously, from 14 per cent in 1990-91 to over 16 per cent in 1994-95, and, because of cuts in corporate taxation, profits after tax have risen even more. Thus, the adverse effects of stabilisation and structural adjustment policies on investment appear to have been concentrated on smaller enterprises. This is in part an outcome of the fact that changes in the financial sector, which boosted equity markets and made credit more costly and scarce, have tended to divert finance to larger enterprises. But, in part, this was also a reflection of changing demand patterns
- 12 Unlike previous devaluations which were accompanied by the imposition of export duties on agricultural products to dampen primary price increases, the devaluation in 1991 was accompanied by an withdrawal of subsidies on manufactured exports and the announcement that there would not be any further discrimination against primary goods exports.
- 13 See, for example, John W Mellor and Gunvant M Desai, Agricultural Change and Rural Poverty - Variations on a Theme by Dharm Narain, Oxford University Press, 1986
- 14 See, for example, Ravallion, M and G Dutt 'Growth and Poverty in Rural India', Background Paper to the 1995 World Development Report, WPS 1405, World Bank, Washington, DC, 1995
- 15 Sec, for example Ravallion, M and G Dutt, 'How Important to India's Poor Is the Sectoral

- Composition of Economic Growth", World Bank Economic Review, 1996.
- 16 See, for example, Nayyar, D and A Sen, 'International Trade and the Agricultural Sector in India' in G S Bhalla (ed), Economic Liberalisation and Indian Agriculture, ISID, 1994.
- 17 Ravallion and Dutt op cit Background Paper to the 1995 World Development Report, WPS 1405, World Bank.
- 18 When this model estimated up to 1987-88 is extrapolated it yields expected poverty ratios of 33 1 and 34.5 per cent in 1992 and 1993-94 respectively as against actuals of 43.5 and 38 7 per cent for those years. It must be noted that these models were fitted to the Ravallion-Dutt data. Their poverty estimates for 1989-90 and 1992 are 34 3 per cent and 43.5 per cent respectively. In contrast, the corresponding Tendulkar-Jain estimates are 37.9 and 48.1 per cent, implying an even larger increase in poverty in the immediate post-reform period than the Ravallion-Dutt estimate.
- 19 The predicted value for 1992 turns out to 43 per cent as against the actual of 43.5.
- 20 The predicted values are 43.7 per cent and 40.4 per cent in 1992 and 1993-94, as against actuals of 43.5 per cent and 38.7 per cent respectively.
- 21 Dutt, Gaurav and Martin Ravallion 'Why Have Some Indian States Done Better than Others at Reducing Rural Poverty?', mimeo, Policy Research Department, World Bank, September 1995
- We included many alternative measures of government expenditure, such as expenditure on agriculture, rural development and social. sectors, in both the all-India and state level equations. In almost every case these more focused public expenditure variables performed worse than the more general public "development" expenditure, which includes almost all public expenditure other than interest payments and administration However, this analysis, which must be carried out at the state level to give sufficient degrees of freedom, is continuing. It is possible that better specification will lead to more definite results. One result already available is that rural employment schemes appear to have a significant poverty alleviation effect if the squared poverty gap measure is used, although not with the head count measure
- This is a theoretical possibility often raised when comparing such schemes with jure transfers (see e g, Gangopadhyay, S and Subramanian S, 'Optimal Budgetary Intervention in Poverty Alleviation Schemes' in S Subramanian (ed), Themes in Development Economics, OUP, Delhi, 1992) However, our regressions suggest a positive relationship across states, holding agricultural output constant, between employment in public works and employment excluding public works. For a more sophisticated micro-level excercise which also concludes that incomes foregone were small, see Ravallion, M and G Dutt, 'Is Targeting through a Work Requirement Efficient? Some Evidence from Rural India', mimeo, World Bank 1993
- 24 See also Sen and Ghosh, op cit

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# India's Checkered History in Fight Against Poverty

#### **Are There Lessons for the Future?**

#### Martin Ravallion Gauray Datt

Looking back 40 years or so, progress against poverty in India has been highly uneven over time and space. It took 20 years for the national poverty rate to fall below – and stay below – its value in the early 1950s. And trend rates of poverty reduction have differed appreciably between states. This paper provides an overview of results from a research project which has been trying to understand what influence economywide and sectoral factors have played in the evolution of poverty measures for India since the 1950s. There are some clear lessons for the future.

THERE has been much debate about how best to fight absolute poverty. Total numbers of poor people in the world – by almost any accepted standard – are continuing to rise. The urgency of resolving the debate, and taking effective action, is greater than ever.

The extent to which poor people share in economic growth has been one of the most contested issues. Some observers have argued that "distribution must get worse before it gets better" in developing countries, and that this puts a severe brake on the prospects for pro-poor economic growth. There have also been debates about the effects of growth in specific sectors. For example, some have argued that the benefits of the 'green revolution' (which resulted in substantial gains in agricultural yields through new seed varieties and irrigation) were captured by relatively well-off farmers, and brought little or no gain to the rural poor. Others have pointed to farm-output growth as the key to poverty reduction, both directly and via its effects on rural wage rates.

There would be little risk of exaggeration in saying that the position one takes in such debates has great bearing on long-standing issues of development strategy and policy reform. The link between growth and poverty, and the interaction with other factors (including human resource development), has also taken on new urgency in the wake of recent macroeconomic difficulties and adjustment efforts in many developing countries.<sup>3</sup>

However, these are difficult issues to resolve empirically, not least because of the I paucity of representative and reliable data over time on the living standards of poor people. Amongst developing countries, India has relatively good data for addressing these issues. At the time of writing, one could compile a time series of consumption data from 34 National Sample Surveys spanning 1951-92. This is one of the longest series of national household surveys suitable for tracking living conditions of the poor. Most of the surveys are large enough to be considered representative at the urban and rural levels for most states, and they appear to be reasonably comparable over time since the

basic survey method has changed relatively little. Other data (on price indices and explanatory variables) are also available on a reasonably consistent basis. Although there are data problems (some of which we can make corrections for), they are modest by the standards of cross-country comparative studies. The existence of a time series of consumption distributions spanning 40 years represents a unique opportunity to study the link between living conditions of the poor and the key macro-economic and sectoral variables which are thought to have important influences on progress in reducing poverty.

We have used these data to study the past evolution of living standards in India. We have asked: How have comparable measures of poverty in India evolved since the 1950s? Has the experience been different between urban and rural areas and between different states? How have measures of poverty responded to changes in economy-wide and sectoral variables? What has been the relative importance of economic growth versus changes in distribution? What role has been played by the sectoral composition of economic growth? How important have changing wages and prices been? Why have some states of India done so much better than others in the fight against poverty? What role have differences in the initial levels of human development played, versus other factors such as physical infrastructure endowments? This paper provides an overview of the results of this research. We avoid details on data and methods, which are described more fully in a series of papers from the project.4

#### DATA ON POOR PEOPLE

To address the questions posed above, we constructed a new set of consistent estimates of various poverty measures for India over the period 1951 to 1992 from the National Sample Sur 'ey (NSS) data. We aimed to measure 'absolute poverty', by which we mean that the extent of any household's poverty depends solely on its own absolute standard of living (for example, a household does not switch from being poor to non-poor

when it moves across sectors unless its standard of living has changed). Following now well-established and defensible practice for India and elsewhere, the standard of living was measured by consumption expenditure (including imputed values for consumption from own production). We only studied 'poverty' in the narrow (though unquestionably important) sense of "command over commodities"; we do not deny that there are aspects of a broader concept of 'well-being' which are not captured by our poverty measures."

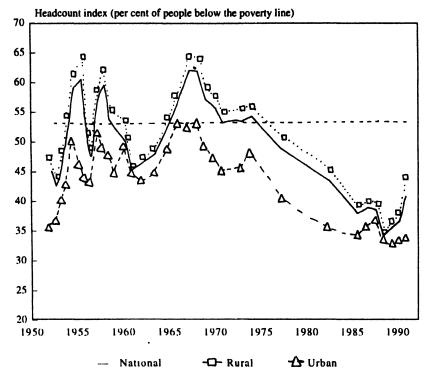
The poverty lines used were those defined by India's planning commission.' The rural poverty line is Rs 49 per month and the urban line is Rs 57 per month at October 1973-June 1974 all-fidia rural and urban prices respectively. The nominal consumption distributions for each survey data were then converted to constant prices using consumer price indices for urban and rural areas which were anchored to the consumption patterns of low-income workers.

Three different poverty measures were used (1) The headcount index, given by the percentage of the population who live in households with a consumption per capita less than the poverty line. This measures the incidence of poverty; (ii) The poverty gap index, defined by the mean distance below the poverty line expressed as a proportion of that line (where the mean is formed over the entire population, counting the non-poor as having zero poverty gap). This reflects the depth of poverty, as well as its incidence; (iii) The squared poverty gap index, defined as the mean of the squared proportionate poverty gaps. Unlike the poverty gap index, this measure reflects the severity of poverty, in that it will be sensitive to inequality amongst the poor.11-12 The estimated poverty measures were then collated with a variety of macro-economic and sectoral variables.13

How Much Progress Has India Made in Fighting Poverty Since the 1950s?

Table 1 gives our estimates of the three poverty measures for eight periods formed by aggregating NSS rounds, Figure 1 gives

FIGURE 1: POVERTY IN INDIA 1951-92



the estimates of the headcount index for each survey round. (The pattern of change was very similar for the other two poverty measures) Several points emerge:

The period from the early 1950s up to the mid-1970s was characterised by fluctuations in poverty without a real trend in either direction. The average headcount index was 53 per cent in 1951-55 (marked in Figure 1), about the same as its average value in 1970-74. After that there was a significant decline in poverty incidence (and the depth and severity of poverty fell too), though this was not a continuous decline. It thus took over 20 years for the poverty measures to finally fall below – and stay below – their values in the early 1950s.

Changes in rural poverty closely follow those at the national level, which is not surprising given that a large proportion of India's population lives in rural areas (about 74 per cent even at the end of the period). It is more notable that a similar pattern over time also holds for urban poverty (Figure 1). Common causative factors appear to be at work.

The reduction in poverty since the early 1970s has been sizeable; between 1969-70 and 1992, the national headcount index declined from 56 to 41 per cent. Yet India's progress against poverty has been modest when compared to the standards set by some countries in east Asia. For example, Indonesia's headcount index was 58 per cent in 1970—very close to our estimate for India at that time. But by 1993 (keeping the same real poverty line over time), we estimate that

the headcount index for Indonesia had fallen to 8 per cent, about one fifth of India's headcount index in 1992.<sup>17</sup>

HOW IMPORTANT TO INDIA'S POOR WAS ECONOMIC GROWTH AND CONTRACTION?

We look first at the effect of aggregate economic growth and contraction on poverty. Comparing successive survey

rounds, we regressed the percentage change in each of the three poverty measures on various measures of the rate of aggregate economic growth between the same rounds. Based on the regression coefficients, Table 2 gives our estimates of the percentage change in each poverty measure to be expected from a 10 per cent growth rate for (i) the mean consumption per person as estimated from the NSS; (ii) mean consumption per person estimated from the national accounts and population census; and (iii) mean net domestic product per person, also from the national accounts and census.<sup>18</sup>

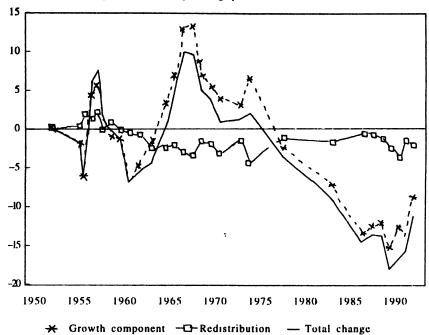
The national poverty measures responded significantly to all three measures of economic growth. For example, a 10 per cent increase in mean consumption resulted in a 12-13 per cent drop in the proportion of people who are poor, representing a 10-11 per cent drop in the number of poor, at India's rate of population growth. The responses are higher if one uses the NSS estimate of mean consumption, rather than the national accounts estimate, though the difference is small for a given poverty measure. The responses are lowest for net domestic product. This may be due to intertemporal consumption smoothing which may make poverty (in terms of consumption) less responsive in the short-term to income growth than to consumption growth.

Notice too that the responses tend to be greater if one uses the poverty gap index rather than the headcount index, and the response is largest for the squared poverty gap, which is sensitive to both the depth and

TABLE 1. POVERTY IN INDIA 1951-1992

| NSS Rounds         | Period    | Rurai | Urban | National |
|--------------------|-----------|-------|-------|----------|
| Headcount index    |           |       |       |          |
| 3.8                | 1951-55   | 54.77 | 42 70 | 52.66    |
| 9-15               | 1956-60   | 53.96 | 47 06 | 52.74    |
| 16-19              | 1961-65   | 48.59 | 45.46 | 48 02    |
| 20-24              | 1966-70   | 60.44 | 50.90 | 58.60    |
| 25, 27, 28         | 1971 - 75 | 55.27 | 46.04 | 53.39    |
| 32, 38             | 1976-83   | 47.96 | 38 08 | 45 68    |
| 42-45              | 1984-90   | 37 94 | 34.99 | 37.20    |
| 46-48              | 1991-92   | 39.44 | 33.24 | 37.84    |
| Poverty gap index  |           |       |       |          |
| 3-8                | 1951-55   | 19.69 | 14.04 | 18.70    |
| 9-15               | 1956-60   | 17.91 | 15.36 | 17 46    |
| 16-19              | 1961-65   | 14.28 | 14.04 | 14 23    |
| 20-24              | 1966-70   | 19.80 | 16.08 | 19.08    |
| 25, 27, 28         | 1971-75   | 17.01 | 13.46 | 16.28    |
| 32, 38             | 1976-83   | 13 84 | 10.60 | 13.09    |
| 42-45              | 1984-90   | 9.26  | 9.11  | 9.22     |
| 46-48              | 1991-92   | 9.47  | 8.58  | 9.24     |
| Squared poverty ga | p index   |       |       |          |
| 3-8                | 1951-55   | 9.42  | 6.20  | 8.86     |
| 9-15               | 1956-60   | 7.94  | 6.69  | 7.72     |
| 16-19              | 1961-65   | 5.73  | 5 85  | 5.76     |
| 20-24              | 1966-70   | 8.67  | 6.76  | 8.30     |
| 25, 27, 28         | 1971-75   | 7.08  | 5.28  | 6.71     |
| 32, 38             | 1976-83   | 5.45  | 4.04  | 5.13     |
| 42-45              | 1984-90   | 3.24  | 3.24  | 3.24     |
| 46-48              | 1991-92   | 3 23  | 3.11  | 3.20     |

Cumulative change since 1951-52 (percentage points)



severity of poverty. This means that the impacts of growth and contraction in India were not confined to those near the poverty line, but reached deeper.

Redistribution played a role in the long run changes in poverty in India. Any change in a poverty measure can be decomposed into a growth component and a redistribution component. PRoughly speaking, the growth component is the change in the poverty measure which would have occurred if inequalities had not changed, while the redistribution component is the change in the poverty measure that one would have found if there had been no change in the mean. By adding each component over time we can assess the cumulative total impact of growth or redistribution. Figure 2 gives the results.<sup>20</sup>

It can be seen that the redistribution component did help over the whole period. Thus, for India, our results reject the old view (still held in some quarters) that distribution must get worse as a low-income country grows. Nonetheless, the overall contribution of redistribution to change in the headcount index has not been large in the long run. The growth in mean consumption has been more important, accounting for about 80 per cent of the cumulative decline by the end of the period.

Redistribution mattered more to the other two poverty measures. For the poverty gap index, the redistribution component accounted for about 40 per cent of the cumulative decline by the end of the period; its contribution was 47 per cent for the squared poverty gap index. Favourable redistribution has thus been quite important for changes in the depth and severity of poverty.

Most of the pro-poor impact of redistribution was realised early on, during the early to mid-1960s, well before the onset of the sustained decline in the national poverty measures. Since the mid-1960s, the redistribution component fluctuated without making a further addition to its total longrun impact on national poverty. (This holds for all three poverty measures.) The gains to the poor since about 1970 have been almost entirely due to growth.

The latter finding might be taken to imply that public efforts at pro-poor redistribution in the 1970s and 1980s failed. However, one should be wary of drawing that conclusion since we do not know the counter-factual of what would have happened without those efforts. Possibly distribution would have got worse.

Turning next to the sectoral composition of growth, we found that the changes in national poverty have been for the most part driven by changes in rural poverty. Figure 3 gives the cumulative (population-share weighted) contributions of both the urban and rural sectors to the national headcount index. The rural sector accounted for more than three-quarters of the total decline in national poverty measures over the whole period.21 Nonetheless - despite the substantial sectoral shifts in national output that have occurred over the last 40 years or so poverty in India is still overwhelmingly rural. In 1992, three-quarters of India's poor lived in rural areas.

We also looked closely at the interlinkage between the sectoral composition of economic growth and the urban-rural composition of poverty, using econometric methods to disentangle the various effects within and across sectors.22 The main conclusion was that the relative effects of growth within each sector, and its spillovereffects to the other sector, reinforced the importance of rural economic growth to national poverty reduction in India. Both the urban and rural poor gained from growth within the rural sector. By contrast, while urban growth reduced urban poverty, it also had adverse distribution effects within urban areas which militated against potentially higher gains to the urban poor. And urban growth had no discernible impact on rural poverty. The process of growth through rural-to-urban migration contributed very little to poverty reduction in India.

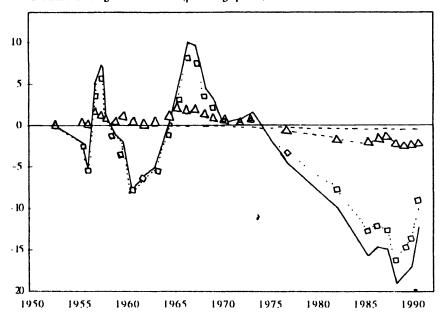
When the growth in national income was broken down by output-based sectors, we found that there were marked sectoral differences in the poverty impacts. Both primary (mainly agriculture) and tertiary (trade, services, transportetal) sector growth reduced poverty nationally, and they also did so within both urban and rural areas. By contrast, secondary (mainly manufacturing) sector growth brought no discernible gains to the poor in either sector. In the historical shift from primary to secondary and tertiary sectors it was the latter sector which delivered the bulk of the gains to India's poor.

TABLE 2: How RESPONSIVE WERF NATIONAL POVERTY MEASURES TO ECONOMIC GROWTH IN INDIA?

|                           | Percentage Change in the Poverty Measure Attributable to a 10 Per Cent Increase in |                                                 |                                 |  |  |  |
|---------------------------|------------------------------------------------------------------------------------|-------------------------------------------------|---------------------------------|--|--|--|
|                           | Mean Consumption<br>from National<br>Sample Surveys                                | Mean Private Consumption from National Accounts | Mean Net<br>Domestic<br>Product |  |  |  |
| Headcount index           | -13.3                                                                              | -12.1                                           | _9,9                            |  |  |  |
| Poverty gap index         | -18.8                                                                              | -17 9                                           | 14.9                            |  |  |  |
| Squared poverty gap index | -22.6                                                                              | - 21 8                                          | -18 5                           |  |  |  |

FIGURE 3: URBAN-RURAL COMPOSITION OF CHANGE IN THE HEADCOUNT INDEX (Cumulative Changes in the Urban and Rural Components and Population Shift Effects)

Cumulative change since 1951-52 (percentage points)



-D- Rural component -- Urban component -- Population shift -- Total change

The relative lack of an impact of secondary sector growth on poverty reflects the type of development strategy India pursued since the second plan in the late 1950s, which emphasised capital-intensive industrialisation within a largely closed-economy regime. It is not surprising that such industrialisation brought negligible direct gains to the nation's poor, who depend heavily on the demand for relatively unskilled labour.<sup>24</sup>

## DID THE RURAL POOR BENEFIT FROM AGRICULTURAL GROWTH?

Since rural poverty has been so important, we turned our attention to this sector. Here we examined how much India's rural poor benefited from agricultural growth, what role the labour market played, whether the impacts were distributionally biased one way or another, and how important macroeconomic stability was to the rural poor.

We collated the household survey data with data on agricultural wages, prices and output, and estimated a dynamic econometric model jointly determining rural poverty measures and real wages.<sup>24</sup> The model had a triangular structure in which the rural poverty measure was hypothesised to be a function of both the real agricultural wage rate and the average farm yield per unit area (as well as other variables), and the real wage rate was also a function of the farm yield and other variables.

The results indicated that all three poverty measures responded significantly in the short run to changes in agricultural wages as well as to average farm yields. And wages also responded significantly to farm yields, presumably through effects on labour demand, such as due to multiple cropping. Higher yields thus helped reduce absolute poverty through induced wage effects, as well as the more direct channels, including effects on both employment and own-tarm productivity.

Neither the poverty measures nor real wage rates adjusted instantaneously to changes in farm yields. The combined effect of this stickiness in both variables was that the short-run gains to poor people of agricultural productivity growth were far lower thar the long-run impacts. Also, the short-run effects on rural poverty operating via the real wage rate were minor compared to the direct effects of higher own-farm yields. But in the long run, the wage effects did matter, accounting for about one-third of the long run response of absolute poverty (for all three measures) to a yield increase. The process through which India's rural poor participated in the gains from agricultural growth did take time, though about half of the long-run impact occurred within three years of an initial gain in farm yield.

#### DID INFLATION MATTER?

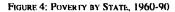
We found evidence of an adverse shortrun impact of inflation on real agricultural wages and (hence) absolute poverty in rural areas. The effect of inflation was to reduce real wages in the short term, because nominal agricultural wages responded sluggishly to inflation. Nominal wages catch up eventually. But we found that the adverse short-term impact on the rural poor was sizeable. For example, we estimate that a once-and-for-all 20 per cent increase in the price level would result in a drop of 13 per cent in the current year's real wage rate in agriculture, and an increase of 5 per cent in the rural headcount index. The impacts on the other poverty measures would be even higher; the squared poverty gap would rise by 9 per cent.

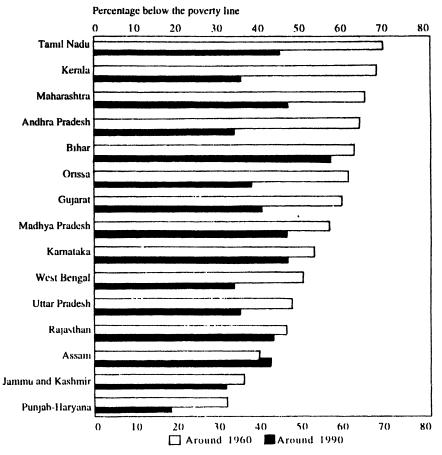
## DID SOME STATES PERFORM BETTER THAN OTHERS IN REDUCING RURAL POVERTY?

The regional disparities in levels of living in India have been large. For instance, the proportion of the rural population of the state of Bihar living in poverty in 1990-91 was about 58 per cent, more than three times higher than the proportion (18 per cent) in the (combined) states of Punjab and Haryana. Some of these differences appear to have persisted historically, though there were also differential trends across regions. Looking back over time, the more striking - though often ignored - feature of the Indian experience has been the markedly different rates of progress between states; indeed the ranking of states around 1990 looks quite different to that 30 years earlier, as can be seen in Figure 4 which compares headcount indices around 1960 with those around 1990 (The picture looks very similar for the other two poverty measures.25) For example, the southern state of Kerala moved from having the second highest rural poverty rate around 1960 to having the fifth lowest around 1990."

Regressing the log of each poverty measure against time, there was a trend decrease (significant at the 5 per cent level or better) in all three measures in 9 of the 15 states, viz, Andhra Pradesh, Gujarat, Kerala, Maharashtra, Orissa, Punjab and Haryana, Tamil Nadu, Uttar Pradesh and West Bengal. The trend was not significantly different from zero at the 5 per cent level in the other six states of Assam, Bihar, Jammu and Kashmir, Karnataka, Madhya Pradesh, and Rajasthan; there was not a significant positive trend for any state for any poverty measure. There is a tendency for the absolute size of the trend to be higher for the poverty gap than the headcount index, and it was highest for the squared poverty gap.

In terms of progress in both raising average household consumption and reducing rural poverty, the state of Kerala turns out to be the best performer over this period. The second, third and fourth highest trend rates of consumption growth were Andhra Pradesh, Tamil Nadu, and Maharashtra respectively. In terms of the rates of poverty reduction, the second, third and fourth states were Andhra Pradesh, Punjab and Haryana, and Gujarat; the ranking is invariant to the





Averages for first three survey rounds and last three

choice of poverty measure though differences in their rates of poverty reduction are not large. The worst performer was Assam by all measures. The other poor performers were Bihar, Jammu and Kashinir, Karnataka, Madhya Pradesh and Rajasthan; the exact ranking varies by the measure used.

The states which had the highest trend rates of growth in mean consumption tended to have the highest trend rates of poverty reduction, and the correlation is very strong (the correlation co-efficient between the trend rate of reduction in the headcount index and the trend rate of consumption growth is 0.85, the correlation is about the same for the other two poverty measures). Both these variables may well have been influenced by similar factors. Next we look at what those factors might be.

WHAT ACCOUNTS FOR THE DIFFERING RAILS OF PROGRESS IN REDUCING POVERTY?

Every state has its own story with a mixture of both successes and failures at public action against poverty in different periods. <sup>27</sup> There were differences between states in the impacts of (ostensibly similar) interventions, as well as differences between states in the package of interventions pursued; and in both respects experiences in a given state changed over

time. We cannot hope to capture all this variance in experience – for one thing we would quickly run out of degrees of freedom. Here our aim is solely to look for any empirical regularities that can account for at least a reasonable share of that variance.

The inter-state differences in progress at fighting poverty allowed the project to study the impact on the trend rate of poverty reduction of a range of variables, including regional differences in human and physical resource development. A pooled model was estimated, giving 310 observations (15 states over 21 NSS rounds, though with some missing observations, or inadequate sample sizes). A model was estimated for each poverty measure, with both time varying and static explanatory variables. The key explanatory variables were current and lagged real agricultural output per hectare. current plus lagged real non-agricultural output per capita, the rate of inflation, lagged real state development spending per capita, and the state's initial (around 1960) irrigation rate, infant mortality rate, and female literacy rate; the latter three variables were allowed to influence the rate of change in the poverty measures (thus entering the model interacted with time).38 The estimated models could account for about 90 per cent of the variance over time and across states in the poverty measures.<sup>29</sup>

The results indicate that higher growth rates in agricultural yields and real non-agricultural output per capita, lower rates of inflation and higher growth in state development expenditure all led to higher rates of progress in both raising average consumption and reducing all three measures of absolute poverty.

The results also suggest that inter-state differences in initial conditions of human and physical resource development played an important role; higher initial irrigation intensity, higher literacy rates and lower initial infant mortality rates all contributed to higher rates of consumption growth and poverty reduction. Initial inequalities in access to physical and human infrastructure appear to have been an important factor in longer-term rates of poverty reduction. 40 Consider Bihar, one of the worst performers in poverty reduction (Figure 4). The poor in Bihar suffered from the state's slow growth in agricultural yields. But the state's poor initial conditions were also an important factor. The incidence of poverty in Bihar declined at a trend rate of only 0.1 per cent per year. We estimate that this would have risen to 1.2 per cent if Bihar had started off with Kerala's level of human resource development in the 1960s.

By and large, the same variables determining growth in average consumption mattered to rates of progress in reducing poverty. Most of the effects on absolute poverty were transmitted through growth in average consumption rather than redistribution, though none of the factors which reduced absolute poverty had adverse effects on distribution. Thus, there was no sign of a trade-off between growth and propoor distributional outcomes.

#### LESSONS FOR THE PUTURE

Our investigation suggests that economywide variables do matter to India's poor, they have generally gained from economic growth, and lost from contraction, they have also been furt by inflation. The net gains to the poor since the early 1970s can be attributed in large part to economic growth—distribution changed little from the point of view of the poor, though it appears to have been more important in the 1950s and 1960s, when there was rather less growth

The experience of the past 40 years offers support for the view that a stable macropolicy environment, combined with micropolicy reforms conducive to economic growth, can help greatly in reducing absolute poverty in India. However, our results also reveal important nuances concerning the pattern of growth, and the importance of other contingent factors, including human and physical infrastructure.

Our results point clearly to the quantitative importance of the sectoral composition of economic growth to poverty reduction in India. Fostering the conditions for growth in the rural economy – both primary and tertiary sectors – must be considered central to an effective strategy for poverty reduction in India. At the same time, the relative failure of India's past industrialisation strategy from the perspective of the poor points to the importance of successful transition to a strategy capable of absorbing more labour, particularly from rural areas.

But our results also point to the longerterm importance of investing in human and physical infrastructure as a complement to pro-growth reforms in India. Controlling for growth in farm and non-farm sectors, we find significant effects on trends in absolute poverty reduction of the differences between states in initial conditions related to infrastructure.

A final lesson concerns the importance of being able to credibly assess an economy's performance in reducing poverty. Though less than ideal in some respects, the data base available for poverty analysis in India is good by international standards. Many other countries have had far fewer objective socioeconomic surveys on which poverty monitoring can be based, or their surveys have been severely wanting in terms of coverage (lacking, for example, a sound consumption module) or comparability over time. The very fact that for India we can obtain the data needed to address the questions posed above carries an important message for other countries today, and India in the future.

#### Notes

[For their comments we are grateful to Jyotsna Jalan, Peter Lanjouw, Dominique van de Walle, Quentin Wodon, and the *EPW*'s referee. This paper summarises results of a research project, 'Poverty in India, 1951-92', supported by the World Bank's Research Committee, under RPO 677-82. However, these are the views of the authors, and should not be attributed to the World Bank, or any affiliated organisation.]

- 1 See Ravallion and Chen (1996) for aggregate poverty measures for the developing world over the period 1987-93. They estimate that the percentage of the population consuming less than \$1/day at 1985 international prices (with currency conversions at purchasing power parity) decreased only slightly over this period, from 30.7 per cent in 1987 to 29.4 per cent in 1993 implying that the numbers of people living under \$1/day rose from 1/23 billion to 1 32 billion over this period (\$1/day is about equal to India's urban poverty line ) The gains to the poor in east and (less so) south Asia were roughly counter-balanced by the losses in other regions, notably Sub-Saharan Africa, Latin America and Eastern Europe and Central Asia
- 2 Contrast, for example, Ahluwalia's (1978:320) conclusion that "there is evidence of some

trickle down associated with agricultural growth" with Saith's (1981:205) claim that "there can be little doubt that current growth processs have served as generators of poverty"; both were using data for India over roughly the same period (1957-73). The debate continues; in recent literature on India one can find claims that "rapid agricultural growth has benefited all classes of the poor" [Singh 1990] and "acceleration in agricultural growth by itself is unlikely to make a dent in rural poverty" [Gaiha 1995;285].

- 3 For an overview of the theory and evidence on the effects of adjustment on the poor see Lipton and Ravallion (1995, section 5.3). In the Indian setting, see Ravallion and Subbarao (1992).
- 4 See Datt (1996), Ozler et al (1996), Ravallion and Datt (1995, 1996), and Datt and Ravallion (1996) Later we identify which paper is most relevant to each topic covered here
- 5 A number of the popular methods of making poverty comparisons over time and space do not satisfy this consistency requirement, see Ravallion (1994) for further discussion
- 6 For further discussion of this point see Sen (1987), in the context of India also see Dreze and Sen (1995)
- 7 See Planning Commission (1993)
- 8 We compared this difference in the poverty lines to independent estimates of the urbantural cost of living differential. For 1973-74, Bhattacharya et al (1980) estimated that the cost-of-living for the poor was 16 per cent higher in urban areas, exactly the same (to the nearest integer) as the differential in poverty lines. So it can be en argued that the planning commission's urban and rural poverty lines represent the same standard of living, and (hence) that we are making consistent comparisons of absolute poverty between urban and rural areas. For further discussion see Ravallion and Datt (1996)
- 9 For the urban sector after August 1968, the all-India consumer price index for industrial workers (CPHW) is used as the deflator. For the earlier period, the Labour Bureau's consumer price index for the working class is used, which is an earlier incarnation of the CPHW albeit with a smaller coverage of urban centies (27 against 50) The rural cost of living index series was constructed in three parts. For the period since September 1964, the rural cost of living index is the all-India consumer price index for agricultural labourers (CPIAL) published by the Labour Bureau. For the period September 1956 to August 1964 (for which an all-India CPIAL does not exist), a monthly series of the all-India CPIAL was constructed as a weighted average of the state-level CPIALs, using the same statelevel weights as those used in the all-India CPIAL published since September 1964 For the initial period August 1951 to August 1956, forecasts were obtained from a dynamic model of the CPIAL as a function of the CPHW and the wholesale price index. Our new CPIAL series also dealt with another problem which has to do with the fact that the Labour Bureau has used the same price of firewood in its published series since 1960-61 Firewood is typically a common property resource for agricultural labourers, but it is also a market good, and so the Labour Bureau's practice is questionable. Our CPIAL series

- corrects this by replacing the firewood subseries in the CPIAL by one based on mean rural firewood prices (only available from 1970) and a series derived by assuming that firewood prices increased at the same rate aall other items in the fuel and light category (prior to 1970). For details see Datt (1996)
- 10 These are fixed weight price indices. Thus, they ignore substitution in response to shifts in relative prices. To test sensitivity to this Ravallion and Subramanian (1996) compare poverty measures for India with and without an allowance for substitution effects consistent with demand behaviour, as modelled by a set of full rank Gorinan Engel curves. Ignoring substitution matters far more for some measures and applications than others. It leads to overestimation of inequality, but level effects on poverty measures are generally small and turning point errors are rare.
- 1 These are members of a class of measures proposed by Foster, Greer and Thorbecke (1984). A transfer of income from a poor person to a poorer person (for example) will not alter either the head-count index or the poverty gap index, but it will decrease the squared poverty gap index. Furthermore, the squared poverty gap index satisfies the subgroup consistency' property, namely that if poverty increases in any subgroup (say the urban sector), and it does not decrease elsewhere then aggregate poverty must also increase [Foster and Shorrocks 1991].
- The poverty measures are calculated using parameterised Lorenz curves. We use either the beta Lorenz curve of Kakwani (1980) or the general quadratic model of the Lorenz curve of Villasenor and Ainold (1989), depending on which fits the data best (both satisfied the theoretical conditions needed for a valid Lorenz curve in all survey rounds for both sectors) Using the formulae derived in Datt and Ravallion (1992), the poverty measures are calculated from the estimated parameters of the Lorenz curve and the mean per capita consumption expenditure. A number of checks are made on the results, including both the theoretical conditions for a valid Lorenz curve, and consistency checks, such as that the estimated value of the head-count index must be within the relevant class interval of the published distribution. The estimation technique has been set-up in a user-friendly computer programme 'POVCAL' [Chen, Datt and Ravallion 1991] which is available or request, so interested readers can read!! y check our calculations and their sensitivity to our
- 13 A complete descriptions of the data set and all sources can be found in Ozler, Datt and Ravallion (1996) with an accompanying se of diskettes.
- 14 The first subperiod is marked by three significant peaks in poverty around the years 1953-55 (rounds 7,8), 1956-58 (rounds 11 12, 13), and 1966-68 (rounds 21, 22), the las of these coinciding with the worst drough in the post-independence period.
- 15 Based on poverty measures averaged ove NSS rounds, weighted by the duration of the survey.
- 16 The absence of fluctuations in poverty ove the period 1975-85 may be somewhat illusor, as we have only two NSS surveys in the intervening period, viz, those for 1977-78 and

- 1983. In particular, we do not have poverty estimates for the two drought years 1979 and 1982.
- 17 The Indonesia estimates are from the nationalsocio-economic surveys (SUSENAS) done by Indonesia's central bureau of statistics. The 1970 number is from World Bank (1990, Table 3.2), the 1993 number is our estimate from the 1993 SUSENAS using the same real poverty line. The consumer price index was used to convert to constant prices.
- 18 The estimates in Table 2 are based on regression of the percentage change in the poverty measures against the percentage change in consumption or net product per person using 33 household surveys spanning 1951-1991 for the surveys-based mean consumption, and 23 surveys spanning 1958-91 for consumption or income from the national accounts. All regression coefficients were statistically significant at the 1 per cent level or better, and all regression comfortably passed all the standard specifications tests. For full details see Ravallion and Datt (1996).
- 19 Using the methodology outlined in Datt and Ravallion (1992).
- 20 The observed poverty measures are subject to large fluctuations from one NSS round to another; this is particularly true of some of the shorter initial NSS rounds The cumulative series can thus be somewhat misleading for arbitrary choice of the starting point. To deal with this problem, we selected NSS round 6 (May-September 1953) as the reference date for the first decomposition; the poverty measures for this round reasonably approximate the average poverty measures for 1951-55 (weighted average for rounds 3-8, with weights proportional to the number of months in the survey period of each round). The graphs of the decompositions for NSS round 9 onwards in Figures 2 and 3 can thus be interpreted as referring to the cumulative change in poverty (and its components) since the mid-1950s
- 21 Sec Datt (1996) for details.
- 22 See Ravallion and Datt (1996) for details on the methods used.
- 23 This has long been recognised in discussions of poverty in India, and the Second Plan was criticised for this reason at the time (see, for example, Vakil and Brahmanand's (1956) comments on the Second Plan) For a recent discussion in the Indian context see Dev et al (1992). Recent affirmations of the importance of labour-demanding growth to poverty reduction in developing countries include World Bank (1990), Eswaran and Kotwal (1994) and Lipton and Ravallion (1995)
- 24 For details on methodology see Ravallion and Datt (1995). On the link between real wages in agriculture and rural poverty measures for India also see van de Walle (1985).
- 25 See Datt and Ravallion (1996) for more detail.
- 26 Some of national samples, particularly in the 1950s, were too small to allow reliable estimation at the state level, so this part of the analysis focused on the period from about 1960 onwards.
- 27 For discussion of the range of experiences in direct interventions for poverty reduction see Kakwani and Subbarao (1993), Dreze and Sen (1995), and Vyas and Bhargava (1995)

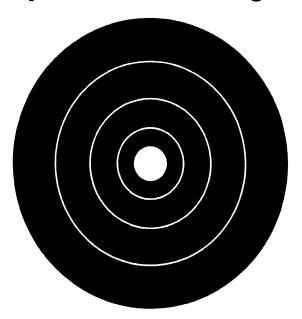
- and other papers in the October 14-21, 1995 issue of the Economic and Political Weekly. Progress does not appear to have been even within states either, though our data do not allow us to disaggregate further. For evidence on changes between 1972-73 and 1987-88 at the level of the NSS regions see Dreze and Srinivasan (1996).
- 28 The estimated model also included a correction for serial correlation in the residuals (allowing for the uneven spacing of the NSS rounds, requiring non-linear estimation methods); see Datt and Ravallion (1996) for details.
- 29 For full details on the estimated models and various specification tests see Datt and Ravallion (1996).
- 30 Kerala stands out as an unusual case in India, given its high level of human resource development, including at the beginning of the period under study. [For further discussion of Kerala's achievements in this respect see Dreze and Sen 1995] However, even if we drop Kerala from the regressions, the initial conditions in human resource development (and indeed all other variables in our model) remain significant [Datt and Ravallion 1996]. Their effect is not just due to Kerala.

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# **Poverty Estimates and Indicators**

### **Importance of Data Base**

#### M H Suryanarayana

This paper emphasises the importance of the data base in any discussion of poverty and identifies the major data gaps for policy studies. Beginning with the identification of the poor based on a measure of standard of living and a minimum norm and going up to the final stage of policy prescription, an awareness of the data base and the constraints it imposes on interpretations is crucial. Conventional approaches to poverty identification and measurement presuppose a stationary economy. But in an economy subject to changes in institutional parameters involving increasing commercialisation of product markets and growing casualisation of labour markets, as in India in recent years, the conventional approach can yield misleading results and policy prescriptions.

#### I Introduction

IDENTIFICATION of the poor and estimating the magnitude of poverty has received considerable attention during the reform programme for stabilisation and structural adjustment in different countries all over the world. Identification of the poor is important for effective targeting of various poverty alleviation programmes and safety nets so as to ensure their budgetary cost effectiveness in minimising the social cost of the reform programme. The magnitude of poverty has to be estimated for assessing the budgetary implications of the various safety net programmes and for evaluations of these programmes. As part of its efforts to minimise the social costs of the reform programme and the associated budgetary costs, the Indian government is also seized of the problem of identifying the poor, the magnitude of poverty and their cost-effective solutions. Ever since the reform programme began in July 1991, there has been considerable debate on efficient targeting of the various poverty alleviation programmes and safety nets, the public distribution system in particular.

As for any empirical policy study, effective solutions for the issues raised above presuppose an efficient information set. The information requirement varies with the questions raised and the proposed objectives of policies. If the questions are who are the poor, what is the magnitude of poverty and if the objective is to examine the welfare levels and consequences of policy changes, then a measure of economic (material) welfare or standard of living would be the relevant variable. If the question is what makes the people poor and the purpose is to formulate efficient policies for poverty alleviation then causes and correlates of poverty assume relevance. In either case, identifying the poor assumes a lot of importance.

Poverty is generally defined as the inability to secure a minimal level of economic

welfare This raises the questions: How to measure economic welfare? What constitutes a minimal norm or poverty criterion? The answers for these questions depend, in turn, upon the scope for policy action as dictated by government's resource constraint, social consciousness and academic perception of the problem. This is because economic welfare may be measured in terms of different variables: per capita income, per capita consumer expenditure, per capita food consumption, Engel ratio, calorie intake, anthropometric measures or basic needs. Poverty groups identified, estimates of their magnitude and policy measures designed will vary depending upon the economic welfare measure chosen for defining poverty. All through the post-independence period the focus of academic research as well as government policy reports in India has been on absolute poverty or the proportion of the poor population. Absolute poverty is estimated on the basis of private consumer expenditure with reference to a poverty line defined on a normative calorie intake basis. Even when we address such a narrow set of questions, the scope for misinterpretation of statistical measures by disregarding data considerations is considerable and hence, the question of data base is quite important.2 The most widely used data base for poverty studies in India is the household consumer expenditure data collected by the National Sample Survey Organisation (NSSO). Conceptually, consumer expenditure as a measure of standard of living has the advantage that it is amenable to welfare interpretations subject, of course, to the limitation that it does not consider the welfare derived from leisure and pure public goods. In a predominantly monsoon dependent agricultural economy like India where agriculture constitutes the source of livelihood of about two-thirds of the population, consumer expenditure measure has an additional advantage that it may not reflect the periodic variations in income. But, when it comes to empirical verifications it bristles with many problems. Empirically, conclusions from comparison of real consumer expenditure levels would vary depending upon how different items of consumption are valued. In a country where income distribution is not optimal, market price is not a proper welfare measure. In addition, as regards the NSS data base, there are a number of statistical questions regarding its reliability. There are other issues like sample data presentation, tabulation and institutional parameters which have been ignored in the poverty studies resulting in misleading inferences.

Even though the government has been carrying out poverty alleviation programmes, much remains to be done on the povertyidentification and measurement fronts for policy operational purposes. This is so in spite of the policy emphasis on costeffectiveness of the poverty alleviation programmes.1 Cost-effectiveness can be achieved either by maximising benefits to the poor for a given budgetary cost or by minimising the cost subject to a poverty alleviation target. One approach to achieve cost-effectiveness is by 'better targeting' of programmes, i.e. by maximising the coverage of the poor and minimising the leakages of benefits to the non-poor. How do we pursue such goals and formulate different policy actions? Different country experiences including that of India have shown that identifying the poor for purposes of targeting by 'means-test' is administratively costly. This is because people have an incentive to under-report incomes so as to secure more benefits than they are eligible for.4 If so, targeting is desirable so long as the administrative cost of identifying the poor does not exceed the saving involved in excluding the non-poor. This problem is sought to be overcome by 'indicator targeting', i.e. by making eligibility for benefits conditional on correlates of poverty, such as land holding, caste, or place of residence. In that case, we need to ask, what are the appropriate indicators or correlates of poverty and their implications? What are the data requirements in such a context?

This paper addresses some of these questions pertaining to the two themes of poverty estimates and targeting of programmes. The paper is organised as follows. Section 2 deals with the first set of issues on data base for estimating the magnitude of poverty in India, i.e., consumer expenditure data collected by the NSSO, its limitations, scope for wrong inferences and the need for an integrated approach. Section 3 deals with the shift in emphasis towards targeted welfare programmes for the poor and their implications for methodology and data base. The final section sums up the paper.

# II Data Base for Poverty Estimates

Poverty analysis in India is generally carried out using private household consumer expenditure as a measure of standard of living.6 Income/consumer expenditures are sufficient measures so long as they include own production. Even then they capture only certain economic aspects of welfare. They do not take into account other dimensions of welfare like health, life expectancy, literacy, access to safe drinking water, public goods or common property resources. In fact, these other dimensions are important since they do not remain the same over time in the course of economic development. Poverty, defined and estimated using a narrow concept of standard of living, has its own limitations in the context of a developing economy.

Much has been written about the adequacies and inadequacies of the NSS methodology and their implications for estimates of consumption aggregates and distributions [Dandekar and Rath 1971; Dandekar and Venkataramaiah 1975; Iyengar and Bhattacharya 1975; Kadekodi 1992; Minhas 1988; Mukherjee 1986; Srinivasan and Bardhan 1974; Suryanarayana and lyengar 1986; Tyagi 1982; Vaidyanathan 1986a, 1988]. Most of these studies examine the question of reliability of the NSS estimates of the underlying population parameters by different statistical criteria. This section of the paper examines the implications of some of the features of the NSS estimates of consumer expenditure for poverty estimates and their interpretation in the course of development.

The NSS is a socio-economic enquiry carried out in the form of successive rounds. The period of enquiry has been varying across rounds and has varied from a few weeks to months. During these rounds, the NSS collects information on various socio-economic aspects of households, household consumption being one of the most important. The data are collected on the basis of

interviews of households. The households are selected following simple random sampling. The sample design is stratified and two-stage in both rural and urban sectors. The stratification of rural areas is with respect to homogeneity of population density, cropping pattern, etc, while that of urban areas is with respect to population sizes of towns and cities. The first stage units are villages in the rural sector and urban blocks in the urban sector. The households constitute the second stage units in both the sectors.

The NSS concept of consumer expenditure includes all the non-productive expenditure incurred by the households. It includes consumption out of home-grown produce, gifts, loans, etc. Data on perquisites like food in the employer's house are not included in the NSS estimates of consumption of the employee households. This must have resulted in underestimation of foodgrain consumption by the employee households who in the rural sector are generally poor landless households. In-kind wage payments, including prepared food at the employer's home, used to be quite common during the 1950s and 1960s. The consequent underestimation of foodgrain consumption by the labour households must have resulted in overestimation of poverty, particularly distributionally sensitive measures like the Sen index [Sen 1976] and the P measure [Foster-Greer-Thorbecke 1984]. According to the second agricultural labour enquiry of 1956-57, agricultural labourers received wage payments in kind for about 50 per cent of the mandays worked.8 As studies [see, for instance, Vaidyanathan 1986b] have shown, there has been increasing landlessness and casualisation of labour since the mid-1970s. which must have resulted in increasing market dependence of the poor. Such progressive market dependence of the landless poor must have involved increasing monetisation of the labour market and hence, also that of their consumption. As a result, the extent of underestimation of foodgrain consumption by the poorer households and hence, overestimation of poverty must have declined. This is one factor that has to be taken into account in interpreting the observed declining trends in poverty estimates since the mid-1970s.

The NSS does not take into account the imputed rental value of owner occupied houses. This would affect estimates of consumer expenditure inequality measures and hence any estimation of poverty based on the inequality parameter. The consumer expenditure data are collected by the NSS using a moving reference period by which the interviewing of sample households is spread over the year. This introduces a seasonality bias into the data. Its implications have been well documented in the literature. What is little recognised is that such a

procedure also superimposes price variation on actual variation in consumption during a period of rising prices. This will affect estimates of poverty and inequality based on consumer expenditure distribution. This must have been a serious problem for estimates of poverty and inequality for the 1960s and 1970s when there was considerable interyear price dispersion caused by restrictions on inter-state foodgrain movements [Ray 1970]. This is one aspect which has not been taken into account in the studies on trickle down of agricultural growth in rural India [Suryanarayana 1996b].

The NSS surveys are generally based on the consumer expenditure schedules. The NSS surveys were integrated household surveys during the 19th to 25th rounds inclusive. That the NSS used integrated schedule only for some select rounds has affected adversely the inter-temporal comparability of its estimates of consumer expenditure and hence poverty estimates. Available evidence indicates that people under-reported their consumption during the rounds covering the integrated household surveys [Mukherjee and Saha 1981; Suryanarayana 1996b]. Accordingly, the NSS estimates of consumer expenditure for these years are substantially lower than the National Accounts Statistics (NAS) estimates. This could be one reason why NSS based poverty estimates show substantially higher levels of poverty during the 1960s. Thus, such questions on intertemporal comparability of data base affect inferences on trends in poverty.

The data base also gets affected by the method of valuation. Poverty estimates based on such data using conventional statistical deflators may be valid in a given stationary context but loses its meaning and relevance when the context itself undergoes a change. For instance, the NSS distinguishes between consumption from homegrown stock and that from market purchases, and values the former at farm harvest prices and the latter at market retail prices. In a semi-monetised economy where a substantial segment of the rural population consists of subsistence farmers, this approach may be valid. For instance, consumption out of home grown stock accounted for 50.9 per cent of total food grains consumption in the rural areas and 7.15 per cent in the urban areas during 1964-65 [GOI 1972:4]. In the development context, as observed in recent years in India, institutions, labour markets, and production conditions change. As already noted, with progressive market dependence of the poor there must have been increasing monetisation of consumption. By the NSS method of valuation, the same amount of physical consumption would get exaggerated in nominal terms due to changing price weights, whereby an increasingly larger part of consumption is valued at (generally) higher retail prices. On the other hand, with the green revolution, there have been changes in the crop composition of foodgrain output from the cheaper inferior cereals to superior but costlier superior cereals like rice and wheat involving a decline in per capita availability of coarse cereals necessitating a shift in consumption patterns in favour of the latter. In such a context, inferences on trends in measures of poverty based on estimates of consumer expenditure obtained by dual valuation can be misleading [see, for details, Suryanarayana 1995].

Such questions are fundamental for any empirical study on poverty during the development process. Few studies have addressed these questions or cared to relate them to their main query. Both are needed because a poverty measure, like any other descriptive statistical measure, is a conditional measure, i e, conditional on the prevailing structural features like market, production and other institutional parameters. Unless one considers these conditional parameters, one is likely to end up making wrong inferences. The following is an example. The very concept of poverty line and its updating by simple price ratios does not make sense since with changes in structural parameters the base year poverty line is not valid any longer. Similarly, various poverty measures which are supposed to aggregate and summarise characteristics of the poor will not convey the dynamics of underlying changes. For instance, Ahluwalia (1978) does not examine these institutional parameters; instead Ahluwalia regresses poverty estimates on agricultural production and confirms trickling down of growth to the poor. But actually due to structural changes in production conditions and labour markets, cereal consumption of the general population and some poorer sections has actually declined contrary to what one would expect during a period of poverty reduction [Suryanarayana 1995]. A similar limitation applies to the recent debate on economic reform and increase in poverty. Studies, using poverty measures, have not examined how far these measures summarise the dynamics underlying the explanation put forward by them. For instance, Tendulkar and Jain (1995) make estimates of poverty for 1990-91 and 1992 They find that between 1990-91 and 1992, there was a substantial increase in rural but only a marginal increase in urban poverty. They contrast these rural and urban changes and attribute the increase in rural poverty to bad harvest. This is because economic reform measures in the initial years involved fiscal contraction and import compression which must have adversely affected the urban sector first. Hence, urban poverty should have increased more sharply than the rural. That this did not happen was,

according to them, due to the decline in agricultural production particularly coarse cereals along with speculative hoarding by traders and farmers which resulted in an increase in cereal prices, reducing thereby the economic entitlement of only the rural poor. The urban poor did not suffer to the same extent because they were relatively better protected by the urban-biased public distribution system (PDS). Thus, Tendulkar and Jain conclude that economic reforms contributed indirectly and was not a major cause of increase in rural poverty. They arrive at these conclusions without examining how far the data or the summary measure reflects the postulated economic processes. They build up poverty estimates and their explanations from diverse non-comparable data sources. As shown in Suryanarayana (1996a), the price indices used in obtaining rural-urban poverty estimates are outdated and non-comparable. Further, the NSS data itself shows that percentage reduction in cereal consumption was more in the urban than in the rural areas in majority of the states and particularly in the most urbanised states of Maharashtra, Gujarat and West Bengal. Thus, the statistical details underlying the summary statistics do not provide any support for the explanation put forward by Tendulkar and Jain. Instead, they support the contrary, by their own reasoning. These two illustrations show the importance of data base and its verification in any discussion on poverty analysis, explanation and their policy implications.

There is another limitation stemming from the fact that poverty estimates based on consumption data are conditional measures, namely, these consumption estimates do not take into account the access to common property resources10 and their importance for the poor. For instance, as Jodha (1990) shows, in dry regions of India in 1982, about 84 to 100 per cent of the poor population depended on common property resources for fuel, fodder and food. Over time, there has been a decline in area, productivity and maintenance of these common property resources due to large-scale privatisation, inappropriate policies and programmes for productivity improvements, increased commercialisation resulting in overexploitation and resource degradation, etc. This has resulted in reduced reliance of the poor on common property resources and hence, increased cost of achieving the basic minimum level of living. Therefore, the current approach of updating the poverty line by adjusting for only price changes may not be valid; instead the very poverty line may have to be redefined before obtaining the conditional poverty measures. Accordingly solutions for poverty eradication may differ and get varying emphasis.

Further, the NSS estimates of consumer expenditure would serve the purpose so long as the questions to be addressed are limited and confined to a poor economy subject to serious budget constraint which restricts the policy options and size. In such a context, calorie based 'minimal' poverty line reflects an approach to poverty alleviation which is concerned with eradication of mass hunger and starvation. Accordingly, the studies in India have all along considered a calorie based poverty norm and confined themselves to measuring absolute poverty. This explains why factors other than hunger got low priority in policy formulations, and plan achievements with respect to primary education, primary health, etc., have remained quite modest. Therefore, it is time that we defined a poverty line with adequate provision for education, nutrition, health, housing, etc. This would call for data on various socioeconomic aspects of rural households.

But, even access to public services and common property resources vary across households. No single survey data gives information on all these aspects. This would raise questions regarding comparability and integrability of the data sets on various aspects. For instance, the NSS estimates of household size based on the survey of social consumption is quite different from that based on the consumer expenditure survey for 1986-87. The average household size is 5.26 in rural all-India and 4.79 in urban all-India as per the NSS annual consumer expenditure survey but 5.20 and 4.90 respectively as per the NSS social consumption survey [GOI 1989 and 1990]. Therefore, even though there are various NSS surveys of different socio-economic aspects of households, there are questions regarding the extent to which such data can be combined to throw up a complete and integrated picture of poverty.

Policies for a sustained solution for poverty can be formulated only with an adequate understanding of the nature and causes of poverty. This calls for a distinction between chronic and transient aspects of poverty Such aspects can be examined only with panel data. Of course, it will raise questions as to how far the results based on such panel data can be generalised for the population Their value is essentially from their policy implications and suggestions. One approach to overcome such constraints could be to examine qualitative aspects of economic life. Jodha (1988) shows that there is a need for supplementing macro investigations with micro studies. Of course, often they end up with contradicting conclusions. Jodha explains such contradictions in terms of methodological deficiencies of the micro approaches. Such deficiencies are due to (i) restrictive concepts and categories used for identifying rural realities; (ii) restrictive

norms and yardsticks used for assessment of rural realities; and (iii) communication gaps between the researcher and the respondent. Jodha (1988) illustrates the need for supplementing researcher's approach by the respondent's approach, citing results on incidence of poverty in two villages of Rajasthan during 1963-66 and 1982-84. Poverty identification was done by the conventional approach using the income criterion and by qualitative indicators of economic well-being. Households that had become poorer by the income criterion were actually better off by the qualitative measures of economic well-being. The villagers measured the changes in their economic status in terms of the following criteria: (i) decline in their reliance on the traditional patrons, landlords, and resourceful people for sustenance, employment, and income; (ii)decline in dependence on low pay-off jobs; (iii) improved mobility and liquidity position; (iv) shifts in consumption patterns and investment in durables. The changes reflected by these qualitative indicators are essentially the result of gradual changes over a long period of time unlike those reflected by the changes in income which capture only the transitory components.

Infact, the very purpose of the development process and policies is to achieve such improvements in economic status and opportunities and any analysis of changes in poverty has to consider such improvements. This underlines the need for supplementing information on consumption by other qualitative indicators so as to arrive at correct inferences. One effective solution seems to be a decentralised approach with the participation of the local people in identifying the poor, determining solutions for the poor and targeting them for the poor.

# III Poverty Alleviation Programmes and Indicator Targeting

How do we identify the poor by some simple indicators so as to ensure targeting

of benefits only to the poor? The Government of India set up a working group to evolve an acceptable methodology for identifying the poor through criteria alternative to per capita income/calorie requirement. The working group considered the household as the unit of enquiry for identification [GOI 1985b]. The group sought to identify poor households by characteristics "which are simple, easily verifiable and easily amenable to collection and recording of information about them without observational errors". The list of household characteristics considered for field survey for identification of the poor is given in appendix I. However, the actual study was based on the results of the survey conducted by the directorate of economics and statistics, Maharashtra of the standard of living of the rural households during 1982-83. This was a re-survey of the same set of households can vassed during the 32nd round of the NSS during 1977-78. Essentially the group attempted a dichotomous classification of the households into poor and non-poor on the basis of not only consumer expenditure but also other household characteristics. The efficiency of classifying households as poor or otherwise by other characteristics was assessed by the extent of mis-classification vis-a-vis that by consumer expenditure.

The analysis was conducted for the sample data from the two districts of Aurangabad and Solapur. For example, one exercise was based on a sample of 171 households from Aurangabad. The study found that six characteristics, namely, (i) land possession, (ii) irrigated land, (iii) type of wall, (iv) possession of sofa-cot, (v) floor area per capita, and (vi) possession of account in bank/post office, were highly correlated with per capita consumption expenditure. A comparison of the classification of households into poor and non-poor by these characteristics with that by consumption expenditure by the discriminant analysis showed that the overall mis-classification was as high as 34.5 per cent. Among the six characteristics considered, land possession and irrigated land had low correlation with per capita expenditure. Hence, the exercise was repeated by dropping these two characteristics but the extent of misclassification reduced to only 26.9 per cent. A similar exercise was carried out on the basis of a sample of 300 households from Solapur. The exercise considered 41 characteristics consisting of 24 qualitative characteristics (converted into quantitative form by standardisation assuming normal distribution), five quantitative characteristics and 12 new characteristics constructed from the sample data. From these, 14 characteristics having high correlation with per capita expenditure but low correlation among themselves were selected for discriminant analysis.11 The study found the extent of mis-classification was about 35 per cent under two alternative threshold values and the results did not change substantially even for analyses based on (five-year) lagged and current per capita consumption. The group concluded that there is no alternative to the identification of the poor except by annual income or expenditure. Of course, when the estimates of per capita consumption itself has so many limitations, one may raise questions regarding the classification by expenditure criterion as the reference classification. It is also difficult to justify the assumption of normality while transforming the attribute values of qualitative characteristics into standard normal variate. This seems to be a major limitation of the exercise. For, normality of variables is a basic assumption of the discriminant analysis, which is very sensitive to the fulfillment or otherwise of the basic assumptions.

Attempts have been made in India for targeting some of the poverty alleviation programmes on the basis of the means-test. For example, the ministry of rural development identifies household by income criterion for targeting the benefits of the Integrated Rural Development Programme (IRDP). The target group is the rural poor consisting of scheduled castes, scheduled tribes, agricultural labourers, marginal

TABLE 1. PROPORTION OF HOUSEHOLDS BENEFITING FROM SPECIFIED POVERTY AMELIORATION PROGRAMME BY SOCIO-ECONOMIC STATUS. ALL-INDIA RURAL
(a). Across Monthly Per Capita Expenditure Classes

| Monthly<br>Per Capita<br>Expenditure<br>(Rs) Class                                                                                          | Less<br>Than<br>65 | 65-80 | 80-95 | 95-<br>110 | 110-125<br>(Poverty<br>Line<br>122 63) | 125-140 | 140-160 | 160-180 | 180-215 | 215-280 | 280-385 | 385 and<br>above | All |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------|-------|------------|----------------------------------------|---------|---------|---------|---------|---------|---------|------------------|-----|
| Number per 10(A) of<br>households receivin<br>IRDP assistance by<br>MPCE (Rs) class<br>Number per 1000<br>of households<br>participating in |                    | 60    | 64    | 66         | 63                                     | 67      | 63      | 63      | 60      | 67      | 57      | 60               | 63  |
| public works by<br>(MPCE) (Rs) class                                                                                                        | 81                 | 75    | 76    | 72         | 67                                     | 66      | 67      | 56      | 60      | 51      | 49      | 42               | 64  |

Source: GOI (1993)

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farmers with annual income less than a specified threshold level (Rs 6,400 per annum per family in 1987) and bonded labour families. The beneficiaries are identified in two stages. To begin with, a family income survey/census is carried out to ascertain family income from all sources. In the second stage, a list of all potential beneficiaries is prepared. The list is further screened by the gram sabha or in the general meeting of the village residents. But, this is not a fool-proof criteria. Studies by the National Bank for Agriculture and Rural Development (NABARD) and programme evaluation division of the planning commission have shown that there are leakages of IRDP benefits to ineligible households.12

Recent estimates of distribution of number of beneficiary households per thousand households of different poverty alleviation programmes across economic classes, occupational groups and social classes also show considerable leakages to the nontargeted groups. The NSSO collected information on receipt of IRDP assistance. participation in public works, etc, during the 43rd round survey on consumer expenditure. The enquiry, among other things, was about households which received IRDP assistance sometime during the last five years, those which participated in public works during the last 365 days and their consumption during the month preceding the date of survey. Tables 1 to 4 provide the proportion of beneficiary households across different socio-economic status. The results on distribution of proportion of IRDP beneficiary households across monthly per capita expenditure (MPCE) classes show that they are uniformly spread over all expenditure classes (Table 1). Since IRDP benefit refers to assistance received some time during the last five years while MPCE relates to the month preceding the survey, the results cannot be treated as unambiguous evidence of misallocation of IRDP since the observed pattern could also be due to the very success of IRDP in poverty alleviation. Therefore, the question on IRDP targeting should be verified further and one option would be to examine the spread of beneficiary households across six different 'land possessed' classes of households (Table 2). The data bring out that IRDP benefits have been conferred on all classes of households, and not on only the poorer groups. The statewise data show that in Andhra Pradesh, Assam and Bihar, the proportion of beneficiary households increases with size class of land possessed; but in Kerala, Punjab and Himachal Pradesh the proportions of beneficiary households are more in the lower classes of land possessed [GOI 1993:101]. The findings on IRDP leakages to noneligible households get only confirmed by the data on distribution of beneficiaries across other socio-economic categories (see Tables 3 and 4).

During the ongoing economic reform programme, there is renewed stress on the need for cost-effective safety nets to protect the poor without exacerbating the government budget deficit. This has called for targeting of various welfare programmes like the PDS. Any targeting exercise presupposes identification of the poor by means test or some other criteria. In the context of the PDS reform, experts have argued for commodity based targeting also by re-orienting the PDS in favour of coarse cereals, little realising that the consumption patterns of even the poor have undergone a change against coarse cereals and other

inferior food items. This has happened partly due to availability constraints, partly due to increased incomes and hence entitlement, and due to greater market exposure [see Suryanarayana 1995].

Similar suggestions for indicator targeting have been made with respect to poverty alleviation programmes. Experts have recommended employment-oriented strategy towards poverty alleviation on the ground that it permits self-selection of the poor and hence leakages to the non-poor will be minimum. This is based on the understanding that there is considerable scope for targeting by setting the wages at the reservation level in programmes like public works. The reservation wage for unskilled workers being

Table 2: Proportion of Households Benefiting from Specified Poverty Amelioration
Programme by Socio-Economic Status: All-India Rural
(b): Across 'Land Possessed' Classes

| Size Class of Land<br>Possessed (Hectares)                                                      | Less than<br>0.01 | 0.01-0.4 | 041-1.00 | 1.01-2.00 | 2.01-4.00 | Above<br>4.00 | All  |
|-------------------------------------------------------------------------------------------------|-------------------|----------|----------|-----------|-----------|---------------|------|
| Number per 1000 of<br>households receiving<br>IRDP assistance by<br>land possessed class        | 49                | 64       | 72       | 71        | 60        | 52            | . 63 |
| Number per 1000<br>of households<br>participating in public<br>works by land<br>possessed class | 59                | 57       | 69       | 71        | 70        | 75            | 64   |

Source: GOI (1993).

TABLE 3 PROPORTION OF HOUSEHOLDS BENEFITING FROM SPECIFIED POVERTY AMELIORATION
PROGRAMME BY SOCIO-ECONOMIC STATUS ALL-INDIA RURAI
(c) By Type of Household

| Household Type                                                                         | Self-Emp-<br>loyed in<br>Agriculture | Agricultural<br>Labour | Other<br>Labour | Self-Emp-<br>loyed in<br>Agriculture | Others | All |
|----------------------------------------------------------------------------------------|--------------------------------------|------------------------|-----------------|--------------------------------------|--------|-----|
| Number per 1000 of<br>households receiving<br>IRDP assistance<br>by household type     | 78                                   | 7                      | 66              | 62                                   | 27     | 63  |
| Number per 1000 of<br>households participating<br>in public works by<br>household type | 59                                   | 66                     | 168             | 40                                   | 30     | 64  |

Source: GOI (1993).

Table 4: Proportion of Households Benefiting from Specified Poverty Amelioration Programme by Socio-Economic Status: All-India Rural (d): By Social Group

| Household Group                                                                         | Scheduled<br>Tribe | Scheduled<br>Caste | Neo-Buddhist | Others | All |
|-----------------------------------------------------------------------------------------|--------------------|--------------------|--------------|--------|-----|
| Number per 1000 of<br>households receiving<br>IRDP assistance by<br>household group     | 82                 | 94                 | 156          | 51     | 63  |
| Number per 1000 of<br>households participating<br>in public works by<br>household group | 122                | 75                 | 129          | 52     | 64  |

Source GO1 (1993)

inversely related to poverty, only the poor are expected to participate in such programmes, whereas the opportunity cost of participation is higher for the non-poor. However, Indian experience even with indicator targeting of poverty alleviation programmes has not been that successful. One important reason seems to be the faulty design of such programmes like guaranteed minimum wages and not reservation wages. The NSS results about the beneficiaries of public works programmes from the 43rd round survey are as follows. As regards public works beneficiaries, the NSS considers a household as a participant in public works during the reference period (365) days if at least one member of the household has worked for 60 days or more during the reference period. From Table 1, it can be seen that the proportion of household beneficiaries per 1000 households declined from 81 for the poorest expenditure class to 42 for the richest expenditure group for all-India, For Orissa, Bihar, Assam, Tamil Nadu, Andhra Pradesh and Uttar Pradesh, no such declining trend can be observed. The proportion of beneficiaries is higher in lower expenditure classes only in Gujarat, Rajasthan and Maharashtra (GOI 1993, 104). The data on household classification by classes of land possessed for all-India show that the proportion of household participation is higher for groups possessing more land than those with less land (Table 2). When the public works participation is examined by occupation type of households, the all-India estimates show the participation to be highest among other labour households tollowed by agricultural labour households (Table 3). But in Tamil Nadu, West Bengal and Assam, it is the 'self-employed in nonagriculture' who seem to have benefited most than other categories. In all other states, 'other labour' households' participation is proportionately more; in Punjab and Maharashtra 'agricultural labour' and 'other labour' households participated more or less equi-proportionately [GOI 1993:104]. The data by social group, shows the SC/ST households to have benefited much more than 'other households' (Table 4). In sum, the evidence presented above brings out two salient features: (i) They indicate considerable leakages of benefits of poverty alleviation programmes like the IRDP and public works and hence call for their reform on the identification front for effective targeting. This would improve costeffectiveness of these programmes and enhance the poor's economic access to food; and (ii) the pattern of leakages across different socio-economic categories vary across states suggesting that there is no single correlate or factor by which issues regarding targeting can be considered across the entire There is also a need for studies to evaluate strategies and policies for poverty alleviation and their micro and macro implications in view of the current emphasis on efficient utilisation of resources. Even though there have been such studies based on computable general equilibrium (CGE) models, they have their own limitations. One major merit of such models is supposed to be their ability to endogenise the price vector and take into account the substitution effect of relative price changes. These CGE models to the rural

sector in spite of the fact that a substantial portion of the rural resident households are subsistence and surplus farmers and their market participation rates for food consumption are very low. As per the available estimates, market participation rates for the all-India total rural population for rice and wheat were 57.19 and 30.2 per cent respectively in 1986-87 [GOI 1990]. For these households, an increase in the price of a staple commodity has not only a negative substitution and income effect but also a positive profit effect. Hence, there is a

#### Appendix I

LIST OF HOUSEHOLD CHARACTERISTICS CONSIDERED BY THE EXPERT GROUP FOR IDENTIFYING THE POOR

- Principal occupation of the household
- Secondary occupation of the household
- 3 Household size by age and sex
- 4 Number of earning members of the household
- 5 Number of members working as attached labourers
- 6 Number of workers engaged in non-agricultural occupation
- 7 Monthly household expenditure.
- 8 Average monthly income of the household
- 9 Total land possessed (irrigated + dry + others)
- 10 Total land owned by the household.
- 11 (a) Educational status
  - (b) Skill and training
- 12 Number of pans of clothes in use
- 13 General use of footwear, tea/coffee/soft drinks, hair oil, toilet soap/washing soap
- 14 Housing Area under roof

Type of walls of the house Type of root of the house Height of the roof from the floor

Height of the floor Type of floor

- 15 Lighting, electricity, lantern, etc.
- 16 Fuel electricity, gas, kerosene, etc
- 17 Livestock possession
- 18 Possessions (a) Bullock cart
  - (b) Bicycle
  - (c) Motor cycle
  - (d) Car
  - (e) Time piece, torch
  - (f) Electric fan
  - (g) Sewing machine
  - (h) Electric iron
  - (1) Refrigerator
  - (j) Chairs and tables(k) Utensils
  - (l) Cots
  - 1) Cots
  - (m) Almirahs
    (n) Carpets, mats, rugs
  - (o) Horse-drawn car (tonga)
  - (p) Rickshaw
  - (q) Hand-pulled cart
  - (r) Agricultural implements
- 19 Possession of an account in bank or post office
- 20 Household reads newspaper.
- 21 Household members belong to co-operative societies
- 22 Household indebtedness (with reason/purpose of loan)
- 23 Expenditure on food
- 24 Drinking water
- 25 Sanitation
- 26 Expenditure on ceremonies and functions
- 27 Pattern of entertainment availed by the family
- 28 Nutrition and Health parameters:
  - a) Height and weight of children aged below five
  - b) Measurement of mid-arm circumference of children
  - Number of children born in the household during preceding five years and how many of these were found to be surviving on date of survey

country.

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Specimenton error mirorres in estimating a traditional demand model, which cannot take into account the profit effect, for the rural sector. The specification error must have peen quite serious for India as most of these traditional demand models are estimated on the basis of the NSS data collected using a moving reference period spread generally over an agricultural year. Actually, consumer preferences in the rural sector have to be specified and estimated in terms of an agricultural household model that takes into account the interdependence of production and consumption decisions. Studies [Singh et al 1986] have shown that such specification errors really matter and the results differ depending upon whether the profit effect is considered or not. Estimates of own price elasticities of demand for agricultural commodity obtained using the two alternative approaches, that is, traditional demand and agricultural household models, differed significantly with respect to size for Japan, Thailand and Sierra Leone and with respect to both size and sign for Taiwan, Malaysia, Korea and Northern Nigeria. While the own price elasticity estimates obtained by the traditional demand models show negative consumer responses to agricultural commodity price changes for all the countries considered, those by agricultural household models show much smaller negative responses for Japan, Thailand and Sierra Leone but positive consumer responses for the remaining four countries [Singh et al 1986:27]. Equally striking are the differences in estimates of elasticities of demand for non-agricultural goods with respect to the price of agricultural goods. Cross price elasticities based on traditional demand models are small and negative because of negative income effects; those obtained from the agricultural household models are positive and large because of the positive profit effect. Unless the data required for such a type of specification and estimation are available, it is not possible to make accurate analysis of welfare consequences and policy implications of various market intervention and poverty alleviation programmes. But, even while using the traditional demand models for the general equilibrium analysis, some of the available CGE models are based on characterisation of consumer preferences by the Stone-Geary utility function and hence the Linear Expenditure System.14 The underlying preference structure of the Stone-Geary utility function is additive, separable and linear. Demand models based on additive separability of preferences cannot account for substitution effects of relative price changes and price elasticities based on such demand models will be proportional to income elasticities [Deaton 1975]. Thus, the use of such demand models involves distorted measurement of

consumer responses and nence, the price to be paid in using such models is 'too high' [Deaton 1974]. 15 An attempt may be made to overcome these limitations by estimating demand systems that permit non-linear and non-separable preferences like the Almost Ideal Demand System [Deaton and Muellbauer 1980] 16 Such models can also be used to answer welfare related questions in a partial equilibrium framework at least for the urban sector. But the methodological problem is that the statistical properties of such models based on the NSS data are suspect. This is because the NSS estimates of total consumer expenditure at constant prices do not show any sustained growth or even substantial variation during the entire post-independence period [See, Survanarayana 19951 and hence, the scope for obtaining statistically efficient estimates of parameters of non-linear consumer preferences is limited. In addition to this limitation, some of the CGE models do not have an explicit labour market and cannot account for the dynamics of labour market changes under the various poverty alleviation programmes.17 This is not to say that these models and inferences based on them are invalid but to stress the need for appropriate modifications in their specification. Towards overcoming some of these limitations, it would be worthwhile to collect data on both consumption and productive activities of the households through integrated household surveys. Integrated surveys are important for evaluating the welfare implications of questions like increases in foodgrain prices For answering such questions, it is not enough to have information on household food consumption but data on household food production are also needed.

#### IV Summing Up

The preceding discussion emphasises the importance of data base in any discussion on poverty and identifies the major gaps for policy studies in India. Beginning with the primary question of identification of the poor based on a measure of standard of living and a minimum norm till the final stage of policy prescription, an awareness of the data base and the constraints it imposes on interpretations, etc, is quite important. The paper throws light on some such issues ignored in studies for India. It is noted that the conventional approaches to poverty identification and measurement presuppose a stationary economy. In a developing economy subject to changes in institutional parameters involving increasing commercialisation of product markets and increasing casualisation of labour markets as experienced by India in recent years, a base and concepts can yield misleading results and policy prescriptions. Therefore, there is a need for an integrated approach for a comprehensive analysis.

Available evidence on the distribution of benefits across socio-economic classes of administratively targeted poverty alleviation programmes like the IRDP shows considerable leakages to the incligible. Same holds good for public works programmes, where scope for self-targeting by fixing wages at the reservation level is considerable. Much needs to be done in the area of indicator targeting. The studies conducted by the expert group on identifying alternative indicators of poverty have their own methodological limitations and their conclusion that there is no alternative to identifying the poor except by means-test cannot be generalised for all time across the country. Same holds good for suggestions for indicator-based PDS reform by changing its commodity basket. In sum, the only effective solution seems to be decentralised approaches based on perceptions at the grass roots level.

Questions on macro strategies for poverty alleviation can be answered with appropriate computable general equilibrium models. Much needs to be done both in the specification and the estimation of such models for India: On the specification level, there is a need for agricultural household models for a predominantly rural and semimonetised agricultural economy like India. Such models cannot be estimated without appropriate integrated household surveys and without relevant data on all aspects of household economic activities, which are presently not available in India. Such studies are also important for understanding the dynamics of changes in poverty and their welfare implications.

#### **Notes**

IThis is a revised version of the paper presented at the workshop on 'Data Base for Rural Poverty Indicators' held at the National Institute for Rural Development, Hyderabad, during April 17-19, 1996]

- 1 See, for instance, the study for Cote d'Ivoire by Glewwe and Van Der gaag (1990)
- 2 The question of aggregation, i.e., how one obtains an index of poverty also matters from the point of view of policy design and implementation As the planning commission admits, one of the reasons for ineffective targeting of Integrated Rural Development Programme (IRDP) is the tendency for the administrators to focus on those who are in the neighbourhood of the poverty line so as to claim higher success, measured in terms of head-count ratios, in poverty alleviation [Government of India 1983 49].

- 3 The Seventh Five-Year Plan states: "Costeffectiveness of the programmes and immimisation of leakages should be the two guiding principles in the implementation of poverty alleviation programmes. Economic viability should be understood primarily in terms of cost effectiveness, i.e. maximum income generation per unit of total expenditure incurred. This is to be distinguished from economic viability defined as level of investment sufficient to enable a family to cross the poverty line. The ability of a poorer household to cross the poverty line depends on its overall income, i.e. income from the poverty alleviation programmes and other wage and non-wage incomes accruing to them" [GOI 1985a 51]
- 4 Glewwe and Kanaan (1989) show how household incomes can be predicted on the basis of household survey data on observable characteristics like area of residence and characteristics of household dwelling. These predictions in turn can be used to decide on budgetary allocations and income transfers to the poor so as to reduce poverty subject to the resource constraint.
- 5 see, for instance, Baker and Grosh (1994), Ravallion (1989) and Ravallion and Sen (1994) Similarly the question of alternative indicators of food and nutrition security for use in food and nutrition monitoring and evaluation systems has received considerable attention [Haddad et al. 1994]

- 6 The working group appointed by the Government of India in 1962 distinguished between private expenditure and public expenditure, the latter supposed to be incurred by the state on health, education, etc. In keeping with this distinction, the expert committee defined poverty in terms of private household consumer expenditure [Perspective Planning Division 1962]
- 7 For details regarding how the sample size, number of strata, etc, has changed over time and their implications, see Vaidyanathan (1986a)
- 8 Cited in Jose (1978)
- 9 For instance, Ahluwalia (1978) estimates poverty measures in terms of parameters of Lorenz curve, proposed by Kakwani and Pod ler (1976), of consumer expenditure distribution.
- 10 The term common property resources refers to that of the community wealth or resources over which every member of the community has equal rights for use.
- 11 These were (i) Principal occupation, (ii) Use of toilet soap. (iii) Possession of torch, (iv) Reading newspaper. (v) Lighting, (vi) Having sofa-chair, (vii) Having cot-diwan, (viii) Possession of cup-board, (ix) Possession of fan, (x) Height of door; (xi) Irrigated land per capita, (xii) Land possessed per capita, (xiii) Floor area per capita; and (xiv) Per capita income.
- 12 These studies and their findings are cited in

- Subbarao (1985).
- 13 See, for instance, Janvry and Subbarao (1986), Mitra and Tendulkar (1986), Narayana et al (1991) and Quizon and Binswanger (1984).
- 14 See, for instance, Janvry and Subbarao (1986), Mitra and Tendulkar (1986) and Narayana et al (1991).
- 15 The ongoing research at the Indira Gandhi Institute of Development Research seeks to overcome some of these limitations
- 16 For studies on India in this direction, see Coondoo and Majumder (1987), Majumder (1986), Ray (1991), Radhakrishna and Murty (1995), Suryanarayana (1996c) and Suryanarayana, Roy and Parikh (1993).
- 17 These issues are also quite important It really matters whether the response functions are estimated taking into account the interdependence of different decisions as shown by Singh et al (1986).

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# Minimum Needs of Poor and Priorities Attached to Them

V Sitaramam S A Paranjpe T Krishna Kumar A P Gore J G Sastry

From an examination of the NSS data covering 1951-1991 and taking the cereal consumption deprivation as a measure of poverty the authors present an estimate of poverty in India without using the dubious concept of the poverty line. They argue that there is no need to have a poverty line to measure the degree of poverty of any community or group of vulnerable households. The method developed here reveals that cereals constitute the commodity group that occupies the top position in the hierarchy of needs, both in rural and urban areas. Next item of priority, both for rural and urban areas, is fuel and light and not clothing partly because one cannot make a 'roti' out of wheat without the cooking fuel.

If the misery of our poor be caused not by the laws of nature, but by our institutions, great is our sin

- Charles Darwin, Voyage of the Beagle

#### I Introduction

ALLEVIATION of poverty has become one of the most important items on the policy agenda of many a government, particularly in the developing countries. Economic research so far has concentrated on the issue of measuring and monitoring the extent of poverty, rather than on the issues of designing the appropriate poverty alleviation programmes. Designing such programmes requires some insights into who the poor are for whom such programmes must be designed, and what their needs are. The view of a major segment of the economics protession on these two issues has been that all those who are below the poverty line are the poor who need poverty alleviation programmes, and that their needs are based on the common perception of hierarchy of needs, such as food, clothing, shelter, health, education, etc. There are two problems associated with these economists' views. First, the idea of identifying the poor by the poverty line is neither acceptable to the policy-makers nor is it feasible, as the poor do not have a regular and stable source of income. Also it is not based on good scientific and objective reasoning. Second, there is no clear-cut empirical evidence that the hierarchy of needs corresponds to the oft-repeated slogan 'foodshelter-clothing' or 'roti-kapada-aur makan'.

These priorities may vary from community to community, and from place to place. The ordering of needs depends on the circumstances facing the people. For example, for people living in colder climates and on forest slopes, clothing and shelter may be more important than for people who live on the plains with a more favourable climate. Similarly, the food habits may vary

from place to place. Hence, what one needs is a measure of consumption deprivation that is commodity specific and community specific. The economists have, in our opinion. put undue emphasis in defining first who the poor are and then defining their poverty. It is our view that it is more meaningful and useful to define poverty as consumption deprivation, which is the opposite of welfare, and then to decide, on a case by case basis, who ought to be the beneficiaries of any poverty alleviation scheme. The choice of the beneficiaries should depend on social, economic, political, and administrative considerations. The targeting of the poverty alleviation schemes, in terms of the com modities for which subsidies are needed and the people who ought to receive those subsidies, should be region-specific. From this perspective, and given that the notion of poverty is basically relative, it is even preferable to call such schemes as welfareimproving schemes rather than poverty alleviation schemes.

The new United Front government announced its commitment to a 'Common Minimum Programme'. What the UDF and the prime minister seem to imply by this term is a minimum needs programme, as there can be a consensus (and hence the word 'common') on such minimum needs. This concept of minimum programme raises several interesting economic policy issues. It is suggestive, from the attitude of the new government, that the new government's focus has shifted from poverty alleviation to providing the minimum needs. This change in policy focus is quite consistent with the line of research we have been engaged in for the past few years on poverty measurement. We have been arguing that poverty has to be measured as commodity-specific consumption deprivation of a community, without any reference to an arbitrarily and subjectively chosen poverty line. The identification of the poor has to be based, we argue. not on a difficult to measure income, but on socially, politically, and administratively, and unambiguously determined criteria. This suggestion of ours is also quite consistent with the actual practice. It may be noted that the really poor have very irregular employment and income, and hence it is difficult to measure their incomes to check the eligibility for a poverty alleviation programme.<sup>2</sup>

This is the line of work we have been doing. In this connection we needed to identify those commodities, called necessities, in terms of which we need to assess the consumption deprivation. The identification of the most essential commodity, whose consumption saturates at the lowest income posed no problem, and it turned out to be cereals. The budget share of this commodity at the limiting income is the highest. Hence, we measured poverty through cereal consumption deprivation. But as the economy develops and the welfare of people in general improves, people move on to consume the next item on the hierarchical ladder of commodities, often by even lowering the consumption of cereals. One way of monitoring the course of economic development is to see how the consumption pattern has changed over the years in terms of bringing into consumption commodities which were on a higher rung of the ladder of commodity hierarchy. Providing to the poor only cereals at affordable prices is not enough if such cereals have to be cooked in order to consume, and if the poor have difficulty in procuring the cooking fuel. These comments suggest that there is a need to have a detailed investigation into commodity groups other than cereals that enter into the priority list of

In order to get some empirical insights into the hierarch vof needs among the households, and how this pattern has altered over years, we had examined the consumption pattern from the National Sample Survey data for various rounds, starting from the 3rd round 1991. It is the purpose of this article to share our findings with the readers and to suggest some policy implications of our findings in designing the 'minimum needs programmes' for the vulnerable sections of the household sector.

The plan of the paper is as follows. Section II presents very briefly the method we use to examine the consumption expenditure data of the NSSO employing a new form of Engel curve. In Section III we present the levels of cereal-based consumption deprivation for rural and urban India for various rounds of NSS. These are our alternate measures of poverty, based on cereal consumption deprivation. In Section IV we develop a method for determining the hierarchy of consumption needs and apply this method to the NSSO data. Finally, in Section V we present the important policy implications suggested by our method and our findings.

#### II Relation between Quantity Consumed of a Commodity and Income: Engel Curve

As income is difficult to measure, and as there are no reliable estimates of household income levels, we proxy income of a household by the total expenditure of that household. In this section we are therefore concerned about the relationship between expenditure on a specific commodity or commodity group and the total expenditure. Such a relationship is known as the Engel curve. This relationship can assume different forms. Three very commonly assumed forms are depicted in Figure. Type I relation shows that the consumption of that type of commodity increases with income but at a

Table 1: Non-Linear Least Squares Estimates of Engll Curve Parameters (V and K) for Cereal Consumption. India 1960-61 to 1990-91.

| NSS   | Period  |        | Rural    |         |        | Urban |                |
|-------|---------|--------|----------|---------|--------|-------|----------------|
| Round |         | V      | K        | R²      | V      | K     | R <sup>2</sup> |
| 16th  | 1960-61 | 19 207 | 23 ()3() | 0 9916  | 9.645  | 911   | 0 9569         |
| 17th  | 1961-62 | 24 267 | 41 157   | 0 9265  | 9.363  | 9 87  | 0 9519         |
| 18th  | 1963-64 | 16 598 | 21 417   | 0.9878  | 8 628  | 8 95  | 0.9520         |
| 20th  | 1965-66 | 23 338 | 31 157   | () 9955 | 7.6371 | 8 (0) | 0.8333         |
| 21st  | 1966-67 | 19 863 | 24 584   | 0.8481  | 8 844  | 10 87 | 0 8992         |
| 22nd  | 1967-68 | 18 704 | 27.398   | () 9953 | 9 225  | 12 25 | 0 9404         |
| 24th  | 1969-70 | 16 165 | 21 397   | 0 9925  | 9413   | 12 06 | 0 9399         |
| 27th  | 1972-73 | 18.053 | 24 404   | 0 9903  | 8 733  | 9 46  | 0 8910         |
| 28th  | 1973-74 | 19 122 | 25 492   | 0 9854  | 10,794 | 14 97 | 0 9302         |
| 32nd  | 1977-78 | 12.340 | 16 217   | 0 9872  | 7 968  | 11 05 | 0.9463         |
| 38th  | 1983    | 11 830 | 16 120   | 0 9840  | 8 ()44 | 11 98 | 0 9668         |
| 42nd  | 1986-87 | 10 584 | 15 989   | 0 9757  | 6 767  | 11.54 | 0 9401         |
| 43rd  | 1987-88 | 10.043 | 13 898   | 0.9693  | 6 406  | 9.29  | (),9339        |
| 44th  | 1988-89 | 9.701  | 12 470   | 0 9767  | 6 038  | 7 48  | 0 9524         |
| 45th  | 1989-90 | 8 114  | 9 718    | 0.9432  | 5.968  | 7 87  | 0.9356         |
| 46th  | 1990-91 | 9.033  | 13 216   | 0 9242  | 5 998  | 9.74  | 0.9575         |

Note: The V and K estimates are in rupees per capita per month (in 1960-61 prices). V and K are first estimated separately for each NSS Round. The tabulated values above are V and K adjusted for price changes between rounds.

Source. Estimated using NSSO data.

consumption of this type of commodity increases with income, but at a constant rate. Type III curve shows that the consumption of this type of commodity increases with income, but at an increasing rate.

Per cent change in the consumption of a commodity for a 1 per cent change in income is called the income elasticity of demand for that commodity. For Type I commodities the income elasticity is less than one. One very commonly used mathematical form for the Engel curves of all the three types is:

$$Log c_i = \gamma + \eta log y_i \qquad ...(2.1)$$

where  $c_1$  is the mean consumption in expenditure class 1 and  $y_1$  is the mean income in the same expenditure class. In this form the income elasticity of demand for the commodity defined above turns out to be  $\eta_1$ , which is assumed to be constant. It is quite likely that for necessities such as food, the income elasticity of demand is not only less than unity but it may also decrease with increase in income, i.e., the per cent increase in income may decrease as income increases. The above functional form cannot take care of this possibility.

It is the analogy between the equilibrium relations in kinetic models of catalysis in biochemistry and the above Type I Engel curve of economics that had provided the major impetus for our research on consumption analysis and poverty by an interdisciplinary team consisting of a biochemist, an economist, and three applied statisticians. In fact the Engel curve is an equilibrium relation between the two flow variables, expenditure on a specific commodity and the total expenditure, and hence this analogy is

models in biochemistry use a hyperbolic relation of the following type to represent the kinetic equilibrium:

$$c_i = Vy_i/\{K+y_i\}$$
 ... (2.2)

When we fitted equations (2.1) and (2.2) to the NSSO data we found that (2.2) always gave a better fit than (2.1). When we say better fit, the criteria we used to compare the two models are: (i) coefficient of determination, R<sup>2</sup>, and (ii) randomness of errors with a Gaussian distribution. It is also interesting to note that the income elasticity of demand for specification given by (2.2) does vary with income and decrease with an increase in y, a desirable property cited above.

In this study we used model (2.2) for determining the hierarchical basic minimum needs. We used the same model in our studies on poverty through consumption deprivation. Some properties of this Engel curve are worth noting, and these are given below:

(1) Dividing both the numerator and the denominator of the right hand side of (2.2) by yi we get:

$$c_1 = V/\{K/y_1 + 1\}$$
 ... (2.3)

From equation (2.3) we note that as y, tends to infinity c, tends to V. Thus, V can be interpreted as the saturation level of consumption. (V-c<sub>1</sub>)/V is the proportional shortfall in consumption from the saturation level, and it lies between 0 and 1. We had proposed that, for any community, the mean proportional shortfall of consumption of a basic necessity such as cereals from its saturation level be taken as a poverty index of that community [see Gore, Kumar, Paranjpe, Sastry, and Sitaramam 1994, 1996 and Kumar, Gore, and Sitaramam 1996].

(2) Dividing both the right and the left hand sides of (2.2) by y we get:

$$c_1/y_1 = V/\{K + y_1\}$$
 ... (2.4)

Since income and consumption move together we can assume that ci/yi tends to a constant as yi tends to zero. From equation (2.4) it follows that this limit is V/K. Thus, V/K can be interpreted as the proportion spent on the commodity, or the budget share of the commodity, at limiting (or low levels of) income.

(3) From equation (2.3) we get:

$$V/c_1 = K/y_1 + 1$$
 or  $(V-c_1)/c_1 = K/y_1 ... (2.5)$ 

From equation (2.5) it follows that  $y_i = K$  when  $c_i = V/2$ .

Thus, the parameter K may be interpreted as that level of income at which consumption is at half-saturation level. Hence, parameter K

is often called the half-saturation constant.

(4) The equilibrium quantity consumed depends directly on the forward rate constant V (need) and inversely on the backward rate constant K (cost). The proportion of income spent on a necessity(commodity) decreases with increasing income.

The hyperbolic Engel curve was fitted to the Indian data on household consumption published by the NSSO. The model was fitted using non-linear least squares method of estimation. This method requires an initial guess of the unknown parameters. Although the programme usually has certain default-values for the initial guesses, the convergence to the final estimates would be faster, and we can also be reasonably sure of a global minimisation of the error sum of squares, if the initial guesses are chosen carefully. Hence, we provided, as initial guesses estimates derived from the following linearised version of the model.

$$1/c_1 = 1/V + (K/V)(1/y_1)$$
 ... (2.6)

 $1/c_1$  was regressed on  $1/y_1$ , and the reciprocal of the intercept estimate is taken as the initial guess of V, while the ratio of the slope estimate to the intercept estimate is taken as the initial guess of K.

## Poverty without Poverty Line: Measure of Poverty Based on Cercal-Based Consumption Deprivation

The concept of poverty line has been a very controversial and subjective concept, which had placed economic research on poverty in a very shaky and vulnerable position. We had argued elsewhere [Gore, Kumar, Paranipe, Sastry, and Sitaramam 1994, 1996 and Kumar, Gore and Sitaramam 1996] that the identification of the poor can be made on the basis of commodity-specific consumption deprivation among different vulnerable groups of people, those groups having been identified by a priori criteria such as rural landless labourers, unemployed or seasonally employed persons female headed households with dependent children, etc. Our method did not require a poverty line level of income for either identifying the poor or for measuring poverty.

The beneficiaries of poverty alleviation programmes are also normally and actually chosen by criteria other than a poverty line level income. If the poor are so identified for the poverty alleviation programmes, by criteria other than poverty level income, then it makes no sense to measure their degree of poverty through a measure that depends on an arbitrarily chosen poverty line. Such a procedure of applying the traditional measure of poverty (based on a poverty line), when used to monitor the poverty alleviation

programmes, would give erroneous conclusions as the measured poverty could exclude some of the actual beneficiaries whose incomes could be above the poverty line. Hence what is needed in this connection is an insight into the commodity-specific consumption deprivation among a variety of vulnerable groups of people, identified by some policy relevant criteria. If it is desired to choose between alternate groups so as to exclude the creamy layers from the benefits of the poverty alleviation programmes one can measure the commodity-specific consumption deprivation for such alternate groups and choose, for implementing the poverty alleviation programmes, that group which has more consumption deprivation than others.

We used the NSS data for the computation of the new poverty index that does not use the poverty line. The consumer expenditure data for cereal expenditure, and total expenditures by various total expenditure classes for various NSS rounds starting from 16th round (1960-61) to the 46th round (July 1990-June 1991) were used The commodityspecific poverty indices for India for the period 1960-61 to 1990-91 were computed using the method described in Section II. Engel curves of type (2.2) were fitted separately for each year (round), and separately for rural and urban India using non-linear least squares method of estimation employing RATS computer software

The estimates of saturation consumption (V) for cereals, were deflated with the food component of consumer price index (CPI) while the estimates of K were deflated by the overall consumer price index. For rural households the CPI for agricultural labourers was used whereas for urban households a weighted average of CPI for non-manual workers and industrial workers was used along the lines suggested by Minhas et al (1987), by giving them weights of 0.625 and 0.375, respectively. This deflation was carried out to make the parameters V and K comparable over time.

There is a hierarchy of needs, the cereals being the first and most essential commodity. The estimates of V and K (adjusted for changes in food prices and overall prices), for cereal consumption are presented in Table 1. Trend lines fitted to the estimates of V and K show that there is a secular decline in both. This could imply that over time households started substituting noncereal and non-food items for cereals. This could be due to increased availability over time of non-cereal and non-food items. The estimates of V in Table 1 are almost uniformly larger for the rural data compared to the urban. The explanation given above, viz, an increase in availability of non-cereal options (in urban areas) possibly explains this pattern as well.

TABLE 2. PROPORTION OF TOTAL EXPENDITURE SPENT ON CEREALS AT LIMITING INCOME (V and K), INDIA: 1960-61 TO 1990-91

| Year    | Cer     | eal      |
|---------|---------|----------|
|         | Rural   | Urban    |
| 1960-61 | 0.8.340 | 1.0586   |
| 1961 62 | 0.5896  | () 949() |
| 1963-64 | 0.7750  | 0.9639   |
| 1965-66 | 0.7491  | () 9542  |
| 1966-67 | 0 6949  | 0.8135   |
| 1967-68 | 0 6827  | 0.7529   |
| 1969-70 | 0.7555  | 0 7804   |
| 1972-73 | 0.7398  | 0 9233   |
| 1973-74 | 0.7501  | 0 7209   |
| 1977 78 | 0.7609  | 0 7212   |
| 1983    | () 7339 | 0.6715   |
| 1986-87 | 0,6620  | 0 5861   |
| 1987-88 | 0 7226  | 0.6889   |
| 1988-89 | 0 7779  | 0.8075   |
| 1989-90 | 0.8350  | 0.7586   |
| 1990 91 | 0.6835  | 0.6158   |

Note V and K are first adjusted for price changes between rounds and then V and K was calculated

Source Estimated from Engel Curves using '

TABLE 3 ESTIMATES OF POVERTY MEASURED THROUGH CEREAL CONSUMPTION DEPRIVATION WITH SEPARATE ENGIL CURVES FOR EACH ROUND

| Year    | Rural   | Urban  |
|---------|---------|--------|
| 1961-62 | 0 6838  | 03015  |
| 1963-64 | 0.5918  | 0.2816 |
| 1965-66 | 0 6459  | 0.2734 |
| 1966-67 | 0.5998  | 0.3202 |
| 1967-68 | 0.6460  | 0.3577 |
| 1969-70 | 0.5519  | 0.3188 |
| 1972-73 | () 5749 | 0 2744 |
| 1973-74 | 0.5641  | 0.3638 |
| 1977-78 | 0.4757  | 03118  |
| 1983    | 0.4541  | 0.3123 |
| 1986-87 | 0.4260  | 0.2875 |
| 1987-88 | 0.3768  | 0.2533 |
| 1988 89 | 0.3628  | 0.2122 |
| 1989-90 | 0.3007  | 0.2142 |
| 1990-91 | () 4428 | 03133  |

TABLE 4 ESTIMATES OF POVERTY THROUGH CEREAL CONSUMPTION DEPRIVATION, WITH POOLED OR COMMON ENGLE CURVE FOR ALL ROUNDS

| Year    | Rural  | Urban     |
|---------|--------|-----------|
| 1960-61 | 0.5766 | 0 3195    |
| 1961-62 | 0 5759 | 0.3132    |
| 1963-64 | 0.5981 | 03119     |
| 1965-66 | 0 5980 | 0 3261    |
| 1966-67 | 0.6045 | 0.3124    |
| 1967-68 | 0 6269 | () 3244   |
| 1969-70 | 0.5875 | 0 2907    |
| 1972-73 | 0.5814 | 0 2938    |
| 1973 74 | 0 5567 | 0 2890    |
| 1977-78 | 0.5769 | 0,2954    |
| 1983    | 0 5577 | 0 2801    |
| 1986-87 | 0 4238 | 0.2873    |
| 1987-88 | 0.3768 | 0 2442    |
| 1988 89 | 0 3628 | 0.2122    |
| 1989-90 | 0.3007 | 0 2 1 4 2 |



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As mentioned earlier (refer to equation (2.4) and the comment below that equation) the proportion of expenditure on the specific commodity (cereals) turns out to be V/(K+y) and this becomes V/K as income tends to zero. Thus V/K is the limiting proportion of expenditure on cereals. Table 2 presents estimates of V/K for cereals.

An interesting aspect to note is that this V/K ratio for cereals or "proportion spent on cereals at limiting income" has been higher in the urban India up to 1970 than in rural India. But from 1970 onwards (except for 1972-73) this proportion is less in urban India than in rural India. This seems to be partly due to the green revolution. This may also be partly due to the PDS being more urban-oriented as V/K showed a declining secular trend in urban area only. The overall constancy of V/K for cereal consumption in rural India also justifies using cereal consumption deprivation for measuring poverty, as most of the commonly understood poor (agricultural labourers and marginal farmers) live in rural areas and the proportion of total expenditure that they spend on cereal consumption expenditure is very high being 0.75 on an average and stable.

Table 3 presents the poverty indices based on the cereal-based consumption deprivation.<sup>3</sup> The poverty estimates of Table 3 show a time trend in this poverty index. The cerealbased poverty index clearly demonstrates that there is a higher incidence of poverty in rural India and that the difference between rural and urban poverty has reduced between 1960-61 and 1990-91. It must be mentioned that the urban and rural poverty indices given here are based on different saturation norms (Vs). Hence we cannot strictly compare the rural and urban poverty indices. The maximum cereal consumption differs between rural and urban areas, partly because the commodity spectra available are different in rural and urban areas. We can, however, talk about the rate of decrease in poverty between urban and rural poverty and note that this decrease is much more in rural areas than in urban areas.

The poverty index presented here is based on deprivation from saturation norm that is specific to each data set. Since this saturation norm (i e, estimated V) is different for each year as well as for urban and rural samples, comparison of the poverty indices needs a careful explanation. If our concern is about consumers' feeling of consumption deprivations from their own saturation point (this may be termed 'felt-deprivation' derived from the concept of felt need) then the comparisons of above indices are alright. Our measure of poverty is a relative measure relative to the maximum expenditure on cereals, which differs between rural and urban areas. While we may, under certain circumstances, be

I ABLE DA: DEQUENCE IN WHICH COMMODITY GROUPS APPEAR, ALONG WITH I HEIR BUDGET SHARES AT LIMITING INCOMES (ADJUSTED V/K, PRESENTED IN PARENTHESES): RURAL

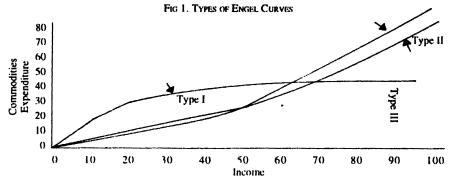
| Years             | Round No | CI       | C2        | C3             | C4             |
|-------------------|----------|----------|-----------|----------------|----------------|
| Apr 1951-Mar 1954 | 3        | CE(.71)  | FL(.0567) | CL(.0435)      | EO(.0197)      |
| Apr 1952-Sep 1952 | 4        | CE(.68)  | CL(.0512) | FL(.051)       | EO(.0109)      |
| Dec 1952-Mar 1953 | 5        | CE(.65)  | FL(.0717) | CL(.0595)      | EO(.0145)      |
| May 1953-Sep 1953 | 6        | CE(.75)  | FL(.0404) | CL(.0375)      |                |
| Oct 1953-Mar 1954 | 7        | ·CE(.99) | FL(.0018) | MEF(.00074)    |                |
| Jul 1954-Mar 1955 | 8        | CE(.89)  | FL(.0253) | EO(.0085)      | MEF(.0076)     |
| May 1955-Nov 1955 | 9        | CE(.82)  | FL(.044)  | EO(.0108)      |                |
| Dec 1955-May 1956 | 10       | CE(.58)  | FL(.042)  | MEF(.034)      |                |
| Aug 1956-Feb 1957 | 11       | CE(.87)  | FL(.0234) | EO(.009)       | MEF(.0234)     |
| Mar 1957-Aug 1957 | 12       | CE(.89)  | FL(.0233) | MEF(.0073)     | EO(.0055)      |
| Sep 1957-May 1958 | 13       | CE(.78)  | FL(.0346) | MEF(.0167)     | EO(.011)       |
| Jul 1958-Jun 1959 | 14       | CE(.83)  | FL(.0345) | MEF(.0113)     | EO(.0085)      |
| Jul 1959-Jun 1960 | 15       | CE(.79)  | FL(.042)  | MEF(.0134)     | EO(.0077)      |
| Jul 1960-Aug 1961 | 16       | CE(.83)  | FL(.0442) | MEF(.0128)     | EO(.0105)      |
| Sep 1961-Jul 1962 | 17       | CE(.63)  | FL(.071)  | MEF(.017)      | EO(.0148)      |
| Feb 1963-Jan 1964 | 18       | CE(.77)  | FL(.0445  | P and P(.0276) |                |
| Jul 1964-Jun 1965 | 19       | CE(.75)  | FL(.0525) | SU(.03)        | P and P(.0245) |
| Jul 1965-Jun 1966 | 20       | CE(.75)  | FL(.0518) | S and S(.0229) | VEG(.02)       |
| Jul 1966-Jun 1967 | 21       | CE(.72)  | FL(.0568) | S and S(.0334) | VEG(.0252)     |
| Jul 1967-Jun 1968 | 22       | CE(.76)  | FL(.053)  | S and S(.0264) | VEG(.0216)     |
| Jul 1969-Jun 1970 | 24       | CE(.82)  | FL(.0356) | SPI(.0194)     | VEG(.018)      |
| Jul 1970-Jun 1971 | 25       | CE(.84)  | FL(.0333) | VEG(.016)      | SPI(.0158)     |
| Oct 1972-Sep 1973 | 27       | CE(.8)   | FL(.0398) | VEG(.0144)     | SPI(014)       |
| Oct 1973-Jun 1974 | 28       | CE(.83)  | FL(.0322) | VEG(.0157)     | EO(.125)       |
| Jan 1983-Dec 1983 | 38       | CE(.81)  | FL(.0435) | VEG(.0232)     | P and P(.0131) |
| Jul 1986-Jun 1987 | 42       | CE(.72)  | FL(.0632) | VEG(.036)      | EO(.0308)      |
| Jul 1987-Jun 1988 | 43       | CE(.78)  | FL(.0459) | VEG(.0286)     | P and P(.0182) |
| Jul 1988-Jun 1989 | 44       | CE(.82)  | FL(.0392) | VEG(.0243)     | P and P(.018)  |
|                   | 45       | CE(.91)  | FL(.0175) | VEG(.0126)     | EO( 008)       |

Table 5B: Sequence in Which Commodity Groups Appear, along with Their Budget Shares at Limiting Incomi s (Adjusted V/K, Presented in Parentheses): Urban

| Years             | Round No | CI      | C2        | C3             | C4             |
|-------------------|----------|---------|-----------|----------------|----------------|
| Apr 1951-Mar 1954 | 3        | CE(.83) | FL(.1263) | CL(.0187)      | EO(.0151)      |
| Apr 1952-Sep 1952 | 4        | CE(.77) | CL(.0303) | FL(.026)       | EO(.0138)      |
| Dec 1952-Mar 1953 | 5        | CE(.68) | FL(.0478) | CL(.033)       | MEF(.0204)     |
| May 1953-Sep 1953 | 6        | CE(.98) | FL(.0028) | CL(.0024)      | RE(.0009)      |
| Oct 1953-Mar 1954 | 7        |         |           |                |                |
| Jul 1954-Mar 1955 | 8        | CE(.9)  | FL(.0139) | EO(.007)       | MEF(.0063)     |
| May 1955-Nov 1955 | 9        | CE(.78) | FL(.0304) | EO(.0154)      | SU(.0143)      |
| Dec 1955-May 1956 | 10       | CE(.87) | FL(.0174) | EO(.0089)      | SU(0074)       |
| Aug 1956-Feb 1957 | 11       |         |           |                |                |
| Mar 1957-Aug 1957 | 12       |         |           |                |                |
| Sep 1957-May 1958 | 13       |         |           |                |                |
| Jul 1958-Jun 1959 | 14       |         |           |                |                |
| Jul 1959-Jun 1960 | 15       | CE(.83) | FL(.0273) | EO(.0142)      | SU(.0119)      |
| Jul 1960-Aug 1961 | 16       |         |           |                |                |
| Sep 1961-Jul 1962 | 17       |         |           |                |                |
| Feb 1963-Jan 1964 | 18       |         |           |                |                |
| Jul 1964-Jun 1965 | 19       | CE(.86) | SU( 0252) | FL(.0197)      | P and P( 0161) |
| Jul 1965-Jun 1966 | 20       |         |           |                |                |
| Jul 1966-Jun 1967 | 21       | CE(.92) | FL(.0122) | S and S(.0112) | SU(.0061)      |
| Jul 1967-Jun 1968 | 22       | CE(.87) | FL(.0204) | S and S(.0161) | PAN(.0065)     |
| Jul 1969-Jun 1970 | 24       | CE(.88) | FL(.0182) | SPI(.0156)     | EO(.0109)      |
| Jul 1970-Jun 1971 | 25       | CE(.86) | FL(.0208) | SPI(.0168)     | VEG(.0133)     |
| Oct 1972-Sep 1973 | 27       |         |           |                |                |
| Oct 1973-Jun 1974 | 28       | CE(.84) | FL(.0224) | PAN(.0055)     | SALT(.0013)    |
| Jan 1983-Dec 1983 | 38       | CE(.75) | FL(0442)  | VEG(.0228)     | SPI(.0175)     |
| Jul 1987-Jun 1988 | 43       | CE(.73) | FL(.0389) | EO(.0297)      | M and P(.0272) |
| Jul 1988-Jun 1989 | 44       | CE(.92) | FL(.0103) | VEG(.0088)     | M and P(.0082) |
|                   | 45       | CE(.87) | FL(.0199) | VEG(.0143)     | EO( 0127)      |

Abbreviations used :-CE Ccreals **MEF** Meat, Egg and Fish Fuel and Light S&S Salt and Spices FI. EO Edible Oil P&P Pulses and Products Clothing M&P Milk and Products CL SU Sugar F&N Fruits and Nuts Spices **VEG** Vegetables SPI : Pan, Tobacco and Int Rents PAN

Note: For some rounds when V/K estimate is outside the plausible range they are omitted.



justified in making temporal comparisons within rural and urban areas separately, it is not quite proper to make comparisons between urban and rural poverty indices.<sup>4</sup>

To shed more light on this problem we deflated the expenditure data of each NSS Round with the appropriate price index and examined to see if there is a long-run stable Engel curve that fits the data with a single V that can be used in computing the poverty index for each round. It was felt that urban and rural consumption patterns are not comparable anyway. Hence two separate long-run Engel curves were estimated, one for the rural areas and another for the urban areas.

Table 4 presents the poverty indices based on the assumption that there is a common Engel curve for all the rounds of NSS after adjusting the data for price level changes from year to year. These estimates seem to suggest that rural poverty had increased in India from 1960-61 to 1967-68 and then recorded a secular decline until 1989-90. There is again a sharp increase in rural poverty in 1990-91. An examination of urban poverty indices of Table 4 suggests that the urban poverty more or less remained stable until 1967-68 and then registered a slight decline and thereafter remained stable until 1989-90. Likerural poverty urban poverty also registered a sharp increase in 1990-91.

## IV Prioritisation of Household Needs

When the above Engel curve was fitted to the various groups of commodities for which NSSO presents its expenditures we observed that only for some of them, particularly cereals, the fit was good. In some cases Type II and Type III curves of the Figure scemed more appropriate. If the Engel curve for cereals has a Type I shape it follows that the expenditure on a commodity group consisting of all other commodities should have an Engel curve of Type III. Noting that the expenditure on cereals forms a major portion of total expenditure by a household we felt that the slope of the curve in some cases could be imperceptible if the curve is drawn against total expenditure, and that it may be perceptible if it is plotted against budget available after deducting the expenditure on cereals. This in fact turned out to be the case.

The above observation suggested that there could be a hierarchy of household needs among the poor, the intensity of need being the greatest for cereals. Once the cereals need is fulfilled the household may spend a part of the remaining income on a commodity, expenditure on which saturates next. Having met the expenditures on the two most important items the household may move on to spend on the third item, from the remaining income, and so on.

We tested this model of needs-hierarchy using the NSSO data from 1951-1991, viz, from the third round to the 45th round. After fitting the Engel curve of model (2.2) for cereals we asked the question which of the remaining groups of items takes the second position in terms of saturating next, with the best fitting hyperbolic relation plotted against the remaining part of the total expenditure. Having thus chosen the second most needed item, separately for each round and separately for rural and urban samples, we asked the question likewise — what item, out of the remaining items, would qualify to take the third position, and so on.

Our findings are reported in Tables 5A, 5B, and 6. In Tables 5A and 5B we present the sequence in which commodity groups appear along with their budget shares at limiting income (V/K values). In Table 6 we present the frequency with which a commodity is selected (out of a total of 29 rounds) as one of the top five priority items. From these results it appears that next to cereals comes the category 'fuel and light', the major component of that being possibly the cooking fuel. After fuel and light comes 'edible oil. After dible oil comes 'meat, egg, and fish' in rural areas and 'sugar' in urban areas.

The parameters 'V' and 'K' estimated at each stage refer to the situation where the independent variable of the non-linear Engel curve is the 'remaining total expenditure', after the expenditures on commodities of earlier stages are subtracted from the total expenditure. The V/K at each stage needs to be adjusted to express expenditure on that commodity as proportion of the total

expenditure at the limiting income. The adjusted V/K are presented in the parentheses in Tables 5A and 5B From these adjusted V/K figures it becomes quite clear that fuel and light occupies a high position next to cereals in terms of budget share at limiting incomes.

#### V Policy Implications of Our Results

It is our view that as a part of its common minimum programme the present UDF government must design programmes aimed at improving the welfare of the vulnerable sections of the community (households). Such programmes must not be looked upon as poverty alleviation programmes of the traditional variety with questionable, dubious and outdated methods of defining and measuring poverty. Instead, we propose that a new thrust be given to poverty alleviation through minimum needs programmes. In designing these programmes the vulnerable groups may be chosen from a set of alternative groups through criteria other than the poverty line, criteria based on social, political, and administrative considerations aided by our measure of consumption deprivation. What we mean by this is that among a set of alternate groups chosen a priori according to sociological, economic, political and administrative criteria one group may be chosen as the beneficiary group for the government's programme on the basis of the criterion of having the highest level of commodityspecific consumption deprivation

From the findings reported in the previous section on the hierarchy of needs it becomes quite apparent that after cereals the next most important commodity group is fuel and light, which includes cooking fuel. After these two comes the group edible oils. In view of these results it can be suggested that in revamping the PDS the new government should omit the creamy layer from the PDS beneficiary list and spend more on providing cooking

TABLE 6 FREQUENCY WITH WHICH A COMMODITY
WAS SELECTED IN FIRST FOUR PRIORITY ITEMS
ACCORDING TO ADJUSTED V/K

| ltems               | Rural | Urban |
|---------------------|-------|-------|
| Cereals             | 29    | 18    |
| Fuel and Light      | 29    | 18    |
| Edible Oil          | 15    | 9     |
| Clothing            | 4     | 4     |
| Sugar               | ı     | 5     |
| Vegetables          | 12    | 4     |
| Pan, Tobacco        | 0     | 2     |
| Meat, Egg and Fish  | 10    | 2     |
| Salt and Spices     | 3     | 2     |
| Pulses and Products | 5     | 1     |
| Milk and Products   | 0     | . 2   |
| Spices              | 3     | 3     |
| Rents               | 0     | 1     |
| Salt                | 0     | i     |

through PDS.

We also feel that more detailed analysis needs to be done along the lines proposed here to assess the commodity-specific consumption deprivation among different vulnerable groups in order to design proper welfare-improving government programmes based on the minimum needs approach. The poverty line and the traditional poverty measures based on the poverty line can be dispensed with altogether.

While fuel and light have been clubbed together in this analysis of NSSO data there are other studies that have examined the role of cooking fuel (fuel wood, charcoal and kerosene) in household consumption. In particular we may refer to the work of Reddy and Reddy (1985) that examined cooking fuel consumption by a sample of households in Bangalore city. A similar survey of cooking fuel consumption in rural North India was undertaken by NCAER (1978). The study of Reddy and Reddy clearly shows the importance of consumption of cooking fuel among low-income households even in highly urbanised areas such as Bangalore. The long lines of the urban poor to get kerosene is a pathetic sight we confront today, even after the government permitted the import and sale of kerosene by private parties. One strong implication of our study is to highlight the importance of cooking fuel for the poor households

Another major policy implication of our study is that in the currently prevailing attitude of giving primacy to local bodies in designing and monitoring the poverty alleviation programmes the targeting of the programmes in terms of the choice of the beneficiaries and the choice of commodities must be specific to each local community. Our research emphasises this point and also provides a method of choosing these targets for each local community.

Although we used the NSS data and presented our results for the country as a whole we emphasise that this sort of exercise has to be done at disaggregated levels, possibly at the district, taluk, and village or (urban) block levels. The NSS type of data which has very few observations at such levels of disaggregation are not suitable for this purpose. We hope our study will drive home the need to generate data bases at grass roots level to design and monitor social welfare programmes. We also hope that the various NGOs whih are actively engaged in ocial welfare schemes all over the country will come together to develop standardised tata bases at the village and block levels.

In short, we hope that this study of ours all convince both the researchers and the labey makers that the concept of poverty have can be dispensed with. We also hope that our study will form the beginning of

worthwrite social science policy research through research studies on consumption deprivation at the village and block levels.

#### Notes

[This work is based on an ongoing research by these authors on measurement of poverty without using a poverty line. The authors' new method for measuring poverty is based on commodityspecific consumption deprivation, the commodities chosen being the most essential basic needs. This is a radically different method, compared to the highly discredited traditional methods that employ a questionable and subjective poverty line. The interested reader may refer to Gore, Kumar, Paranjpe, Sastry, and Sitaramam (1994 and 1996) and Kumar, Gore and Sitaramam (1996) This research was initiated by V Sitaramam at the National Institute of Nutrition several years ago in collaboration with J G Sastry. It is now being continued by Sitaramam, during the last two and a half years, in association with Gore, Krishna Kumar and Paranjpe The authors thank S Subramanian and Vinod Vyasulu for their comments on an earlier draft of this paper Krishna Kumar thanks Sushant Mallick, G Nagaraju, and N S Manjula for their research assistance.]

- 1 It is our view that an attention to semantics and linguistics is quite useful here. The economists' focus so far has been on the 'focus axiom' that requires the noun 'poverty' to be associated with the substantivised adjective 'poor', or the associated noun 'the poor'. The English language, however, gives the nown 'poverty' a position that does not necessarily depend on the identification of 'the poor'. In other words the English language does not say that poverty is only what 'the poor' possess. The Webster's New Collegiate Dictionary gives three different meanings to the word poverty (1) the state of one who lacks a usual or socially acceptable amount of money or material possessious, (2) scarcity or dearth, (3) debility due to malnutrition. The second meaning refers to deprivation and that is what we wish to emphasise
- 2 It is trivial that there should be a direct relation between unemployment and poverty. This relationship is vividly brought out in terms of published official statistics for urban areas in selected Indian States by Vyasulu and Vani (1996).
- 3 We have shown in another paper that the poverty index we propose satisfies all the major axioms that such an index should satisfy (axioms such as those proposed by Sen (1976), and Kakwam (1980)) except the focus axiom. We argued that there is no need to have the focus axiom if we define poverty first without defining who the poor are Isee Gore, Kumar, Paranjpe, Sastry, and Sitaramam 1994 and 1996. The proofs that the poverty index satisfies all the major axioms were based on the observation that the index is the mean of deprivation, which is expressed as a function of income, the mean being taken with respect to the income distribution [Kumar 1993].
- 4 The problem here is quite similar to the problem of real income comparisons posed by Samuelson One can make Scitovsky type of comparisons between rural and urban poverty measures by substituting urban saturation levels

of consumption for rural households and rural saturation levels for urban households, and then comparing them as transferable public expenditure equivalents

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#### INDIA'S POLITICAL AGENDA:

Perspectives on the Party System

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## **Economic Reform and Rate of Saving**

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The latest CSO data show an improvement in domestic saving and investment in 1993-94 and 1994-95, but an examination of the sources of that improvement and the later sharp reduction in the financial saving of the household sector during 1995-96, despite two years of accelerated GDP growth and high interest rates, as brought out by the Reserve Bank of India's latest estimates, suggests that no clear upward trend in saving and capital formation has emerged yet.

Against this background, this paper discusses some issues relating to the measurement of domestic saving and capital formation. Further, it contends that the evolving economic structure and policy framework are such that the Indian economy is unlikely to achieve the kind of rapid increases in domestic saving which propelled the remarkable growth of the east and south-east Asian countries.

#### I The Issues

PREMACHANDRA ATHUKORALA and Kunal Sen (1995) question the basic thrust of our paper [EPWRF 1995] which was that not only have there been persistent declines in overall domestic saving and capital formation ratios since 1990-91 as brought out by the CSO's official series, but also that the existing estimation procedures may have introduced some upward bias in the measurement of household financial savings, and in turn, in that of overall domestic saving, particularly for 1993-94. Subsequent to the appearance of their critique, saving and investment data have been published by the CSO for one more year, namely, 1994-95 and the estimates for 1993-94 have been revised. Besides, the Reserve Bank of India (RBI) has just released its estimates of household financial savings for 1995-96 [RBI 1996]. The CSO data show an improvement in the domestic saving and investment scenario during 1993-94 and 1994-95 (Tables 1 and 2), but a review of the sources of that improvement and the subsequent drastic reduction in the saving of the household sector in financial assets during 1995-96 as per the RBI's latest estimates, despite two years of accelerated GDP growth and high levels of interest rates for saving instruments, suggests that a firm upward trend in saving and capital formation ratios has not yet set in. We thus see no ground to alter our basic perspectives as articulated in our original paper, but the primary purpose of this note is essentially to respond to the substantive questions raised by Athukorala and Sen (A-S henceforth) on the measurement of domestic saving and capital formation and the economic fundamentals which purportedly underscore their perception of the given saving behaviour.

The measurement issues which A-S raise essentially concern two specific areas. I arst, they note that the fall in the domestic saving rate since 1990-91 has been driven by the decline in household physical saving which, they emphasise, is a "statistical

artefact" arising from possible measurement errors in the estimation of gross domestic capital formation (GDCF). Their second critical comment relates to our hypothesis that the only silver lining in the otherwise depressing saving scenario in the form of an improvement in household financial saving during the three-year period 1991-92 to 1993-94 may have arisen from a possible upward bias introduced in the existing method of estimation. A-S contend that they failed to find any convincing evidence regarding such overestimation of household financial savings.

The following two sections deal with the above substantive issues. In responding to the questions raised by A-S, some clarifications on the methodological issues are found necessary as the interpretations offered by them are apt to give misleading impressions. Thus, while dealing with the questions relating to the possible under-estimation of household physical assets formation (in Section II), clarifications are offered on the alleged underreporting of production and incomes and its implication for the estimation of capital formation (and saving) to GDP ratios.

Similarly, while addressing the issue concerning possible overestimation of household financial saving (in Section III), it is clarified that household saving in such short-term monetary assets as currency and bank deposits derived through the 'residual' method does not imply that the balance of such financial asset accruals necessarily form any constituent parts of the savings of the private corporate and public sectors. In the final section (Section IV), a brief comment is offered on the tenability of saving and investment trends in recent years and how they fare in relation to the perspectives which we brought to bear, in our earlier paper, on the disappointing performance in the first three years of reform.

#### U Decline in Household Physical Savings

The gravamen of A-S's critique of our paper is their assertion that "the apparent

decline in the household investment in physical capital (and hence household saving rate)... has largely, if not entirely, emanated from an underestimation of GDCF in recent years" (p 2187). While they concede that this issue can be meaningfully resolved only through a careful study of the estimation procedure adopted by the CSO and the possible inconsistencies between the procedures used and changing patterns of 'production relations in the economy', for which however ready information is not available, the authors put forth two explanations for their hypothesis of a systematic downward bias in the measurement of GDCF since 1991, namely, first, the ongoing process of informalisation of the Indian industry which would have been intensified following policy reforms in 1991, and second, the rapid growth of capital (and intermediate) goods imports, both of which are not being adequately captured in the commodity flow method. The first factor relates to the phenomenon of under-reporting of production, in particular, failure "to capture construction material, machinery and other investment goods produced in the unorganised sector" (p 2188) and the second, the lags in the compilation of trade data and the use of historical ratios of imported to total available capital goods. Hence, the CSO results, according to A-S, may be tending to understate domestic capital formation.

#### IMPACT OF UNDER-REPORTING

In this respect, it is necessary to be clear about the general implications of underreported and unreported production on the estimation of capital formation (and saving) and also on the ratios of capital formation (and saving) to GDP. It is generally perceived, as the Raj Working Group [RBI 1982:41-42] opined, that the extent of under-reporting would be relatively more in total GDP than that in capital formation or saving: "All that can therefore be said is that there is prima facie reason to suspect underestimation of GDP and that – though it is impossible even to guess on the basis of presently available knowledge how large a difference it could

TABLE 1. DOMESTIC SAVING BY TYPE OF INSTITCTIONS (AT CURRENT PRICES)

| - Savings c (2+5+6)           |                          | Total            |           |                           |                                  |                                              |
|-------------------------------|--------------------------|------------------|-----------|---------------------------|----------------------------------|----------------------------------------------|
| (2+5+6)                       | Govern- Depart-          |                  | <u>F</u>  | Corporate ——<br>Sector To |                                  | Corporate<br>Sector                          |
| Enterorises (CFC)             | ment Adm- mental         | _                | (7+8+9)   | (7+8+5)                   |                                  | Physical<br>Assets                           |
| (10)                          | (8)                      |                  | (9)       | (5) (5)                   | (5)                              | (4) (5)                                      |
| 1850(1.4) 28786(21.2) 1208    | 2559(1.9) 245(0.2)       | Ĭ.,              | 1654(3    | 2284(17) 4654(3           | _                                | 2284(17)                                     |
| 3153(2.0) 31597(19.8) 14459   | 3767(2.4) 334(0.2)       |                  | 7254(4    | 2496(16) 7254(4           | _                                | 12233(77) 2496(16)                           |
| 4302(2.4) 33774(19.0) 16886   | 2896(1.6) 624(0.4)       |                  | 7822(4    | 2908(: 5) 7822(4          |                                  | 10305(5.8) 2908(1.5)                         |
| _                             | 1201(0.6) 678(0.3)       |                  | 6781(3    | 3172(15) 6781(3           |                                  | 3172(15)                                     |
| 42178(18.2)                   | -315(-0.1) 732(0.3)      | -                | 6526(2    | 3947(1.7) 6526(2          | _                                | 3947(1.7)                                    |
| 51933(19.8)                   | -474(-0.2) 1419(0.5) 7   |                  | 8457(3)   | 5318(2.0) 8457(3.3        | _                                | 19620(7.5) 5318(2.0)                         |
| 8908(3.0) 54801(18.7) 2982    | 2400(-0.8) 1494(0.5) 8   | •                | 8002(2    | 5212(1.8) 8002(2          | _                                | 5212(1.8)                                    |
| _                             | 5384(-1.6) 2077(0.6) 10  | •                | 7223(2.2  | _                         | _                                | 5790(1.7)                                    |
| 3330(3.4) 85275(21.5) 38921   | _                        | •                | 8101(2.0) | 8731(2.2) 8101(2.0)       | 8731(2.2)                        | 41263(104) 8731(2.2)                         |
| •                             | 11659(-2.6) 2999(07) 16  | ٠                | 7423(1.6) | 11800(2.6) 7423(1.6)      | _                                | 45580(10.0)                                  |
| _                             | 3664(07) 1               | •                | 5436(1.0) | 14443(2.7) 5436(1.0)      | 14443(2.7)                       | ( 60538(11.3)                                |
| _                             | 4401(07) 3               | 12753(-21)       | 2735(1.7) | 19490(2.6) 12735(1.7)     | _                                | 61984(10.1) 47820(7.8) 19490(2.6) 12735(1.7) |
| _                             | 4979(07) 1               | -13608(-19       | 0893(21)  | 20804(2.8) 10893(2.1)     | 53991(7.7) 20804(2.8) 10893(2.1) | _                                            |
| :3035(2 9) 158493(20.2) 8006  | 8540(11) 2               | -29631(-3.8)     | 1944(0.2) | 31153(4.0) 1944(0.2)      | 44270(5 6) 31153(4.0) 1944(0.2)  | _                                            |
| 9661 9                        | Data from NAS 1996       |                  |           |                           |                                  |                                              |
| (3330(3.4) 84668(21.4) 3892   | -7748(-2.0) 2519(0.6) 13 |                  | 8101(2.0) | 8319(2.1) 8101(2.0)       | 8319(2.1) 8101                   | 8101                                         |
| 101539(22.2)                  | 2999(07)                 | 7                | 7423(1.6) |                           | 11650(2.6)                       | 45299(9.9) 11650(2.6)                        |
| 126652(23 6)                  | 3664(0.7)                | _                | 5436(10)  |                           | 14940(28)                        | 59923(11.2) 14940(2.8)                       |
| 140647(22.8)                  | 1401(07)                 | _                | 1888(19   | 19490(3.2) 11888(19       | 19490(3.2) 1                     | 47220(7.7) 19490(3.2) 1                      |
| 9513(2.8) 149365(21.2) 72945  | 4982(0.7)                | 5, -13675(-1.9)  | 0820(1.   | 19841(2.8) 10820(1.5)     |                                  | 59376(8.4)                                   |
| 171184(21.4)                  | 7404(0.9)                | 5) -27188(-3.4)  | 4372(0 5) | 27666(3.5) 4372(0         | •                                | 53015(66)                                    |
| 33074(3.5) 230648(24.4) 94841 | 8919(0.9)                | .7) -26007(-2.8) | 5986(1    | _                         | 35966(3.8)                       | 733947 81 35966(3 8)                         |

Notes: Figures in brackets are as percentage to GDP at current market prices. except in Col(12) which is as percentage of NDP at current market prices. Source: Central Statistical Organisation (CSO), National Accounts Statistics (NAS), various issues

make to the aggregate - any allowance made for it would tend to lower somewhat the estimated ratios of investment and saving in the economy" [RBI 1982: 42]. This is obviously so because hoarded currency and unreported holdings of other financial assets at the level of individuals or other entities are nonetheless captured in aggregate financial flows, which are generally independently derived from the financial accounts of the financial sector institutions.1 Gold and consumer durable goods holdings, hidden or otherwise, do not constitute any part of capital formation or saving estimates. Unrecorded and unreported physical investment based on independently estimated supplies of cement, steel and other key construction materials and machinery and equipment produced in the registered sector are all captured in the commodity flow method. By far the weakest links in the estimation edifice are the labour-intensive construction works and the contribution of unregistered manufacturing to the supplies of 'machinery and equipment' through historical ratios. The phenomenon of unreported output is widely acknowledged as a universal one, in registered as well as in unregistered and unorganised sectors. But, considering the data sources and compilation procedures, it seems quite reasonable to accept the hypothesis that unreported or uncaptured proportion would be relatively more in total GDP than in domestic savings and capital formation; this should also be true for major individual sectors.2

The commodity flow method came in for detailed scrutiny at the hands of the Raj Working Group. Conceding that there are several points at which errors and biases may enter, the Working Group argues that where the 'commodity flow' method is used, the estimates of construction materials and machinery produced in the 'unorganised sector', of construction inputs other than the five basic ones, and of factor income payments (based on proportions derived from field data for remote years), are all evident sources of error; the basis of estimation of labour-intensive construction appears to be still more tenuous. The Group, however, argued that, "While this is obvious, there is no way of judging the precise extent of the errors involved" [RBI 1982:14]. Furthermore, it was recognised that there was no merit in believing, contrary to what A-S think, that estimates of capital formation and saving for the public sector and the private corporate sector were any the better.3 Hence, any upward or downward bias in the form of fixed assets formation in these organised sectors (through inflated project costs, leakages of various kinds or mere estimational errors) would have a corresponding downward or upward bias in the estimates of assets formation in the household sector.

With all these possible errors, however, there are checks and balances within the comprehensively designed estimation procedure which finally produces as reasonable a set of estimates as is possible given the structure of the economy and the inherent problems in generating reliable data. Hence the size of errors cannot be such as to falsify the underlying trends revealed in the CSO series. "It is doubtful whether the estimates for any other country at a similar stage of development have a much firmer foundation" [RBI 1982:49]. To buttress their considered judgment, the Raj Working Group also quote the situation in this respect that obtained in the US as late as towards the middle of the 1950s.4

One must hasten to add that it was not as though that there was no scope for further improvements in sources and methods of estimation adopted by the CSO in India. Many historical field survey results are required to be updated rather drastically and with greater frequency, which in effect is the only method of improving the data base. A series of suggestions were made by the Raj Working Group towards that end and the CSO have been making use of them on an ongoing and continual basis from year-toyear, based on fresh results thrown up by various periodic field surveys ICSO 1988. Gothoskar 1988 and Subba Rao 1993 and 1994] which is what is conferring on them a status of general acceptance.5 In the circumstances, unless we can identify concrete sources of underestimation or overestimation arising from the commodity flow method and provide alternative sources of data and methods of compilation or unless obvious and distinct contradictions are noticed between the saving and capital formation estimates on the one hand, and economic fundamentals on the other, the Raj Working Group judgement that there was no way of pinpointing the precise extent and direction of the errors involved, still holds good. The only one example cited by the A-S paper of the phenomenon of informalisation of the Indian industry as possibly contributing to an underestimation of GDCF is in fact a questionable proposition, as we presently attempt to show.

#### INDEPENDENT EVIDENCES

Before we deal with the issues of informalisation of industry and lags in external trade data as the possible contributory factors for the alleged downward bias in the measurement of GDCF, we wish to bring out certain specific indications which corroborate with the observed decline in GDCF.

First, it is necessary to bear in mind that the Indian economy has been facing major stabilisation and structural adjustment programmes since 1991-92 and that a decline in capital formation ratio should be an obvious concomitant. How much could have been the decline and which sectors faced this decline, are questions that need to be addressed. In this context, at the aggregative

TABLE 2. DOMESTIC SAVING, CAPITAL FORMATION AND FOREIGN INFLOWS (AT CURRENT PRICES)

(Rs crore) Year Total Total GDCF Errors and Adjusted Gross Net Investible **GDCF** Domestic Capital by Assets Omissions Saving Inflows Resources (Unadjusted (2+3)(4.5)(5+6) or (4) (1) (2) (3) (4) (6) (7) 1980-81 28786(21.2) 2094(1.5) 30880(22.7) 28453(20.9) 2427(1.8) 30880(22.7) 1981-82 31597(19.8) 2611(1.6) 34208(21.4) 37951(23.8) -3743(-23)34208(21.4) 36340(20.4) 36340(20 4) 40103(22.5) -3763(-2.1) 1982-83 33774(19.0) 2566(1.4) 1983-84 39294(18.9) 2517(1.2) 41811(20.1) 43790(21.1) -1979(-1.0) 41811(201) 45470(197) 49012(21.2) -3542(-1.5) 42178(182) 45470(19.7) 1984-85 3292(1.4) 51933(19.8) 6234(2.4) 58167(22.2) 63442(24.2) -5275(-2.0) 58167(22.2) 1985-86 61156(20.9) 67899(23.2) -6743(-2.3) 61156(209) 1986-87 54801(18.7) 6355(2.2) 76456(229) 1987-88 69631(20.9) 6825(20) 76456(22 9) 74882(22.5) 1574(0.5) 1988-89 85275(21.5) 12304(3.1) 97579(24.7) 97054(24.5) 525(0.1) 97579(247) 110791(24.2) 3458(0.8) 114249(25 O) 114249(250) 1989-90 101970(22.3) 12279(2.7) 126793(23.7) 144989(27.1) 137391(25.7) 7598(14) 144989(27 1) 1990-91 18196(3.4) 142029(23.1) 145406(23.6) 140864(22.9) 4542(0.7) 145406(23.6) 1991-92 3377(0.5) 140635(20 0) 13816(20) 154451(22 0) 163756(23.3) -9305(-1.3) 154451(220) 1992-93 1993-94 158493(20.2) 2149(0.3) 160642(20 4) 167553(21.3) -6911(-0.9) 160642(20.4) Data from NAS 1996 1988-89 84668(21.4) 12304(3.1) 96972(24.5) 96411(244) 561(01) 96972(24.5) 110195(24.1) 3623(0.8) 113818(24.9) 1989-90 101539(22.2) 12279(2.7) 113818(24.9) 9692(18) 144848(27 0) 1990-91 126652(23.6) 18196(3.4) 144848(27.0) 135156(25.2) 140068(22.7) 3956(0.6) 144024(23.4) 1991-92 140647(22.8) 3377(0.5) 144024(23.4) 163181(23.1) 169548(24.0) -6367(-09) 163181(23.1) 1992-93 149365(21.2) 13816(2.0) 173331(21.6) 171009(21.3) 2322(0.3) 173331(21.6) 1993-94 171184(21.4) 2147(0.3) 1994-95 230648(24.4) 7762(0.8) 238410(25.2) 218920(23.2) 19490(2.1) 238410(25.2)

Figures in brackets are percentages to GDP at current market prices. Source: CSO, NAS, various issues.

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TABLE 3: GROSS CAPITAL FORMATION, CHANGE IN STOCKS AND GROSS FIXED CAPITAL FORMATION BY SECTORS (AT CURRENT PRICES)

|         |               | Gross Capital | Gross Capital Formation (GCF) | CF)         |            | Chan       | Change in Stocks |             | Gross        | Gross Fixed Capital Formation (GFCF) | Formation (C | JFCF)       | Memo Item  |
|---------|---------------|---------------|-------------------------------|-------------|------------|------------|------------------|-------------|--------------|--------------------------------------|--------------|-------------|------------|
| Year    | Total         | House-        | Private                       | Public      | Total      | House-     | Private          | Public      | Total        | Honse-                               | Private      | Public      | Change in  |
|         | (3+4+5)       | hold          | Corporate                     | Sector      | (7+8+6)    | Pold       | Corporate        | Sector      | (11+12+13)   | pold                                 | Corporate    | Sector      | Stocks of  |
|         |               | Sector        | Sector                        |             |            | Sector     | Sector           |             |              | Sector                               | Sector       |             | Trade      |
| (3)     | (2)           | (3)           | (4)                           | (5)         | (9)        | (j)        | (8)              | 6)          | (10)         | (E)                                  | (12)         | (13)        | (14)       |
| 18-0861 | 28453 (20 9)  | 13238(9.7)    | 3448(2.5)                     | 11767(8.7)  | 2177(16)   | 2196(1.6)  | -93(-0.1)        | 74(01)      | 26276(19.3)  | 11042(8.1)                           | 3541(2.6)    | 11693(8.6)  | 1585(1.2)  |
| 1981-82 | 37951 (23 8)  | 12233(7.7)    | 9118(5.7)                     | 16600(10.4) | 6496(41)   | 1204(0.8)  | 3290(2.1)        | 2002(1.3)   | 31455(19.7)  | 11029(6.9)                           | 5828(3.6)    | 14598(9.1)  | 4695(2.9)  |
| 1982-83 | 40103 (22.5)  | 10305(5.8)    | 10085(5.7)                    | 19713(11.1) | 4334(2.4)  | 516(0.3)   | 2691(1.5)        | 1127(0.6)   | 35769(20.1)  | 9789(5.5)                            | 7394(4.2)    | 18586(10.4) | 1016(0.6)  |
| 1983-84 | 43790 (21.1)  | 16047(7.7)    | 6956(3.4)                     | 20787(10.0) | 3799(1.8)  | 3238(16)   | 224(0.1)         | 337(0.2)    | 39991(19.3)  | 12809(6.2)                           | 6732(3.2)    | 20450(9.9)  | 1776(0.9)  |
| 1984-85 | 49012 (21.2)  | 13826(6.0)    | 10111(4.4)                    | 25075(10.8) | 3444(1.5)  | -155(-0.1) | 1920(0.8)        | 1679(0.7)   | 45568(19.7)  | 13981(6.0)                           | 8191(3.5)    | 23396(10.1) | 1236(0.5)  |
| 1985-86 | 63442 (24.2)  | 19620(7.5)    | 14405(5.5)                    | 29417(11.2) | 9167(3.5)  | 2909(1 1)  | 4362(1.7)        | 1916(0.7)   | 54255(20.7)  | 16711(6.4)                           | 10043(3.8)   | 27501(10.5) | 2956(1.1)  |
| 1986-87 | 67899 (23.2)  | 18251(6.2)    | 15506(5.3)                    | 34142(11.7) | 5847(2.0)  | 1647(0.6)  | 3312(1.1)        | 888(0.3)    | 62052(21.2)  | 16604(5.7)                           | 12194(4.2)   | 33254(11.4) | 4948(1.7)  |
| 1987-88 | 74882 (22.5)  | 29798(8.9)    | 12025(3.6)                    | 33059(9.9)  | 2688(08)   | 2398(0.7)  | 1802(0.5)        | -1512(-0.5) | 72194(21.7)  | 27400(8.2)                           | 10223(3.1)   | 34571(10.4) | -313(-0.1) |
| 1988-89 | 97054 (24 5)  | 41263(10.4)   | 16427(4.2)                    | 39364(9.9)  | 11385(2.9) | (6.1)1152  | 4376(1.1)        | -502(-0.1)  | 85669(21.6)  | 33752(8.5)                           | 12051(3.0)   | 39866(10.1) | 4600(1.2)  |
| 1989-90 | 110791 (24.2) | 45580(10.0)   | 19645(4.3)                    | 45566(10.0) | 8016(1.8)  | 1877(0.4)  | 4435(1.0)        | 1704(0.4)   | 102775(22.5) | 43703(9.6)                           | 15210(3.3)   | 43862(9.6)  | 3441(0.8)  |
| 16-0651 | 137391 (25.7) | 60538(11.3)   | 24703(4.6)                    | 52150(9.7)  | 13387(2.5) | 7001(1.3)  | 4412(0.8)        | 1974(0.4)   | 124004(23.2) | 53537(10.0)                          | 20291(3.8)   | 50176(9.4)  | 7750(1.4)  |
| 1991-92 | 140864 (22.9) | 47820(7.8)    | 36540(5.9)                    | 56504(9.2)  | 4088(0.7)  | 4109(0.7)  | 2189(0.4)        | -2210(-0.4) | 136776(22.2) | 43711(7.1)                           | 34351(5.6)   | 58714(9.5)  | 5091(0.8)  |
| 1992-93 | 163756 (23.3) | 53991(7.7)    | 47409(6.7)                    | 62356(8 9)  | 12578(1.8) | 4590(0.7)  | 5301(0.8)        | 2687(0.4)   | 151178(21.5) | 49401(7.0)                           | 42108(6.0)   | 59669(8.5)  | 10794(1.5) |
| 1993-94 | 167553 (21.3) | 44270(5.6)    | 53464(6.8)                    | 69819(8.9)  | 3174(0.4)  | 2367(0.3)  | -3008(-0.4)      | 3815(0.5)   | 164379(20.9) | 41903(5.3)                           | 56472(7.2)   | 66004(8.4)  | 3892(0.5)  |

Noter: Figures in brackets are percentage to GDP at current market prices ... denotes not available Source: CSO, NAS, various issues.

:::::::

43862(10.0) 50176(9.7) 58737(9.2) 60100(8.9) 67201(8.6) 81828(8.8)

> 20906(4.3) 34995(5.9) 41973(6.7)

43422(9.5) 52922(9.9) 42771(6.9)

102775(22.5) 124004(23.2) 136503(22.1)

1704(0.4) 1975(0.4)

85669(21.6)

-501(-0.1)

55412(6.1) 65078(6.6)

49633(6.2) 66158(7.0)

172246(21.5) 213064(22.5)

-6167(-0.8) -2797(-0.3)

10610(15) -1237(-02) 5856(0.6)

> 68749(8.6) 83245(8.8)

> 49245(6.1) 62281(6.6)

53015(6.6) 73394(7.8)

171009(21.3) 218920(23.2)

56665(8.0)

158738(22.5)

-2200(-0.4) 2609(0.4) 1548(0.2) 1417(0.1)

3839(0.8) 2176(0.4) 1316(0.2) 5490(0.8)

7511(1.9) 1877(0.4) 7001(1.3) 4449(0.7) 2711(0.4) 3382(0.4) 7236(0.8)

> 52151(9.7) 56537(9.2) 62709(8.9)

23082(4.3) 36311(5.9)

59923(11 2) 47220(7 7) 59376(8 4)

135156(25 2) 140068(22.7) 169548(2. 0)

1990-91 1991-92 1992-93

1993-94

47463(67)

10742(2 7) 7420(1 6) 11152(2.1) 3565(0.6)

45566(10.0)

15978(4.0) 19330(4.2)

45299(99)

96411(24.4)

1988-89 1989-90

39866(9.9)

12246(4.0) 15491(4.2)

33557(8.5)

level, one of the concrete experiences has been that the estimated foreign capital inflows to GDP ratio fell by over three percentage points between 1990-91 and 1993-94, the obverse of a sharp compression of current account deficit on the balance of payments (except for minor compositional differences). Secondly, a substantial part of the fall in GDCF – about one-half – is accounted for by the decline in 'change of stocks', which has, as we explain below, significant corroborative evidence based on microeconomic and sectoral trends.

#### REDUCTION IN FOREIGN INFLOWS

The medium-term stabilisation programme in 1990-91 and 1991-92 began with drastic measures of import controls supported by highly restrictive credit policy (RBI 1992:6). This was followed by significant slowdown in the growth of developmental expenditure by the central government, from an annual compound rate of 12.2 per cent during 1985-86 to 1990-91 to 7.3 per cent during 1990-91 to 1993-94 [RBI 1995:149], the latter being much less than the average inflation rate of 10.7 per cent per annum during the same period; the average inflation rate in the previous five-year period was 7.8 per cent per annum. As percentage of GDP, the centre's developmental expenditure fell from 11 per cent in 1990-91 to a 9.2 per cent

in 1993-94. Even the growth of the states' development expenditure decelerated during this period. These measures resulted in an unprecedented level of import compression which began in 1991-92, with the level of merchandise imports in US dollar terms even in 1993-94 at \$ 23,985 million being much less than that of 1990-91 (\$ 27,914 million) (BoP data). As a result, the current account deficit and consequently, foreign capital inflows slumped to 0.3 per cent of GDP in contrast to a level of 3.4 per cent in 1990-91 - a fall of over 3 percentage points (Table 2). This comparison with 1990-91 may appear incorrect as that year faced a crisis on the external economic front, but even a comparison of the annual averages for the preceding and succeeding three years reveals a fall of over 2 percentages points in the ratios of capital inflows.6 Thus, the dramatic fall in foreign capital inflows, which go to finance domestic investment. would have contributed to a corresponding decline in the GDCF to GDP ratio between 1990-91 and 1993-94, unless it could be proved that there was a simultaneous rise in the domestic savings ratio, which we rule out.

#### DECLINE IN INVENTORY BUILD-UP

Another independent evidence of a sizeable decline in the ratio of GDCF is found in the behaviour of 'change in stocks';

the latter fell by 2.1 percentage points between 1990-91 and 1993-94 (Table 3). Measurement of inventory build-up is based on data marshalled by the CSO from diverse sources, and evidently there can be errors in estimation. But, in regard to the above reduction in the ratio of 'change in stocks' to GDP, there is significant direct or corroborative evidence in micro-economic or sectoral data. Inventories generally behave contra-cyclically [Sen 1964]. In the Indian case the structural features also play a role. The year 1990-91 had preceded with high growth both in agriculture and manufacturing alike but the macro-economic crisis, particularly that originating in the external sector, was looming large on the horizon. Thus, on account of comfortable supplies, the stock build-up became large. By the time the Indian economy reached 1993-94, the scope for further build-up of agricultural commodities was limited. As for the manufacturing sector, the unusually low level of industrial growth persisting during the three-year period (0.6 per cent, 2.3 per cent and 6.0 per cent, respectively, as against 8.5 per cent per annum during the decade of the 1980s) left little room for any sizeable stock build-up by 1993-94.

Coming to concrete evidences on the above phenomenon, first, independent studies on the finances of the private corporate sector

Table 4 Trends in Private Corporate Sector Capital Formation Annual Growth Rate Based on Nominal Amounts

(In Percentages)

|         | RI             | BI Sample  |         |         |             | DBI Sample | :    |         | IC          | ICI Sample |      |
|---------|----------------|------------|---------|---------|-------------|------------|------|---------|-------------|------------|------|
| Year    | Gross Fixed    | Inven-     | GCF     | Year C  | iross Fixed | Inven-     | GCF  | Year    | Gross Fixed | Inven-     | GCF  |
|         | Assets         | tories     |         |         | Assets      | tones      |      |         | Assets      | tones      |      |
| 478     | Large Pubire I | imited Cor | npanies |         | 401 C       | Companies  |      | <u></u> | 417 Cc      | mpanies    |      |
| 1981-82 | 16.7           | 10.8       | 177     | 1981-82 | 19.2        | 21.9       | 20 0 | 1981-82 | 17.5        | 21.8       | 18.9 |
| 13      | 838 Public Lin | nited Comp | anies   | 1982-83 | 198         | 72         | 15.9 | 1982-83 | 20.2        | 11.1       | 17 3 |
|         |                | •          |         |         | 401 C       | onipanies  |      | 1983-84 | 16 4        | 4 8        | 12.9 |
| 1983-84 | 177            | 2 3        | 12.8    | 1984-85 | 14.1        | 8 8        | 128  | 1984-85 | 14.1        | 10.3       | 130  |
| 984-85  | 18 6           | 8.6        | 15.7    | 1985-86 | 15.3        | 21.8       | 16 9 |         | 417 Co      | mpanies    |      |
| 13      | 867 Public Lin | nited Comp | anies   |         | 401 C       | Companies  |      | 1984-85 | 14.4        | 11.0       | 13.4 |
| 1984-85 | 18.2           | 85 .       | 15 4    | 1989 90 | 14.4        | 22 8       | 16.3 | 1985-86 | 15.3        | 19.0       | 16.3 |
| 1985-86 | 21.3           | 16.4       | 20.0    | 1990 91 | 17.2        | 16.3       | 17.0 | 1986-87 | 16.5        | 9.5        | 14.5 |
| 11      | 942 Public Lin | nited Comp | anies   |         |             |            |      | 1987-88 | 156         | 70         | 13.3 |
| 1985-86 | 21.4           | 16.6       | 20.1    |         | 505 C       | `ompanies  |      |         | 417 Cc      | mpanies    |      |
| 1986-87 | 127            | 87         | 11.7    | 1990-91 | 199         | 21.9       | 20.4 | 1986 87 | 16.8        | 9.4        | 14.7 |
|         |                |            |         | 1991-92 | 26 1        | 19,5       | 24.4 | 1987-88 | 15.7        | 8.2        | 13.7 |
| 1       | 953 Public Lin | nited Comp | anies   |         |             |            |      | 1988-89 | 15.3        | 23.5       | 174  |
| 1986-87 | 129            | 92 `       | 119     |         | 505 C       | ompanies   |      | 1989-90 | 16.0        | 19.5       | 17.0 |
| 1987-88 | 12.3           | 79         | 11.2    | 1990-91 | 20.1        | 216        | 20 5 |         | 620 Cc      | ompanies   |      |
|         |                |            |         | 1991-92 | 27.8        | 197        | 25.7 | 1989-90 | 18.1        | 21.3       | 18.9 |
| 1       | 885 Public Lir | nited Comp | anies   | 1992.93 | 235         | 18.8       | 22.3 | 1990-91 | 210         | 189        | 20.4 |
| 1987-88 | 12.4           | 91         | 11.6    |         |             |            |      | 1991-92 | 27 6        | 17.2       | 24.8 |
| 1988-89 | 12.4           | 19.8       | 14.2    |         | 505 (       | lompanies  |      | 1992-93 | 22.9        | 19.7       | 22.1 |
|         |                |            |         | 1990-91 | 20.6        | 22 2       | 21.0 |         | 565 Co      | mpanies    |      |
| 1       | 908 Public Lii | nited Comp | anies   | 1991 92 | 28 1        | 199        | 25.9 | 1990-91 |             | 20.1       | 20.8 |
| 1988-89 | 129            | 21.8       | 15.0    | 1992-93 | 23.2        | 19.1       | 22.2 | 1991-92 | 28.2        | 17.0       | 25.2 |
| 1989-90 | 142            | 18.0       | 15.2    | 1993-94 | 22.0        | 74         | 18.4 | 1992-93 | 23 0        | 19.7       | 22.2 |
|         |                |            |         |         |             |            |      | 1993-94 | 23.7        | 5.5        | 19.2 |
| 2       | 131 Public Lu  | nated Comp | oanies  |         | 505 C       | 'ompanies  |      |         | 580 Co      | mpanies    |      |
| 1989-90 | 139            | 186        | 15.1    | 1991-92 | 27 8        | 20.2       | 25 8 | 1991-92 |             | 18 2       | 25.3 |
|         |                |            |         | 1992-93 | 23.5        | 20.6       | 22 8 | 1992-93 | 23 0        | 19.7       | 22.2 |
| 1       | 836 Public Lii | mited Comp | oanies  | 1993-94 | 22.9        | 77         | 19.2 | 1993-94 | 24.5        | 4.5        | 19.7 |
| 1991 92 |                | 157        | 21.0    | 1994 95 | 26.2        | 23 2       | 25.5 | 1994-95 |             | 27.8       | 26.7 |

GCF - Gross Capital Formation

Source: Company Finance studies of respective institutions

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TABLE 5: GROSS DOMESTIC CAPITAL FORMATION (GDCF), BY SECTORS AND BY INDUSTRY OF USE (AT CURRENT PRICES)

| Total Public Private Total GCF Sector Sector GCF (2) (3) (4) (5) (5) (6CF GCF GCF GCF GCF GCF GCF GCF GCF GCF G                                                                                                                                                                                                                                                                                                                 | Public Private<br>Sector Sector<br>GCF GCF<br>(6) (7)<br>5005(0.6) 15204(1.9)<br>4556(0.6) 13925(1.7) | Total<br>GCF  | Public<br>Sector           | Private                         | Total                 | Dishlis                |                          |                          |                |                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------------|----------------------------|---------------------------------|-----------------------|------------------------|--------------------------|--------------------------|----------------|--------------------------|
| GCF Sector Sector GCF GCF GCF GCF GCF GCF GCF GCF GCF GCF                                                                                                                                                                                                                                                                                                                                                                       | Sector<br>GCF<br>(6)<br>05(0.6)                                                                       | 3             | 1000                       |                                 | 10.0                  | T T T                  | Favalc                   | Total                    | Public         | Private                  |
| (2) (3) (4) (5)  23010(2.4) 20209(2.5) 56  20974(2.2) 18481(2.3) 44  15391(1.6) 18481(2.3) 45  15391(1.6) 18481(2.3) 45  15467(1.6) 1944(1.4) 45  23297(2.5) 25977(3.2) 46  23297(2.5) 21384(2.7) 174  2896(0.3) 23835(3.0) 155  5959(0.6) 23835(3.0) 155  7049(0.7) 21805(2.7) 11  12852(1.8) 21805(2.7) 11  12852(1.4) 10836(1.7) 12                                                                                          | (6)<br>05(0.6)<br>56(0.6)                                                                             |               | 2<br>2<br>2<br>3<br>3      | Sector<br>GCF                   | 3                     | <b>S S S</b>           | Sector<br>GCF<br>F       | ġ                        | Sector<br>FCF  | Sector<br>C. Sector      |
| 23010(2.4) 20209(2.5) 56 20974(2.2) 18481(2.3) 4: 15391(1.6) 6433(0.8) 6; 51049(5.4) 27021(4.6) 4: 35582(3.8) 25977(3.2) 4: 15467(1.6) 11044(1.4) 2896(0.3) 2621(0.3) 2896(0.3) 2621(0.3) 2896(0.3) 2883(3.0) 157 25959(0.6) 23835(3.0) 157 25959(0.6) 23835(3.0) 157 25959(0.6) 23835(3.0) 157 25959(0.6) 23835(3.0) 157 25959(0.6) 23835(3.0) 157 25959(0.7) 21805(2.7) 117 2552(1.8) 21805(2.7) 117 2552(1.8) 10836(1.4) 108 | 05(0.6)                                                                                               | (8)           | 6                          | (10                             | (11)                  | (12)                   | (13)                     | (14)                     | (15)           | (16)                     |
| 15391(16) 18481(23) 4. 15391(16) 6433(0.8) 65 51049(5.4) 77021(4.6) 49 35582(3.8) 25977(3.2) 49 15467(1.6) 11044(1.4) 174 2896(0.3) 21384(2.7) 174 2896(0.3) 21384(2.7) 174 2896(0.3) 23835(3.0) 155 5959(0.6) 23835(3.0) 155 7049(0.7) 12444(1.6) 47 7049(0.7) 6815(0.9) 15 12853(2.6) 21805(2.7) 12 12852(1.4) 10836(1.7) 12                                                                                                  | (9:0)95                                                                                               | 18115(2.6)    | 4175(0.6) 1                | 13940(2.0) 14776(2.4)           | 14776(2.4)            | 3653(0.6)              | 11123(1.8)               | 12852(2.4)               | 3628(0.7)      | 9224(1.7)                |
| 15391(1.6) 6433(0.8) 65 51049(5.4) 37021(4.6) 45 15467(1.6) 11044(1.4) 23297(2.5) 21384(2.7) 17 2896(0.3) 21384(2.7) 17 2896(0.3) 21384(2.7) 17 2896(0.3) 23835(3.0) 15 5959(0.6) 23835(3.0) 15 7049(0.7) 12444(1.6) 47 7049(0.7) 21805(2.7) 11 16725(1.8) 21805(2.7) 12 12852(1.4) 10836(1.4) 109                                                                                                                              |                                                                                                       | 16617(2.4)    | 3750(0.5) 1                | 3750(0.5) 12867(1.8) 13390(2.2) | 13390(2.2)            | 3230(0.5)              | (9.1)69101               | 11592(2.2)               | 3193(0.6)      | 8399(1.6)                |
| 51049(5.4) 37021(4.6) 45 35582(3.8) 25977(3.2) 46 15467(1.6) 11044(1.4) 23297(2.5) 21384(2.7) 174 2896(0.3) 2621(0.3) 26115(2.8) 23835(3.0) 155 5959(0.6) 23835(3.0) 157 7049(0.7) 12444(1.6) 47 7049(0.7) 6815(0.9) 15 12852(1.4) 13956(1.7) 124 12852(1.4) 10836(1.4) 110                                                                                                                                                     |                                                                                                       |               |                            |                                 | 6336(1.0)             | 6192(1.0)              | 144(0.0)                 | 6626(1.2)                |                | 122(0.0)                 |
| 23297(2.5) 11044(1.4) 23297(2.5) 21384(2.7) 173 2896(0.3) 2621(0.3) 26115(2.8) 23835(3.0) 155 5959(0.6) 23835(3.0) 157 706(0.8) 23835(3.0) 157 7049(0.7) 12444(1.6) 47 7049(0.7) 21805(2.7) 17 12852(1.4) 10836(1.7) 12                                                                                                                                                                                                         | 4941(0.6) 32080(4.0)<br>4941(0.6) 21036(2.6)                                                          | 48454(6.9)    | 8295(1.2) 4<br>8295(1.2) 2 | 40159(5.7) 3<br>29502(4.2) 3    | 30302(4.9) 22307(3.6) | 8508(1.4)<br>8508(1.4) | 21794(3.5)<br>13799(2.2) | 31095(5.8)<br>22383(4.2) | 7145(1.3)      | 23950(4.5)<br>15238(2.9) |
| 23297(2.5) 21384(2.7) 174 2896(0.3)                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                       | 10657(1.5)    |                            | 10657(1.5)                      | 7995(1.3)             | · :                    | 7995(1.3)                | 8712(1.6)                |                | 8712(1.6)                |
| 2896(0.3) 2021(0.1) 2896(0.3) 2021(0.1) 20215(2.8) 20215(2.8) 20215(2.8) 20215(2.8) 23835(3.0) 155 5959(0.6) 23835(3.0) 155 7206(0.8) 23835(3.0) 157 7049(0.7) 6815(0.9) 15 16725(1.8) 21805(2.7) 12 12852(1.4) 10836(1.4) 108                                                                                                                                                                                                  | 99(2.2)                                                                                               |               | 15841(2.2)                 |                                 | 18895(3.1) 17410(2.8) | 17410(2.8)             | 1485(0.2)                | 14406(2.7)               | 13769(2.6)     | 637(0.1)                 |
| 26115(2.8) 23835(3.0) 155<br>5959(0.6) 23835(3.0) 155<br>12894(1.4) 12444(1.6) 4:<br>7206(0.8) 5749(0.7) 5:<br>7049(0.7) 6815(0.9) 15<br>24583(2.6) 21805(2.7) 11<br>16725(1.8) 10836(1.4) 101                                                                                                                                                                                                                                  | 529(0.1) 2092(0.3)                                                                                    | 2493(0.4)     | 400(0.1)                   | (6:0)5607                       | 1 /48(0.3)            | 3/8(0.1)               | 13/0(0.2)                | 2211(0.4)                | 34/(0.1)       | 1804(0.3)                |
| 26115(2.8) 23835(3.0) 157 5959(0.6) 5581(0.7) 51 12894(1.4) 12444(1.6) 4706(0.8)                                                                                                                                                                                                                                                                                                                                                | 3227(0.4) 6319(0.8)                                                                                   | 3007(0.4)     | 1273(0.2)                  | 1734(0.2)                       | 7507(1.2) -1667(-0.3) | 1667(-0.3)             | 9174(1.5)                | 8792(1.6)                | 1434(0.3)      | 7358(1.4)                |
| 5959(0.6) 5581(0.7) 55<br>12894(1.4) 12444(1.6) 45<br>7206(0.8) 5749(0.7) 57<br>7049(0.7) 6815(0.9) 15<br>24583(2.6) 21805(2.7) 15<br>16725(1.8) 10836(1.7) 12<br>12852(1.4) 10836(1.4) 108                                                                                                                                                                                                                                     | 55(2.0) 608                                                                                           |               | 12375(1.8)                 | 7375(1.0)                       | 7375(1.0) 16156(2.6)  | 9216(1.5)              | 6940(1.1)                | 14333(2.7)               | 7958(1.5)      | 6375(1.2)                |
| 12894(1.4)        12444(1.6)       43         7206(0.8)        5749(0.7)       57         7049(0.7)        6815(0.9)       19         24583(2.6)        21805(2.7)       11         12852(1.8)        10836(1.4)       108                                                                                                                                                                                                      | 5581(0.7) 0(0.0)                                                                                      | 4920(0.7)     | 4920(0.7)                  | 0(0:0)                          | 3317(0.5)             | 3317(0.5)              | 0(0:0)                   | 3078(0.6)                | 3078(0.6)      | 00.0)                    |
| 7206(0.8) 5749(0.7) 57<br>7049(0.7) 6815(0.9) 19<br>24583(2.6) 21805(2.7) 11<br>16725(1.8) 13956(1.7) 124<br>12852(1.4) 10836(1.4) 108                                                                                                                                                                                                                                                                                          | 95(0.5) 804                                                                                           | _             | 2439(0.3)                  | 7343(1.0)                       | 9581(1.6)             | 3667(0.6)              | 5914(1.0)                | 8325(1.6)                | 1973(0.4)      | 6352(1.2)                |
| 7049(0.7) 6815(0.9) 19<br>24583(2.6) 21805(2.7) 11<br>16725(1.8) 19856(1.7) 124<br>12852(1.4) 10836(1.4) 108                                                                                                                                                                                                                                                                                                                    | 5749(n 7) 9(0.0)                                                                                      | 4998(0.7)     | 4998(0.7)                  | 0.0)                            | 3212(0.5)             | 3212(0.5)              | 0(0:0)                   | 2861(0.5)                | 2861(0.5)      | 0.0)                     |
| 24583(2.6) 21805(2.7) ii<br>16725(1.8) i3956(1.7) 124<br>12852(1.4) i0836(1.4) i08                                                                                                                                                                                                                                                                                                                                              | 1928(0.2) 4887(06)                                                                                    | 4728(0.7)     | 1804(0.3)                  | 2524(0.4)                       | 4979(0.8)             | 2359(0.4)              | 2620(0.4)                | 3086(0.6)                | 1798(0.3)      | 1288(0.2)                |
| 24583(2.6) 21805(2.7) ii<br>16725(1.8) i3956(1.7) 124<br>12852(1.4) i0836(1.4) i08                                                                                                                                                                                                                                                                                                                                              |                                                                                                       |               |                            |                                 |                       |                        |                          |                          |                |                          |
| 16725(1.8) i3956(1.7)<br>12852(1.4) i0836(1.4)                                                                                                                                                                                                                                                                                                                                                                                  | 1125(0.1) 20680(2.6)                                                                                  | 19409(2.8)    | 1019(0.1)                  | 1019(0.1) 18390(2.6) 16824(2.7) | 16824(2.7)            | 866(0.1)               | 15958(2.6)               | 14735(2.8)               | 616(0.1)       | 616(0.1) 14119(2.6)      |
| 12852(1.4) 10836(1.4)                                                                                                                                                                                                                                                                                                                                                                                                           | (                                                                                                     |               | () 1/13111                 | (0))                            | 10 1/30001            | () 1/0000              | (0)0001                  | (0.035101                | C 170000       | 122261                   |
| 12852(1.4) 10836(1.4)                                                                                                                                                                                                                                                                                                                                                                                                           | 2441(1.6) 1515(0.2)                                                                                   | (8.1)/2521    | (0.1)16111                 | 13/0(0.2)                       | 13/6(0.2) 10825(1.8)  | (0.1)2706              | 1203(0.2)                | (6.1)col01               | 0934(1.1)      | 7:1)6671                 |
| (V) (V) (V) (V) (V) (V) (V) (V) (V) (V)                                                                                                                                                                                                                                                                                                                                                                                         | 10836(1.4) 0(0.0)                                                                                     | 9516(1.3)     | 9516(1.3)                  | 0.00)                           | 8227(1.3)             | 8227(1.3)              | 0.000                    | 7513(i.4)                | 7513(1.4)      | 0.00)                    |
| Officer 56/3(0.4) 3124(0.4) 100.                                                                                                                                                                                                                                                                                                                                                                                                | _                                                                                                     |               | 17.0)0001                  | 1370(0.2)                       | 4.270(0.4)            | (3.0)0661              | (2.0)(0.2)               | (0.0)9009                | (50)(11)       | 2000                     |
| Total 201112 163625 (                                                                                                                                                                                                                                                                                                                                                                                                           | 68749 94875<br>(8.6) (11.8)                                                                           | 154052 (21.8) | 62709<br>(8.9)             | 91343 (13.0)                    | 128348<br>(20.8)      | 56537<br>(9.2)         | 71811<br>(11.6)          | 118302 (22.1)            | 52151<br>(9.7) | 66151<br>(12.4)          |

Note: Figures in brackets are as percentage to GDP at current market prices . means not available Source: CSO, NAS, 1996

provide some indications for the fall in the growth of 'change in stocks'. Table 4 presents data from three sets of company finance studies, which uniformly bring out the drastic decline in stock build-up by the private corporate sector from about 20-22 per cent growth in 1990-91 to a growth of 5-8 per cent in 1993-94. Evidently, the inventory growth of 20-22 per cent during 1990-91 was normal with inventories to sales ratio recording only a fractional rise [RBI 1993], whereas in 1993-94 there was "heavy offloading of inventories" in many industry groups [ICICI 1995]. The CSO data suggest depletion of inventories during 1993-94 with the "change in stocks" of the private corporate sector being negative at (-)0.4 per cent of GDP as against a positive 0.8 per cent during 1990-91 (Table 3). Assuming that the RBI sample of the private corporate sector is much larger and relatively more representative, the data released by the CSO on the private corporate sector cannot be by and large disputed.

Interestingly, such distinct fluctuations in the rate of inventory build-up were also noticed in the early 1980s as well as the mid-1980s (Table 3) for which there is again confirmatory evidence in corporate sector data (Table 4) or in distinct agricultural trends (GOI 1996). In sum, there is sufficient supportive evidence in the behaviour of foreign capital inflow and 'changes in stocks', justifying the fall in GDCF during 1990-91 to 1993-94. We now revert to the themes of informalisation of industry and lags in trade data addressed by A S.

#### LAGS IN TRADE DATA

Analysing the simpler question of lags in foreign trade data to begin with, we do not find the factual basis for charging the system with lags in trade data giving rise to incorrect application of historical ratios of imported goods to total capital goods available for investment. It is true that imports of capital goods have been rising at a rapid pace during the post-reform period. Between 1990-91 and 1993-94, the quantum index of imports of machinery and transport equipment (base: 1978-79=100) rose from 441 in 1990-91 to 715 in 1993-94 suggesting a compound growth rate of 17.5 per cent per annum as against a compound growth of 9.7 per cent per annum during the preceding quenquennium 1985-86 to 1990-91. What is more, during the same period, the growth in the quantum index of exports of machinery and transport-equipment decelerated rather drastically from 19 per cent per annum to 4.8 per cent per annum. Thus, there is no gainsaying that the proportion of net imports in total availabilities of capital goods (including metallic and non-metallic mineral products) would have risen during the postreform period.

Even so, there are two considerations which go to question the relevance of lags in external trade data for the thesis of systematic underestimation of GDCF. First, as the data quoted by A-S themselves suggest, insofar as the compilation of National Accounts Statistics (NAS) are concerned, there was no lag in the availability of foreign trade statistics. The CSO's Monthly Abstract of Statistics for October 1994, released in December 1994, had quoted the commoditywise import figures for the full fiscal year 1993-94 and that is precisely the latest year for which the NAS would have been under compilation around that period (The 'quick' estimates for 1993-94 were released in February 1995). This year the DGCI&S's monthly publication Foreign Trade Statistics of India (principal commodities and countries), covering the full financial year statistics for 1994-95, was already in the public domain in June 1995, that is, more than six months before the CSO would begin tabulating the NAS for that year. What is more, these data are available to public agencies like the Planning Commission, the RBI and the CSO in a specially-documented form sufficiently in advance; this has been so now for some years. This is enough of an evidence to question that lags in external trade data may have given rise to an underestimation of the rise in aggregate capital formation.

Secondly, even if hypothetically there was a lag in export-import data, the relatively low level of net imports of capital goods (including metals) in relation to total domestic capital formation and more importantly, as proportion of GDP, leaves less scope for any noticeable underestimation in the GDCF to

GDP ratio on that count. For example, the actual net imports of such capital goods (including metals) aggregated about Rs. 11,200 crore during 1993-94, which constituted only less than 7 per cent of GFCF.

#### GROWTH OF INFORMAL SECTOR

In respect of the substantive theme put forth by A-S, we wish to argue that the possibility of an underestimation bias in aggregate GDCF originating in the failure of the commodity flow method to capture the fast growth of the informal sector during the post-reform period, appears to us to have been exaggerated, and in fact, untenable on many considerations. We question the empirical basis of the thesis of non-reporting of investment goods production in the smallscale sector to the neglect of the phenomenon of the possible non-reporting of the production of all goods and services in this sector. A-S argue that the reported decline in the household capital formation was spurious because the total GDCF waunderestimated. Secondly, total GDCF was underestimated because the relative performance of small-scale units in recent years as compared with that of the private corporate sector was not captured in the CSO's estimation procedure. The process of 'informalisation' of the Indian industry must have got reinforced since 1991 because the incentive structures and the institutional setting created by the new policy regime seem to have 'tavoured the profitable operation of small-scale units in the manufacturing sector; consistent with this small-scale bias in the policy regime, most industries in the consumer goods sector have in fact performed better than the average for

TABLE 6: GROSS FIXED CAPITAL FORMATION BY INDUSTRY-OF USE (AT CURRENT PRICES)

(Rs crore)

| Industry                                | 1994-95    | 1993-94    | 1992-93      | 1991-92    | 1990-91    |
|-----------------------------------------|------------|------------|--------------|------------|------------|
| Agriculture, forestry and fishing       | 23075(2 4) | 20033(2.5) | 17813(2.5)   | 14583(2.4) | 12509(2.3) |
| Agriculture                             | 21028(2.2) | 18305(2.3) | 16290(2-3)   | 13203(2.1) | 11279(2.1) |
| Mining and quarrying                    | 15842(17)  | 7356(0 9)  | 6364(0.9)    | 6125(10)   | 6465(12)   |
| Manufacturing                           | 50676(5.4) | 42744(5.3) | 37267(5.3)   | 30762(5.0) | 26177(4.9) |
| Registered                              | 37511(4.0) | 32282(40)  | 27557(0.9)   | 22222(3.6) | 18303(3.4) |
| Unregistered                            | 13165(1.4) | 10462(1.3) | 9710(14)     | 8540(1.4)  | 7874(1.5)  |
| Elec, gas and water supply              | 23447(2.5) | 21248(2.7) | 19309(2.7)   | 18882(3.1) | 14425(27)  |
| Construction                            | 2792(0.3)  | 2601(0.3)  | 2258(0.3)    | 1632(0.3)  | 1999(0 ;)  |
| Trade, hotels and restaurants           | 5577(0.6)  | 4806(0.6)  | 4198(0.6)    | 3942(0.6)  | 3792(07)   |
| Transport, storage and comin            | 25622(2.7) | 23478(29)  | 19427(2.8)   | 16204(2.6) | 13938(2.6) |
| Railways                                | 5463(0.6)  | 5073(0.6)  | 4806(0.7)    | 3393(0.6)  | 3087(0.6)  |
| Transport by other means                | 12949(1.4) | 12496(16)  | 9631(1.4)    | 9268(1.5)  | 7998(1.5)  |
| Communication                           | 7146(0.8)  | 5837(U 7)  | 4928(0.7)    | 3486(0.6)  | 2803(0.5)  |
| Banking and insurance                   | 6998(0.7)  | 6806(0.8)  | 4745(0.7)    | 4966(0.8)  | 3079(0.6)  |
| Real estate, ownership of               | 24584(2.6) | 21807(27)  | 19407(2.8)   | 16822(2.7) | 14732(2.8) |
| dwellings and bus services              |            |            |              |            |            |
| Community, social and personal services | 16643(1.8) | 13983(1.7) | 12454(1.8)   | 10865(1-8) | 10034(1.9) |
| Public admir and defence                | 12741(1.3) | 10808(1.3) | 9447(1.3)    | 8247(1.3)  | 7428(1.4)  |
| Other services                          | 3902(0.4)  |            |              | 2618(04)   | 2606(0.5)  |
| Total                                   |            |            | 143242(20 3) |            |            |

Note: Figures in brackets are as percentage to GDP at current market prices Source CSO, NAS, 1996.

the manufacturing sector (A-S base this on the CSO's index of industrial production).

Before we delve into the 'informalisation' question, it is necessary to point out a few factual inaccuracies in the A-S formulation. First, they have bracketed the 'household' sector with "unincorporated firms and household production units in manufacturing", which is obviously incorrect. As per the CSO's estimation, gross capital formation of the private sector in unregistered manufacturing, constituted only about 18-20 per cent of total household investment in the recent period. A part of the registered manufacturing may also belong to the category of unincorporated units.7 Even so, more than three-fourths of household investment is occurring in other sectors: agriculture (about 29 per cent), real estate, ownership of dwellings and business services (39 per cent) and private transport, etc (15 per cent). As proportions of household investment, some of these ratios for sectors other than manufacturing may be somewhat lower as the investment figures used here are inclusive of private corporate sector investment. In this regard, a special tabulation undertaken by the RBI suggests that of the total GCF by industry of use for the period 1980-81 to 1988-89, the share of unorganised manufacturing was only about 11 per cent of the GCF attributable to all the unorganised sectors together throughout the period, the balance being attributed to non-manufacturing unorganised sectors [RBI 1993c:17-19]. In the circumstances, it is improper to base the above hypothesis on the so-called incentive structure shifting the balance of activities in favour of the informal sector in manufacturing alone.

To the point, data presented in Tables 5 and 6 give a synoptic view of the industrywise composition of gross capital formation and gross fixed assets formation, respectively. As per data generated by the CSO on gross capital formation by industry of use, of the 3.2 percentage points fall in the aggregate GDCF to GDP ratio between 1990-91 and 1993-94, 1.3 percentage points are attributed to the manufacturing sector: 1.1 points in registered manufacturing and 0.2 points under unregistered manufacturing (Table 5). The balance 60 per cent of the decline in GDCF by industry of use has occurred in various other sectors: agriculture, transport (other than railways) and real estate. The decline, though of a smaller magnitude, has been equally widespread in gross fixed assets formation, but it has been more conspicuous in sectors other than manufacturing (Table 6).

The second factual inaccuracy in the above formulation relates to the CSO data on index of industrial production cited by A-S, wherein they state that "most industries in the

consumer goods sector have in fact performed better than the average for the manufacturing sector, in particular the year 1993-94" (p 2186). There are three aspects of these data which tend to question the factual basis of the inference drawn by them from the above statement.

(i) First, the data cited by them relate to the CSO's index of industrial production with base 1980-81=100 which essentially covers items produced by the medium- and large-scale units except for textiles in the decentralised sector and 18 items out of 836 reserved for the small-scale industries (SSI) sector. These 18 reserved items constitute a minuscule group with a weight of 8.44 per cent of the total weight of the manufacturing sector and are scattered over all 17 major industrial categories for which the CSO puts out two-digit level production indices and which A-S quote. In the food processing industries group, for instance, the only reserved item covered is that of 'biscuits', under 'paper and paper products', wrapping paper, and under 'leather and leather products', indigenous type of footwear.

(ii) Secondly, the trends in the index of industrial production have been used by them in a partial and selective manner. As depicted in Table 7, consumer goods industries as a group have not at all shown any annual growth higher than that of the

TABLE 7. GROWTH OF THE MANUFACTURING SECTOR: TWO-DIGIT CLASSIFICATION

| Sectorwise Classification              |         |              |              | Av           | erage for Full | Fiscal Years  |               |              |
|----------------------------------------|---------|--------------|--------------|--------------|----------------|---------------|---------------|--------------|
|                                        | Weights | 1995-96      | 1994-95      | 1993-94      | 1992-93        | 1991-92       | 1990-91       | 1989-90      |
| General Index                          | 1000 00 | 284.2 (12.0) | 253 7 (9.3)  | 232.0 (6.0)  | 218.9 (2.3)    | 213.9 (0.6)   | 212 6 (8 2)   | 196.4 (8 6)  |
| Basic goods                            | 394.18  | 292 0 (8.6)  | 269.0 (5.5)  | 254.9 (9 5)  | 232.9 (2.6)    | 226.9 (6.5)   | 213.1 (6.9)   | 199.4 (5.4)  |
| Capital goods                          | 164.27  | 381 3 (19.6) | 318.8 (24.8) | 255.4 (-4.2) | 266.5 (-0.1)   | 266.8 (-8.5)  | 291 7 (16.0)  | 251.4 (21.7) |
| Intermediate goods                     | 205 07  | 234.1 (10.7) | 211.4 (3.7)  | 203.9 (11.8) | 182.4 (5.3)    | 173.2 (-2.1)  | 176 9 (4.8)   | 168.8 (4 2)  |
| Consumer goods                         | 236 48  | 247 0 (12.5) | 219 6 (8.7)  | 202.0 (3.9)  | 194.3 (1.8)    | 190.8 (1.0)   | 189.0 (6.8)   | 177 0 (6.5)  |
| Consumer durables                      | 25.50   | 557 4 (36.9) | 407.2 (10.2) | 369.4 (16.3) | 317.7 (-0.9)   | 320.5 (-10.9) | 359.7 (10.7)  | 325.0 (2.4)  |
| Consumer non-durables                  | 210.98  | 209.5 (6.4)  | 196.9 (8.3)  | 181.7 (1.3)  | 179.4 (2.5)    | 175.1 (4.0)   | 168.3 (5.8)   | 159.1 (7.6)  |
| Manufacturing                          | 771.07  | 278 7 (13 6) | 245 4 (9.8)  | 223.5 (6.1)  | 210.7 (2.2)    | 206.2 (-0.8)  | 207 8 (9.0)   | 190.7 (8 6)  |
| 20-21 Manufacture of food products     | 53 27   | 208.3 (14.7) | 181.7 (13.6) | 160.0 (-8.7) | 175.3 (-1.5)   | 178.0 (4.8)   | 169 8 (12.5)  | 150.9 (1.6)  |
| 22: Beverages, tobacco and             |         | •            | •            |              |                |               |               |              |
| tobacco products                       | 15.71   | 157.4 (20.0) | 131.2 (-4.8) | 137.8 (21.3) | 113.7 (5.9)    | 107.3 (2 4)   | 104.8 (1.7)   | 103.0 (11.8) |
| 23 Cotton textiles                     | 123 09  | 159.5 (2.3)  | 155.8 (-2.9) | 160.5 (6.9)  | 150.1 (8.0)    | 139.0 (9.8)   | 126.6 (12 7)  | 112.3 (4.2)  |
| 25. Jute, hemp and mesta textiles      | 19.99   | 92.6 (0.3)   | 92 4 (-10.5) | 103.2 (18.7) | 87.0 (-4.2)    | 90.8 (-10.6)  | 101.6 (4.3)   | 97 4 (-4.4)  |
| 26: Textile Products                   | 8.17    | 88.3 (12.6)  | 78.4 (6.9)   | 73 4 (-3.2)  | 75.8 (-22.0)   | 97.2 (-5.8)   | 103.2 (-32.0) | 151 7 (13.0) |
| 27: Wood and wood products,            |         | •            |              |              | , ,            |               |               |              |
| Furniture and Fixtures                 | 4.48    | 229.3 (12.7) | 203.5 (2.1)  | 199.3 (4.6)  | 190 5 (3.0)    | 185.0 (-6.2)  | 197.2 (12.0)  | 176.0 (2.5)  |
| 28: Paper and paper products and       |         | , ,          | , ,          | ` ,          | , ,            | · ·           | , ,           |              |
| printing industries                    | 32.35   | 284.1 (10.5) | 257.1 (14.4) | 224.8 (6.6)  | 210.9 (3.9)    | 203.0 (2.5)   | 198.0 (9.1)   | 181.5 (6.0)  |
| 29 Leather and fur products            |         | •            | , ,          | ` '          | ` '            | , ,           |               |              |
| (except repair)                        | 4.89    | 226 7 (7.8)  | 210.4 (3.0)  | 204.3 (8.8)  | 187.7 (3.5)    | 181.3 (-6.7)  | 194.3 (3.2)   | 188.3 (6.2)  |
| 30. Rubber, plastics, petroleum and    |         | ,,,,,        |              | ,            |                |               |               |              |
| coal products                          | 40.00   | 195 9 (7.6)  | 182.1 (3.2)  | 176.4 (1.0)  | 174.6 (1.5)    | 172.0 (-1.1)  | 174.0 (0.3)   | 173.5 (3.1)  |
| 31: Chemicals and chemical products    | 125.13  | 355.6 (8 6)  | 327 4 (9.9)  | 297.9 (7.6)  | 276.9 (6.0)    | 261.2 (2.8)   | 254.1 (2.6)   | 247.6 (4.6)  |
| 32. Non-metallic mineral products      | 29 99   | 263.6 (12.8) | 233.7 (7.0)  | 218.5 (4.6)  | 209.0 (1.8)    | 205.2 (6.3)   | 193.1 (1.7)   | 189.9 (2.9)  |
| 33. Basic metal and alloy industries   | 98.02   | 222.7 (13.9) |              | 224.2 (33 1) | 168.5 (0.4)    |               | 158.8 (10.5)  |              |
| 34: Metal products and parts           | 22.88   | 176.0 (16.6) | 150.9 (19.2) | 126.6 (1.6)  | 124.6 (-6.4)   |               | 143.1 (0.4)   |              |
| 35. Machinery, machine tools and parts |         | 243.1 (17.6) | 206.7 (9.3)  | 189.2 (4.4)  | 181.1 (-1.2)   | 183.3 (-1.9)  | 186.9 (8.7)   | 171.9 (6.7)  |
| 36: Electric machinery apparatus       |         | = , (2110)   | 350 (-11.)   | (,           |                |               |               |              |
| and appliances, etc                    | 57.79   | 731.2 (20.8) | 605.1 (31.5) | 460.1 (-4.9) | 483.6 (-2.0)   | 493.7 (-12.4) | 563.6 (22.7)  | 459.2 (31.9) |
| 37 Transport equipment and Parts       | 63.86   | 289.0 (20.9) | 239.1 (13.2) | 211.2 (5.3)  | 200.6 (5.0)    |               | 192.5 (6.3)   | 181.1 (5.0)  |
| 38 Other Manufacturing Industries      | 9.05    | 295.0 (10.1) | 267.9 (0.3)  | 267.0 (-5.1) | 281.3 (4.2)    |               | 321.8 (-3.4)  | 333.2 (9.0)  |

Notes Figures in brackets are percentage growth over previous year.

Source CSO, Quick Estimates of Index of Industrial Production (Monthly Press Releases).

manufacturing index during the three-year peiod 1991-92 to 1993-94 which is under critical scrutiny - not even in 1993-94 when the manufacturing index grew by 6.1 per cent and the consumer goods group by 3.9 per cent. Even the latter growth was due to a phenomenal expansion in consumer durables in 1993-94 (16.3 per cent), while the consumer non-durables group (which embraces all two-digit level items cited by A-S) grew just by 1.3 per cent. What is more, almost all of those two-digit level items supposedly dominated by production in the SSI grew at a faster rate before reforms; for instance, they grew by about 9 to 12.5 per cent each in 1990-91 when the manufacturing output as a group grew only by 9.0 per cent.

(iii) Thirdly, we have made a special tabulation of the output figures broadly for 18 SSI reserved items which are included in the CSO's general index (see Table 8). We then find that an overwhelming number of items in them in fact experienced very niggardly growth; eleven out of 18 items experienced growth ranging from -21 per cent to 4 per cent during 1993-94 when the manufacturing sector as a whole grew by 5.5 per cent. We note that in respect of many items the CSO data are inclusive of production generated by the large-scale sector but as these are reserved items, SSI's growth should theoretically set the trend for these items. Even amongst the capital goods items on this list, there is a mixed picture. But interestingly, a pre-budget survey undertaken by the Confederation of Indian Industry (CII) in early 1994, covering its 70 small industry members having significant links to the capital goods sector and comprising manufacturers of machinery, machine tools, electrical machinery, appliances, apparatus and parts, metal products, transport equipment and parts, and basic metals and alloy industries, summed up the results thus: "The small-scale units in the capital goods sector are suffering greatly owning to poor offtake from larger units and a staggering in deliveries taken by customers" (The Observer of Business and Politics, February 17, 1994).

Thus, the data on indices of industrial production cited by A-S provide no basis

TABLE 8: PHYSICAL OUTPUT OF 18 SELECTED SSI ITEMS INCLUDED IN THE INDEX OF INDUSTRIAL PRODUCTION

| <del></del> | N                          | T1 :       | W                | 1004.05          | 1002.01         | 1002.02          | 1001.00         | 1000 01         | 1000.00         | 1000.00          | 1007.00        | 1006.07 | 1005.00 |
|-------------|----------------------------|------------|------------------|------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|----------------|---------|---------|
| Code<br>No  | Name of Item               | Unit       | Weight#          | 1994-95          | 1993-94         | 1992-93          | 1991-92         | 1990-91         | 1989-90         | 1988-89          | 1987-88        | 1986-87 | 1985-86 |
|             |                            |            |                  |                  |                 |                  |                 |                 |                 |                  |                |         |         |
| 205         | Biscuits                   | Th tonnes  | 1.3062           | 652.3            | 630.2           | 619.4            | 665.7           | 657.2           | 659.9           | 617.5            | 598.1          | 591.1   | 567.3   |
| 2004        | Paper and                  |            | (3.5)            | (1.7)            | (-7.0)          | (1.3)            | (-0.4)          | (6.9)           | (3.2)           | (1.2)            | (4.2)          |         |         |
| 28(14       | paper board                | Th tonnes  | 27.6622          | 3159.0           | 2739.0          | 2567.0           | 2467.0          | 2433.0          | 2212.0          | 2071.0           | 1997.0         | 1870.0  | 1517 0  |
|             | paper board                | in tomics  | (15.3)           | (6.7)            | (4.1)           | (1.4)            | (10.0)          | (6.8)           | (3.7)           | (6.8)            | (23.3)         | 10700   | 13170   |
| 291         | Indigenous                 |            | <b>(</b> ,       |                  | ,               | • • • •          | • • • • •       | • •             | • •             | , ,              | •              |         |         |
|             | footwear                   | Mn pairs   | 0 1825           | 158.4            | 188.7           | 187.5            | 188.7           | 189 4           | 190.2           | 190.3            | 190 1          | 170 6   |         |
|             |                            | -          | (-16.1)          | (0.6)            | (-0.6)          | (-0.4)           | (-0.4)          | (-0.1)          | (0.1)           | (11.4)           |                |         |         |
| 3121        | Paint, varnishes           |            |                  |                  |                 |                  |                 |                 |                 |                  |                |         |         |
|             | and enamels                | Th tonnes  | 3.5372           | 401.0            | 311.0           | 301.0            | 305.0           | 314.0           | 342.0           | 337.0            | 320.0          | 212.0   | 139.0   |
|             |                            |            | (28.9)           | (3.3)            | (-1.3)          | (-2.9)           | (-8.2)          | (1.5)           | (5.3)           | (50.9)           | (52.5)         |         |         |
| 3122        | Optical whitening          | -          | 0.4167           | 2022.0           | 1706.0          | 14100            | 15010           | 1421.0          | 1600 0          | 1552.0           | 1520.0         | 1670.0  |         |
|             | agent                      | Tonnes     | 0.4157           | 2022.0           | 1706.0          | 1618.0           | 1581.0          | 1631.0          | 1608.0          | 1552.0<br>(-8.9) | 1530.0         | 1679.0  | ••      |
| 2140        | Canna all binda            | Th tonnus  | (18.5)<br>3.6075 | (5.4)<br>1567 () | (2.3)<br>1465.0 | (-3.1)<br>1490.0 | (1.4)<br>1548.0 | (3.6)<br>1563.0 | (1.4)<br>1525 0 | 1477.0           | 1506.0         | 1531 0  | 1398 0  |
| 3146        | Soaps, all kinds           | Th tonnes  | (7.0)            | (-1.7)           | (-3.7)          | (-1.0)           | (2.5)           | (3.2)           | (-1.9)          | (-1.6)           | (9.5)          | 1331 0  | 1376 (/ |
| 317         | Safety matches             | Mn boxes   | 1.8594           | 81.6             | 64.0            | 68.1             | 67.3            | 61.8            | 58.9            | 59.2             | 53.9           | 44.4    | 41.7    |
| 317         | Saicty materies            | WIII DOACS | (27.5)           | (-6.0)           | (1.2)           | (8.9)            | (49)            | (-0.5)          | (9.8)           | (21.4)           | (6.5)          |         | ••••    |
| 3311        | Steel castings*            | Th tonnes  | 8.0053           | 383.0            | 361.0           | 359.0            | 393.0           | 262.0           | 239.0           | 211.0            | 170 0          | 104.0   | 93.0    |
| <i>5</i>    | order dansering.           |            | (6.1)            | (0.6)            | (-8.7)          | (50.0)           | (9.6)           | (13.3)          | (24 1)          | (63.5)           | (11.8)         |         |         |
| 3313        | Pipes and tubes            | Th tonnes  | 5.8187           | 1186.0           | 1154.0          | 1163.0           | 1208.0          | 1233.0          | 1198.Ó          | 1113 Ó           | 1127.0         | 1147 0  | 1075 0  |
|             |                            |            | (2.8)            | (-0.8)           | (-3.7)          | (-2.0)           | (2.9)           | (7.6)           | (-1.2)          | (-1.7)           | (6.7)          |         |         |
| 3439        | Bolts, nuts and            |            | • •              |                  | •               |                  |                 |                 |                 |                  |                |         |         |
|             | rivets                     | Th tonnes  | 4.3768           | 464.0            | 358.0           | 351.0            | 354.0           | 360.0           | 359.0           | 342.0            | 333.0          | 309.0   | 309.0   |
|             |                            |            | (29.6)           | (2.0)            | (-0.8)          | (-17)            | (0.3)           | (5.0)           | (2.7)           | (7.8)            | (0.0)          |         |         |
| 3439        | Zip fasteners              | Th Rs      | 0.0293           | 32384.0          |                 | 6454 0           | 8163.0          | 9120.0          | 10032.0         | 11491.0          | 13511.0        |         |         |
|             |                            |            | (28.3)           | (291.0)          | (-20.9)         | (-10.5)          | (-91)           | (-12.7)         | (-15.0)         |                  |                | ****    |         |
| 3529        | Diesel engines             | Th nos     | 6.0343           | 1763.0           | 1675.0          | 1529.0           | 1677.0          | 1720.0          | 1775 0          | 1855.0           | 1899.0         |         | 2046.0  |
|             |                            |            | (5.3)            | (9.5)            | (-8.8)          | (-2.5)           | (-3.1)          | (-4.3)          | (-2.3)          | (.93)            | (2.3)          |         | 183.9   |
|             | Stationery type*           | Th nos     | (05)             | 145 6            | 146.4           | 166.2            | 159.6           | 158.4           | 152.0           | 167.0<br>(-14.5) | 160.0<br>(1.8) |         | 100.9   |
| 2565        | Air and oss                |            | (-0.5)           | (-11.9)          | (4.1)           | (0.8)            | (4.2)           | (-9.0)          | (4.4)           | (-14))           | (1 0)          |         |         |
| 5505        | Air and gas compressors of |            |                  |                  |                 |                  |                 |                 |                 |                  |                |         |         |
|             | all kinds                  | Th nos     | 1 9606           | 61.5             | 52.0            | 42 4             | 39.6            | 46.8            | 45,6            | 47.5             | 47.9           |         |         |
|             | an kings                   | I II IIOS  | (18.3)           | (22.6)           | (7.1)           | (-15.4)          | (2.6)           | (-4.0)          | (-0.8)          | ***              | ****           |         | •       |
| 357         | Machine tools*             | Mn Rs      | 6.5114           |                  | 8962.0          | , ,              | 9217.0          |                 | 6515.0          | 5107.0           | 3899.0         | 3571 0  | 2914.0  |
|             |                            |            | (14.2)           | (-14.1)          | (13.2)          | (19.2)           | (18.7)          | (27.6)          | (31.0)          | (9.2)            | (22 5)         |         |         |
| 3602        | Transformers               |            | (/               | , ,              |                 |                  | ` ,             |                 |                 |                  |                |         |         |
|             | DCSSI                      | Th nos     | 0.0648           | 639.0            | 452.0           | 331.0            | 334.0           | 333.0           | 331.0           | 326.0            | 331 0          | ٠       |         |
|             |                            |            | (41.4)           | (36.6)           | (-0.9)          | (0.3)            | (0.6)           | (1.5)           | (-1.5)          |                  |                |         |         |
| 3604        | Electric motors            |            |                  |                  |                 |                  |                 |                 |                 |                  |                |         |         |
|             | (DCSSI)                    | Th nos     | 2.7365           | 1008.2           | 992.3           | 971.8            | 978.8           |                 | 976.7           | 989.9            | 978 5          | • •     |         |
|             |                            |            | (1.6)            | (2.1)            | (-0.7)          | (-0.3)           | (0.5)           | (-1.3)          | (12)            |                  |                |         |         |
| 3631        | Electric fans of           |            |                  |                  |                 |                  |                 |                 |                 |                  |                |         |         |
|             | all kinds*                 | Mn nos     | 2.4883           | 9.9              | 6.1             | 5.1              | 5.3             |                 | 3.5             | 5.2              | 4.8            |         | 5.2     |
| 2072        | D                          | TL D.      | (62.3)           | (19.6)           | (-3.8)          | (25.0)           | (21.1)          | , ,             | (9.9)           | (20.6)           | (-24.2)        |         |         |
| 38/2        | Pencils (DCSSI)            | Th Rs      | 0.1542           |                  |                 |                  | 14456.0         |                 | 15426.0         | 15951.0          | 16343.0        |         |         |
|             |                            |            | (22.7)           | (131.5)          | (-6.0)          | (-4.1)           | (-2.3)          | (-3.3)          | (-2.4)          |                  |                |         |         |

Notes: Figures in brackets are percentage growth over previous year # Weights here are out of 1000 as per General Index with Base 1980-81=100.

Source: RBI, Report on Currency and Finance, various issues; CSO, Monthly Production of Selected Industries, various issues; \* Economic Survey

to believe that SSIs grew at a faster rate than the medium- and large-scale industries during the period 1991-92 to 1993-94, or even in 1993-94 alone.

While on the subject of factual inaccuracies, we should also not lose sight of the fact that the whole debate on the SSI sector raised by the A-S paper concerns the possible inability of the CSO to capture, in its capital formation estimates, the use of construction material, machinery and other investment goods produced in the unorganised sector. The growth of consumer goods units in the informal sector is hardly relevant for this debate except for the secondary demand they may generate for investment goods. If under-reporting of total output is the question, both GDP and investment components get under-reported and the possibility is that investment to GDP ratio will not improve on that count, as has been explained earlier.

#### GROUND REALITY AGAINST INFORMAL SECTOR

It is our contention that while various promotional and protective measures for assisting the small-scale and informal sector growth have been formally continued even under the structural adjustment programme, the ground reality regarding the incentive structure, the institutional setting and the bargaining dynamics in the post-reform period has decidedly tilted the balance of advantages in favour of the medium- and large-scale industries in the private sector and against the small-scale and informal enterprises. While direct statistics on the actual performance of informal sector in

regard to output and investment trends in the post-reform period are indeed hard to come by (and hence this dispute and debate), we are convinced of the above proposition based as it is on a detailed review of the corroborative indicators for the first three years of reforms.

In the first place, it is not so much the positive incentives like 'reservation' for the SSIs which provide an impetus to their growth as the negative protection in the form of a high differential in excise duties as between the small-scale and large-scale industries that encouraged the former's growth. Also, the importance of 'reservation' for the SSI units is considerably exaggerated. The second all-India census of small-scale industries (1987-88) showed that the share of output of 843 items in the total production of 1,075 products reserved for exclusive production by SSIs was about 28 per cent (except for multi-product manufacturing units producing reserved items beyond the fourth leading item, 1 e, fifth in descending order and onwards) [Development Commissioner 1992:110]. Similarly, only 48 reserved items figured amongst the 200 leading products (reserved and unreserved items) in the SSI sector each with production worth over Rs 40 crore and the output of those 48 products constituted 36.1 per cent of the total production of the leading products [Development Commissioner: 110 and Ramaswamy 1994]. About 80 per cent of the units are engaged in the manufacturing of 39 items, or 80 per cent of the total reserved production is done in barely 60 items. Even the annual rate of growth in real

terms between 1985-86 and 1987-88 was higher in unreserved items (13.0 per cent per annum) than in the reserved items (10.3 per cent) [Development Commissioner:113].

In the new indirect duty structure say in the Central Budget for 1993-94, particularly in excise duties, the differential levies favouring the SSI units has been considerably narrowed. A review of the daily reports on the apathy of the small-scale sector confronts us with the following general refrain: "Of the many protective and promotional measures initiated by the government in the past, fiscal incentives like excise duty concessions and exemptions have provided the greatest benefits to the SSIs, even more than the reservation of certain items. But these benefits have now been virtually negated with the drastic reduction in excise duties. Further, a large number of products which were essentially produced in the smallscale sector have been brought under the excise net. And some of them now attract ad valorem duties, resulting in higher incidence of excise on them. To add to their woes, bank credit to SSIs has been increasing at a slow pace, much slower than that to medium- and large-scale industries" (The Observer of Business and Politics, July 14, 1994). For instance, any number of examples can be cited from the Central Budget of 1993-94 in this respect. Apart from the drastic reduction in import duties which would have placed some of the small-scale products in a vulnerable situation, it is the rapid reduction in excise duties that would have hurt the relative competitive strength of the informal sector. When excise duties are reduced from

TABLE 9. ASSISTANCE SANCTIONED (S) AND DISBURSED (D) BY FINANCIAL INSTITUTIONS

(Rs crore)

|                                                            | 1994       | 4-95   | 1993   | 1-94   | 1992   | -93    | 1991   | -92    | 1990  | -91  |
|------------------------------------------------------------|------------|--------|--------|--------|--------|--------|--------|--------|-------|------|
| Financial Institution (FI)                                 | S          | D      | S      | D      | S      | D      | S      | D      | S     | D    |
| . Fls generally assisting large-scale in                   | ndustries: |        |        |        |        |        | ·      |        |       |      |
| A. All-India development banks                             | 44598      | 21800  | 25324  | 15449  | 18145  | 11760  | 13643  | 9076   | 11991 | 7351 |
| (excluding SIDBI)                                          | (69.4)     | (41.1) | (45.1) | (31.4) | (33.0) | (29.6) | (13.8) | (23.5) |       |      |
| B Investment institutions, total                           |            |        |        |        |        |        | -      |        |       |      |
| (UTI, LIC, GIC)                                            | 9139       | 6052   | 9890   | 7002   | 10754  | 7711   | 4786   | 3342   | 2415  | 1404 |
| of which. UTi                                              | 6910       | 4530   | 7602   | 5937   | 9105   | 6230   | 3014   | 2127   | 1414  | 830  |
| Fis assisting small-scale (and                             | 6024       | 4793   | 4932   | 4062   | 4507   | 3543   | 4557   | 3397   | 3901  | 2964 |
| medium-size) industries (A+B)                              | (22.1)     | (18.0) | (9.4)  | (146)  | (-1.1) | (4.3)  | (16.8) | (14.6) |       |      |
| A SIDBI                                                    | 3315       | 2478   | 2086   | 1779   | 1518   | 1291   | 1357   | 1182   | 1214  | 109  |
| B. State-level institutions                                | 2709       | 2315   | 2846   | 2283   | . 2988 | 2252   | 3199   | 2216   | 2688  | 186  |
| (i) SFCs                                                   | 1808       | 1579   | 1909   | 1568   | 2015   | 1557   | 2190   | 1537   | 1864  | 127  |
| (ii) SIDCs                                                 | 901        | 736    | 936    | 715    | 973    | 695    | 1009   | 679    | 824   | 598  |
| Memo item                                                  | 199        | 94-95  | 1993   | -94    | 1992   | -93    | 1991   | -92    | 1990  | -91  |
| New capital resues by<br>non-government public limited com |            | 6456   | 19     | 502    | 198    | 326    | 5      | 757    | 43    | 112  |
| 2. GDRs and other commercial borrow                        |            | 6406   | 7      | 447    |        | 249    |        |        |       |      |
| 3 Commercial Paper (increase over th                       | -          | 2661   | -      | 687    |        | 256    |        | 133    |       | 65   |

Notes. Figures in brackets are percenatge increases over the preceding year.

Data are adjusted for inter-institutional (all-India and state-level) flows. All-India DBs covered are. IDBI, IFCI, ICICI, IRBI and SCICI.

SIDBI Small Industries Development Bank of India SFC: State Financial Corporations SIDC: Small Industries Development Corporation.

Source: RBI, Annual Report, various issues.

(Rs crore)

TABLE 10 DISTRIBUTION OF OUTSTANDING BANK CREDIT OF SCHEDULED COMMERCIAL BANKS, BY ORGANISATION AND VARIATIONS DURING SPECIFIED PERIODS

|                                               | <b>Decen</b>       | December 1979-June 1980<br>(March 1980) | ine 1980<br>180)           | <b>Decem</b>       | December 1984-June 1985<br>(March 1985)  | ne 1985<br>85)             | Σ                  | March 1990                |                              |                    | March 1991                |                            | 2                            | March 1992                | •                          |
|-----------------------------------------------|--------------------|-----------------------------------------|----------------------------|--------------------|------------------------------------------|----------------------------|--------------------|---------------------------|------------------------------|--------------------|---------------------------|----------------------------|------------------------------|---------------------------|----------------------------|
| Organisation<br>(Institutional<br>Categories) | No of<br>Accounts  | Credit<br>Limit<br>Amount               | Amount<br>Outsta-<br>nding | No of Accounts     | Credit<br>Limit<br>Amount                | Amount<br>Outstan-<br>ding | No of<br>Accounts  | Credit<br>Lımit<br>Amount | Amount<br>Outsta-<br>nding   | No of<br>Accounts  | Credit<br>Limit<br>Amount | Amount<br>Outsta-<br>nding | No of<br>Accounts            | Credit<br>Limit<br>Amount | Amount<br>Outsta-<br>nding |
| i Household Sector *                          | 17790476<br>(99 5) | 12034 (40.5)                            | 9087 (43.3)                | 32494758<br>(99 7) | 32203                                    | 24945 (51.9)               | 53707658<br>(99.7) | 70198                     | 60816 6                      | 61789615 (99.7)    | 84211 (57.5)              | 71252 (57.4)               | 65684033<br>(99.7)           | 90698 (56.5)              | 77252 (56.5)               |
| 2 Private Corporate Sector **                 | 79573<br>(0.4)     | 10625<br>(35 8)                         | 6895<br>(32.9)             | 90588              | 17418 (27.8)                             | 12175 (25 3)               | 123018 (0.2)       | 38323<br>(31.5)           | 32657<br>(31.3)              | 133620 (0.2)       | 45971<br>(31.4)           | 39249<br>(31.6)            | 152210 (0.2)                 | <b>53169</b> (33.1)       | 45291<br>(33.1)            |
| 3 Public Sec.or ***                           | 5745<br>(0.0)      | 7028                                    | 4593<br>(23 8)             | 10753<br>(0 0)     | 13031                                    | ;0890<br>(7 22)            | 19577<br>(0 0)     | 12909 (10.6)              | (10.2)                       | 23253 (0.0)        | 16205<br>(11.1)           | (10.9)                     | 24228<br>(0.0)               | 16662<br>(10.4)           | 14073<br>(10.3)            |
| Total (1+2+3)                                 | 17875793           | 29687                                   | 20975                      | 32596207           | 62696                                    | 48035                      | 53850686           | 121654                    | 104312 6                     | 61946755 146547    |                           | i 24203                    | 65860730 160643              | 160643                    | 36706                      |
|                                               |                    | March 1993                              |                            | Increase be        | Increase between March 1991 - March 1993 | h 1991 - M                 | uch 1993           | Incre                     | Increase between 1980 - 1985 | n 1980 - 19        | 985                       | Incr                       | Increase between 1985 - 1990 | en 1985 - I               | 86                         |
| Organisation<br>(institutional                | Jc ON              | Credit                                  | Amount                     | Credit Limit       | Limit                                    | Amount Outstanding         | ıtstandıng         | Credit                    | Credit Limit A               | Amount Outstanding | Istanding                 | Credit                     | Credit Limit A               | Amount Outstanding        | ıtstanding                 |
| Categones)                                    | Accounts           | rımıt                                   | Outstand-                  | Amount             | Per Cent                                 | Ámount                     | Per Cent           | Arriount                  | Per Cent Amount              | Amount             | Per Cerit                 | Amount                     | Per Cent                     | Amount                    | Per Cent                   |
| i Household Sector *                          | 61928807<br>(997)  | 100740 (50 7)                           | 86863 (53.5)               | 16529              | 961                                      | 11951                      | 21.9               | 20169                     | 167.6                        | 15857              | 174 5                     | 37994                      | 118.0                        | 35872                     | 143.8                      |
| 2 Private Corporate Sector **                 | 163705<br>(0.3)    | 67116<br>(33-8)                         | 54949<br>(33 8)            | 21144              | 0 <b>9</b> †                             | 15699                      | 40 0               | 6793                      | 639                          | 5280               | 76.6                      | 20905                      | 120.0                        | 20482                     | 168.2                      |
| 3 Public Sector ***                           | 23633 (0.0)        | 30805<br>(15 5)                         | 20580<br>(12 7)            | 14691              | 90 1                                     | 1011                       | 51.7               | 6002                      | 85.4                         | 5897               | 118.i                     | -122                       | 6:0-                         | -263                      | -2.4                       |
| Total (1+2+3)                                 | 62116396           | 198765                                  | 162467                     | 52219              | 35.6                                     | 38264                      | 30.8               | 33009                     | 111.2                        | 27060              | 129.0                     | 58958                      | 94.0                         | 56277                     | 117.2                      |
|                                               |                    |                                         | -                          |                    |                                          |                            |                    |                           |                              |                    |                           |                            |                              |                           |                            |

Figures in brackets are percentages to total Notes:

Household Sector includes partnerships, proprietary concerns, joint families, associations, clubs, societies, trusts, groups and individuals for all accounts with credit limit of Rs 25,000 and less

Private corporate sector includes private sector and co-operative sector excluding partnerships, proprietary concerns, joint families, associations, clubs, societies, trusts and groups (as per BSR). Public sector includes joint sector undertakings

RBI, Banking Statistics, Basic Statistical Returns, vanous issues

Source

high levels to a range of 5 to 10 per cent on soaps, electric fans and air coolers, radio sets, and on medical equipment, there is no special bargaining strength left with the small-scale units producing these items. So is the case with the complete exemption of excise duty on specified aluminium circles and pipes, or the reduction of excise duty on specified capital goods to 10 per cent or even 5 per cent, or sizeable reduction in duties on paints and varnishes, mechanised matches or small-sized air-conditioners. We have already referred to the CII's pre-budget survey which revealed the sufferance of SSIs in the capital goods sector.

Secondly, a motivating force for the proliferation of SSI units was partly the desire to evade the burden of corporate taxation, which in recent years has lost its rationale. As we brought out in our original paper [EPRF 1995: Table 4 and 1023-1025], corporate tax provision as percentage of profits before tax in respect of the public limited companies in the private sector, which was about 40 per cent in the mid-1980s, came down to less than 20 per cent by 1993-94; the decline had been rather rapid during 1992-93 and 1993-94.

A third major drawback of the reservation policy for SSIs, which has been almost universally recognised, is that the medium and large-scale industries are known to be violating government policy prescriptions because of the absence of appropriate official monitoring, apart from blatant connivance.\* Reportedly, substantial additional capacity has been built up by the organised sector industries in such reserved products as icecream, laundry soap, biscuits, bread, leather shoes, leather sandals, chappals, leather suitcases and travel goods, bright bars, diesel engines (less than 15 HP), PVC pipes including conduits, electric motors (1 HP to 10 HP), different types of paints, various chemical items, paracetamol, tooth paste, and many engineering items. An analysis undertaken by the National Informatics Centre (NIC) of the data thrown by the second census (1987-88) survey shows that of the 21 products chosen for study, the relative share of output of large-scale units was 66 per cent; it was found that in the case of ice-cream, there were 1,188 units in the small-scale sector but only one unit in the large-scale sector produced 94 per cent of the total (The Financial Express, October 31, 1994). Subsequently, by March 1995, it was found that the government of India was contemplating legal proceedings against five large-scale ice-cream manufacturers for violating the SSI reservation norms (The Observer of Business and Politics, May 26, 1995). This has apparently been particularly so after the reform measures have provided the organised private corporate sector with a freer environment from industrial controls and regulations. Apart from offering severe competition to the small-scale industries, this absence of monitoring on the part of the supervisory agencies also has a statistical implication in that it could be the source of under-reporting of output figures by the organised sector itself.

Lastly, the benefits of ancillarisation, both for ancillaries themselves and the SSI units deriving the benefits of subcontracting, would have suffered a setback during the past few years when the governmental and non-governmental undertakings faced severe production cuts. On the question of the PSUs supporting the SSI units in the form of 15 per cent price preferences and 30 per cent purchase preferences as prescribed by the government regulations, it is again widely known that these, particularly purchase preferences, are observed more in the breach because of the absence of monitoring arrangement by the supervisory agencies.

#### INFORMAL SECTORS AND INSTITUTIONAL FINANCE

Overall, the ground reality regarding the regulatory and policy environment for investment and production activities during the post-reform period has been such that the pace of unrecorded growth in the small industry sector would have been considerably hindered. On the contrary, there appears to be fairly conclusive evidence to the effect that the organised private corporate sector has enjoyed better clout and far freer environment for investment and production activities vis-a-vis the informal sectors during this period; the incentives for the organised sector to split and palm off activities into

the SSI sector have also been diluted. Therefore, if the CSO data present a picture of contradictory trends in investment as between the private corporate sector and the informal sectors during the post-reform period, it seems to reflect the ground reality. In this regard, and particularly in regard to the process of facing adjustment pains by different sectors, a factor that would have played a decisive role is the relative quantum of investible resources commanded by the respective sectors — an important aspect of the post-reform macro-economic scene which we wish to spell out in some detail.

To sum up the results at the outset, a detailed analysis of the distribution of institutional finance provides us with a telling story that in the post-reform period it is the organised private corporate sector that has been able to exercise command over relatively significantly larger amounts of investible resources from all sources commercial banks and financial institutions. internal and external sources, domestic and foreign. We already brought out in our earlier paper (EPWRF 1995) how the profitability of the corporate sector had improved due to treasury operations and other incomes, combined with perceptible reductions in the incidence of corporate tax burden as well as interest burden, which have been truly unparalleled in the history of corporate sector performance in India and the benefits of which could not have been derived by the informal sectors to any tangible extent.

To begin with, it is the distinctly higher level of capital market resources and loanable funds from institutional sources

Table 11: Direct Institutional Finance for Agriculture and Allied Activities and Real Capital Formation in Agriculture

(Rs crore)

|         | Direct Finance ( | loans issued o      | luring the year)               |       | in Agricu<br>1980-81 Pr |                   | GFCF in<br>Agriculture |
|---------|------------------|---------------------|--------------------------------|-------|-------------------------|-------------------|------------------------|
| Year    | Total<br>(3 -4)  | Short-term<br>Loans | Medium- and<br>Long-term Loans | Total | Public<br>Sector        | Private<br>Sector | at 1980-81<br>Prices   |
| (1)     | (2,              | (3)                 | (4)                            | (5)   | (6)                     | (7)               | (8)                    |
| 1980-81 | 3436             | 2047                | 1389                           | 4636  | 1796                    | 2840              | 4537                   |
| 1981-82 | 4296(25.0)       | 2740(33.9)          | 1556(12.0)                     | 4503  | 1781                    | 2722              | 4346                   |
| 1982-83 | 4352(1.3)        | 2759(0.7)           | 1593(2.4)                      | 4590  | 1742                    | 2848              | 4409                   |
| 1983-84 | 5244(20.5)       | 3335(20.9)          | 1909(19.8)                     | 4101  | 1711                    | 2390              | 3957                   |
| 1984-85 | 6167(17.6)       | 3731(11.9)          | 2436(27.6)                     | 4549  | 1674                    | 2875              | 4287                   |
| 1985-86 | 7158(16.1)       | 4529(21.4)          | 2629(7.9)                      | 4325  | 1520                    | 2806              | 4068                   |
| 1986-87 | 7720(7.9)        | 4512(-0.4)          | 3208(22.0)                     | 4011  | 1425                    | 2586              | 3798                   |
| 1987-88 | 9198(19.1)       | 5516(22.3)          | 3682(14.8)                     | 4414  | 1458                    | 2956              | 4219                   |
| 1988-89 | 9382(2.0)        | 5884(6.7)           | 3498(-5.0)                     | 4346  | 1362                    | 2984              | 4260                   |
| 1989-90 | 10628(13.3)      | 6499(10.5)          | 4129(18.0)                     | 4353  | 1156                    | 3197              | 4191                   |
| 1990-91 | 10853(2.1)       | 6644(2.2)           | 4209(1.9)                      | 4594  | 1154                    | 3440              | 4459                   |
| 1991-92 | 11540(6.3)       | 7419(11.7)          | 4121(-2.1)                     | 4729  | 1002                    | 3723              | 4667                   |
| 1992-93 | 12840(11.3)      | 8846(19.2)          | 3994(-3.1)                     | 5371  | 1060                    | 4311              | 5259                   |
| 1993-94 | 16494(28.5)      | 10843(22 6)         |                                | 5586  | 1178                    | 4408              | 5550                   |
| 1994-95 | , ,              | 14728(35 8)         |                                | 5857  |                         |                   | 5886                   |

Notes: Figures in brackets are percentage increase over the previous year.

Source: RBI, Report on Currency and Finance, Vol I, 1993-94, RBI, Annual Report 1994-95, p 94 and CSO, NAS, various issues.

<sup>..</sup> denotes not available; \* RBI Annual Report 1995-96 presents only the supply of agricultural credit by commercial banks: Rs 8,255 crore in 1994-95 showing a rise of 52.8 per cent and Rs 10,172 crore, an expansion of 23.2 per cent, in 1995-96.

available for the private corporate sector vis-a-vis the informal sectors, that would have tilted the balance of bargaining strength in favour of the former. As shown in Table 9, (i) galloping of new capital issues by nongovernment public limited companies between 1990-91 to 1993-94, (ii) large increases ranging from 24 to 31 per cent each year in the disbursements of financial assistance by all-India development banks which generally support the large-scale industry (IDBI, ICICI, IFCI, RBI and SCICI, that is, except SIDBI), (iii) corporate sector borrowings through Commercial Papers (CPs), and (iv) sizeable mobilisation of foreign borrowings through global depositary receipts (GDRs) and other means, all go to show the phenomenal amounts of additional investible resources commanded primarily by the private corporate sector and to a small extent by the public sector undertakings. Contrariwise, there is equally strong evidence to the effect that the informal sectors faced a situation of severe resource constraints since 1991. As shown in the the same Table 9, SIDBI and state-level institutions whose resources are generally earmarked for smallscale (and some medium-size) units, recorded considerably slower growth in their disbursements since 1990-91. Overall, when disbursements of all-India development banks rose by 110 per cent between 1990-91 and 1993-94, those of SIDBI and statelevel institutions together rose by 37 per cent (which is barely equivalent to the 34 per cent rise in the CSO's implicit index of investment deflators).

A more telling and direct evidence in this respect is to be seen in the relative growth of bank credit rendered by scheduled commercial banks to different institutional categories based on data produced by the RBI's system of banking statistics called Basic Statistical Returns (BSR). As brought out in Table 10, the decade of the 1980s saw a significant expansion in the relative share of bank credit in favour of the 'household sector', comprising partnership firms, proprietary concerns, joint families, associations, clubs, societies and groups of individuals and individuals under accounts with credit limit of above Rs 25,000 and all accounts with credit limits of Rs 25,000 and less. The share of the 'household sector' in total bank credit steadily rose from 43.3 per cent around March 1980 to 51.9 per cent towards March 1985 and further to 58.3 per cent as at the end of March 1990. Looking at it differently, between March 1980 and March 1985, the increase in bank credit in favour of the 'household sector' was of the order of 175 per cent as against the total credit expansion of 129 per cent. In the next five-year period again (March 1985 - March 1990), the 'household sector' enjoyed a credit expansion of 144 per cent as against the total credit expansion of 117 per cent. These expansions took place under the impulse of the RBI and government directives regarding the provision of 'priority sector' advances which was placed at 40 per cent to be achieved by the end of March 1985 (alongwith sublimits for agriculture at 18 per cent and weaker sections at 10 per cent). The banks did achieve the prescribed ratio by the end of March 1985/March 1986. In fact, under the policy impulses reflecting societal concerns, the average priority sector share for the banking industry as a whole steadily rose to 44 per cent as at the end of March 1988 but by March 1991, it fell to 39.5 per cent largely because of the loan waiver scheme, the implementation of which was generally completed in March 1991 [RBI 1991; see also EPWRF 1996].

Subsequently, the policy package relating to the financial sector reforms under the structural adjustment programmes kept on assuring that the bank credit needs of agriculture, small-scale industries and other small borrowers would be adequately met; towards that end the 40 per cent priority sector target remained unchanged except for some definitional changes. Under this formal policy prescription, we have the RBI governor warning the banks in his October 1993 credit policy statement, after effecting some modifications in the composition of the 'priority sector' advances, thus: "Failure on the part of the banks to achieve the stipulated level of priority sector credit and/ or failure to show a distinct improvement in the priority sector credit could invite bank-specific policy responses which could include raising of reserve requirements or withdrawal of refinance facilities" [RBI 1993b]. This was emphasised again in sufficiently strong words in the May 1994 policy statement: "I must reiterate that banks

should adhere to the priority sector targets and sub-targets and effective steps should be taken to correct any shortfalls" [RBI 1994]. But, what has been the ground level reality? The share of priority sector advances in total bank credit has steadily fallen from 43.1 per cent in 1990 to 39.5 per cent in March 1991 (due to loan waiver to an extent) and finally to 36.5 per cent by the end of March 1993; there was some edging up to 38.2 per cent by March 1994 [Gol 1995 and 1996]. The deteriorating performance by some of the bigger banks like State Bank of India and the top five nationalised banks has been much more blatant and unsatisfactory in this respect [EPWRF 1996].

The above is yet another case of guidelines intended to favour informal sectors being openly flouted because of the half-hearted nature of official enforcement of those guidelines. In this regard, the RBI's BSR, referred to above, reveal that between March 1991 and March 1993, while total bank credit has risen by 30.8 per cent and that for public sector by 51.7 per cent and private corporate sector by 40 per cent, bank credit for the 'household sector' rose only by 22 per cent (Table 10). In credit limits sanctioned during this period, the differential has been much more sharply tilted against the 'household sector' vis-a-vis the private corporate sector as well as the public sector. As a result, the share of the 'household sector' in total bank credit dwindled for the first time in the post-bank nationalisation period from 57.4 per cent in March 1991 to 53.5 per cent in March 1993 (BSR data for March 1994 and thereafter are not yet available). This has happened apparently under the impulse of the new economic policy which has, as part of the ground reality, decisively turned the tables against promotional and protective measures favour-

TABLE 12: HOUSEHOLD SAVING IN FINANCIAL ASSEIS

(Rs crore)

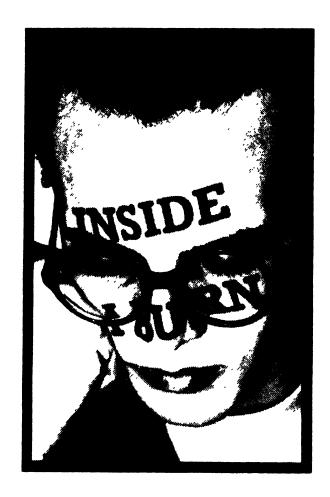
| Item                                                     | 1995-96#     | 1994-95#     | 1993 94*    | 1992-93    | 1991-92     | 1990 91    |
|----------------------------------------------------------|--------------|--------------|-------------|------------|-------------|------------|
| A Gross Financial                                        |              |              |             |            | ·········   |            |
| Assets                                                   | 125123(11.5) | 137432(14.5) | 93948(11.7) | 75723(107) | 70856(11.5) | 56858(106) |
| 1 Currency                                               | 16348(1.5)   | 15916(1.7)   | 13367(1.7)  | 6562(0.9)  | 8157(1.3)   | 6251(1.2)  |
| 2 Deposits@                                              | 54498(5.0)   | 62927(6.7)   | 33495(4.2)  | 30337(4.3) | 22588(3.7)  | 17499(3.3) |
| 3 Claims on                                              |              |              |             |            |             |            |
| Government                                               | 10662(1.0)   | 13222(14)    | 6784(0.8)   | 3949(0.6)  | 4904(0.8)   | 7942(1.5)  |
| 4 Investment in Share and Debentures**                   | s 6196(0.6)  | 13404(1.4)   | 12506(1.6)  | 12944(1.8) | 15704(2.5)  | 8412(16)   |
| 5 Contractual                                            |              |              |             |            |             |            |
| Savings@*                                                | 37419(3 4)   | 31963(3.4)   | 27796(3 5)  | 21931(3 1) | 19503(3-2)  | 16754(3.1) |
| B Financial Liabilities                                  | s 26881(2.5) | 30689(3 2)   | 10975(1 4)  | 16395(2.3) | 8807(14)    | 10505(2.0) |
| C Household Saving<br>in Financial<br>Assets (Net) (A-B) | 98242(9 1)   | 106743(11.3) | 82973(10.4) | 59328(8 4) | 62049(10 1) | 46353(8.7) |

<sup>#</sup> Prelimnary \* Provisional Figures in brackets are as percentages to GDP at current market prices @ Comprise bank deposits, non-bank deposits and trade debt (net).

<sup>\*\*</sup> Including units of UTI and other mutual funds

<sup>@\*</sup> Comprise Life insurance, Provident and Pension funds.

Source: RBI, Report on Currency and Finance, 1994-95 and Annual Report 1995-96



You can use a man for his limbs, his technical skills. Or you can use him for what he possesses most valuable. His spirit

At Ambuja, our people have the freedom to define their own jobs, and set their own targets. As a result, each task has become a personal mission. "I can"

Within six months of launch in Bombay, our people have made Ambuja the leading retail brand. And in just two years, they've made the company the country's largest exporter of cement and clinker. Just goes to show, given the right motivation, there's nothing a man can't do

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ing the informal sectors by emphasising the importance of satisfying capital adequacy norms and other prudential requirements. Impliedly, to reiterate the reality of the so-called incentive structure, the institutional setting and bargaining dynamics created by the stabilisation and structural adjustment programmes of the post-1991 variety has embodied an intrinsic bias in favour of the private corporate sector and against non-corporate and household segments of the economy.

Before concluding this section, it is worth pointing out the relevance of yet another set of data regarding the flow of institutional credit in favour of agriculture and allied industries (Table 11). As Gadgil (1986) put it, there is no gainsaying that "contribution of investment credit to private capital formation in agriculture has been much higher than that of production credit to costs of cultivation" (p 294), or as Rath (1989a:71) put it aptly: "Loan finance has become progressively important in fixed capital formation in the private sector in agriculture, which in turn has become steadily more important in the total fixed capital formation in agriculture over the years" [see also Rath 1989b]. In this respect, it is found that until 1989-90, the rate of increase in loans issued in the form of direct assistance by commercial banks, RRBs and co-operative banks for medium- and long-term purposes averaged almost 15 per cent per annum but during 1991-92 and 1992-93, there were absolute declines of 2 to 3 per cent each year in such loans even in nominal terms.

#### Upward Bias in Household Financial Savings

While seeking to question our hypothesis that the methodology of estimation probably gave rise to an overestimation of household saving in the form of financial assets, A-S

contend that the behaviour of financial savings in 1993-94 could not be considered as an outlier and that household savings in currency and bank deposits in that year were not abnormal, but this contention tends to obfuscate the issue at hand. In the first place, a 'fairly stable' upward trend in the ratio of gross financial assets is not necessarily inconsistent with equally 'fairly sizeable' year-to-year to fluctuations in it. We ourselves had emphasised the phenomenon of 'a steady uptrend' in household saving in the form of financial assets, but at the same time, as we were also dealing with a short-period analysis, we brought out, in the form of marginal propensities, fluctuations in the ratios of incremental financial saving to personal disposable income (PDY) ranging from 0.6 per cent to 38.5 per cent since the beginning of the 1980s. It was the highest incremental financial saving to PDY ratio, in the past decade and a half, of 38.5 per cent for the year 1993-94 that was perceived by us as an outliner; we perceived as such also because we could pinpoint a specific aspect of the estimation procedure that was sure to produce an overestimation of household saving in the form of currency, bank deposits and company shares and debentures for that year.

Without directly confronting the issues raised on the estimation procedure, A-S seek to depend on surrogates, but in the process, stumble into a grave conceptual and methodological error. They argue that the application of historical ratios of sectoral holdings of currency and bank deposits can lead to an overestimation of household financial savings only, not of total domestic savings. According to them, an overestimation of household holdings of currency and bank deposits will lead to an under estimation of the financial savings of some other sector and thus it will only affect the composition of savings, and not the total. This surely shows an incorrect understanding of the relevant concepts and estimation procedure involved.

There are two statements in the A-S paper which are responsible for the apprehensions regarding the improper interpretation of the CSO procedure. Explaining the method of estimation, they state that "...household savings in CSO data (which account for 60 to 80 per cent of total domestic saving) is a residual derived by deducting public and corporate savings (directly estimated from public and corporate accounts) from total saving" (p 2185). Following this statement, they do explain accurately that the household sector's financial saving is arrived at by deducting the government (i e, public) and corporate sectors' holdings of financial assets from the total of such assets in the economy. The sum total of the instrument-wise annual increase in financial assets net of the increase in financial liabilities constitutes household saving in financial assets. However, in the universally-accepted kind of a procedure wherein the stocks of currency and bank deposits are apportioned between nonhouseholds and households on the basis of historical ratios, while the household holdings so arrived at (net variations therein, to be specific) constitute a necessary input for estimating household saving in financial assets and form a constituent part thereof, the balance of currency and bank deposits assigned to non-households are not a constituent part of the estimated saving of the private corborate and public sectors. Their savings cannot be ordinarily apportioned between saving in the form of financial assets and that in physical assets. The savings of public and private corporate sectors are directly estimated briefly as, (i) excess of current receipts over current expenditure for government administration and departmental enterprises, and (ii) retained earnings and transfers to reserves in the case of the non-departmental enterprises in the public sector and all private corporate sector

TABLE 13. AGGREGATE DEPOSITS WITH SCHEDULFD COMMERCIAL BANKS (SCBs) ON LAST REPORTING FRIDAY (LRF) AND MARCH 31 BASIS

(Rs crore)

|         | No of Reporting<br>Fortnights | Last<br>Reporting |          | te Deposits<br>Bs on LRF |          | te Deposits<br>on March 31 | Estimated Hou<br>in the form | sehold Saving<br>of Deposits |
|---------|-------------------------------|-------------------|----------|--------------------------|----------|----------------------------|------------------------------|------------------------------|
| Year    | ū                             | Friday (LRF)      | Absolute | Variation                | Absolute | Variation                  | Bank deposits                | Deposits\$                   |
| (1)     | (2)                           | (3)               | (4)      | (5)                      | (6)      | (7)                        | (8)                          | (9)                          |
| 1987-88 | 26                            | March 25          | 118045   |                          | 118253   | 15315(4.6)                 | 14674(4.4)                   | 16504(5.0)                   |
| 1988-89 | 26                            | March 24          | 140150   | 22105(5.6)               | 147160   | 28907(7.3)                 | 14747(3.7)                   | 16686(4.2)                   |
| 1989-90 | 26                            | March 23          | 166959   | 26809(5.9)               | 175441   | 282Ե1(6.2)                 | 14763(3.2)                   | 15855(3.5)                   |
| 1990-91 | 26                            | March 22          | 192452   | 25493(4.8)               | 204774   | 29333(5.5)                 | 16600(3.1)                   | 17499(3.3)                   |
| 1991-92 | 26                            | March 20          | 230758   | 38306(6.2)               | 242068   | 37294(6 0)                 | 20755(3.4)                   | 22588(3.7)                   |
| 1992-93 | . 26                          | March 19          | 268572   | 37814(5.4)               | 281085   | 39017(5.5)                 | 27542(3.9)                   | 30337(4 3)                   |
| 1993-94 | 26                            | March 18          | 315132   | 46560(5.8)               | 333229   | 52144(6.5)                 | 29220(3.6)                   | 33495(4 2)#                  |
| 1994-95 | 27                            | March 31          | 386858   | 71726(7.6)               | 386859   | 53630(5.7)                 | 57426(6.1)                   | 62927(6.7)#                  |
| 1995-96 | 26                            | March 29          | 433819   | 46961(4.3)               | 436019*  | 49160(4.5)*                | -                            | 54498(5 0)#                  |

<sup>\*</sup> Estimated \$ Comprise bank deposits, non-bank deposits and trade debt (net).
Figures in brackets are as percentages to GDP at current market prices - denotes not available.

Source: RBI Bulletin, various issues, except for Columns (8) and (9) which are from RBI Report, on Currency and Finance, various issues, # RBI, Annual Report, 1995-96.

enterprises and co-operative institutions.<sup>10</sup> Any reference to the portfo!io choices of non-household sectors having a bearing on their savings is not relevant to the issue at hand. Nor is the discussion on year-end bunching of the expansion in currency and bank deposits germane to the estimational issue discussed by us.

Ordinarily, the above clarification would not have been necessary as it is a widely known feature of the saving estimation procedure but another categoric statement made by A-S in their paper, read in conjunction with the statement cited in the previous paragraph, has created a definite misgiving replete with implications for the subsequent interpretation of household saving in financial assets. Arguing that any upward bias in the estimation of household saving in currency and bank deposits can only lead to an over-estimation of household financial savings, not of total domestic savings, they emphasise that "an overestimation of household holdings of currency and bank deposits will lead to an underestimation of the financial savings of some other sector and will only affect the composition of savings" (p 2189). This has no factual basis in the CSO's estimation procedure. What is more, it has no factual basis in any macro-economic analysis where it is generally found that flow-of-funds accounts present public and private corporate sectors as net borrowers while the household sector is the net lender. In a flow-of-funds accounting framework, "households are the only net-saving domestic sector in a modern economy" [Reynolds and Camard 1989]. Surplus financial savings of the household sector go to finance the deficits of the public and private corporate sectors. This is not to deny that private corporate businesses and public corporations as much as households are apt to make definitive portfolio choices in regard to holdings of their financial assets but, first, the private corporates and public corporations as broad institutional categories face excess of financial liabilities over financial assets, and second, a rise in their holdings of currency or bank deposits in any year does not necessarily mean that their savings have gone up; the holdings of such financial assets may go up and yet their retained earnings (i e, savings) may fall drastically or may be nil or negative. Contrariwise, in the case of the household sector, any arbitrary and incorrect apportionment of the increase in currency and bank deposits in favour of that sector will lead to an overestimation of household financial savings and also of total domestic savings; there is nothing in the estimation procedure to counterbalance such inappropriate apportionment. The only counterbalancing factor is the addition to financial liabilities, the estimates of which are generally

independent of the estimation of household financial asset holdings.

Again, on the question of the possible impact of sizeable foreign inward remittances by Indian expatriates on the growth of household saving in the form of money balances, A-S have made no attempt to appreciate the basic distinction we have sought to make between the expansions in money balances attributable to unilateral inward remittances from external sources and those originating in endogenously generated household incomes. In this respect, the bracketing of foreign inward remittances with money wages paid to households is conceptually and operationally inappropriate. Foreign inward remittances inject fresh money balances exogenously into the economic system, whereas payments of money wages by themselves need not do so. An autonomous injection of Rs 100 crore into the economic system through unrequited transfers from abroad, other things being equal, translates into an automatic addition to household saving in the form of financial assets to the extent of say, Rs 70 crore (assuming 70 per cent is the household share based on historical ratios employed for estimation),11 whereas the disbursements of wages to workers do not necessarily add to the stock of aggregate financial assets in the country. Even if the propensity to consume out of inward remittances is high, or alternatively, even if the resulting financial assets are converted into physical assets by the recipient households without much lag, the additional financial assets initially injected into the system autonomously, still circulate unless the monetary policy has made a conscious attempt to contract the circulation of monetary assets. And in the scheme of estimation, so long as short-term monetary assets like currency and bank deposits remain outside the monetary system as constituents of the community's financial asset holdings, or even if they interchange as between different financial assets, a proportion of such assets is accounted for in the estimation procedure as being held by the household sector. In discussions of yearto-year humps of financial assets, the requirement to focus on issues concerning money multiplier and the secondary expansion in monetary assets, their impact on prices and nominal incomes, or the longer term issues concerning the portfolio choices of households, the inflationary and other forces giving rise to larger holdings of monetary assets, the relative yields on alternative assets, or the various theoretical hypotheses like life-cycle, permanent income and their derivatives - explaining household motivations to choose their levels of consumption and saving - all these should not clutter the basic fact that in the current methodology of estimation, autonomous injection of financial assets in reality generally has a distinctly expansionary impact on household financial savings12 unlike in the case of the disbursement of money wages. If, in a year of estimation, certain humps of individual asset accruals externally injected play a distinct role in net changes in total financial assets of the community, they get captured in the estimation of household financial savings for that year, and that too, based on historical ratios of sectoral ownership. While, theoretically, the constant ebb and flow of financial assets of households are influenced by various explanatory factors mentioned above in different degrees and with varied lags, the bloating of household saving in the form of short-term monetary assets should hold good in reality for short period of a year, irrespective of whether the household choices are as between saving and consumption, or as between financial and physical assets.

## IV Postscript and Perspective

As indicated at the outset, we now have the CSO's estimates of domestic saving and investment rates for one more year 1994-95 and the RBI's estimates of household financial savings even up to 1995-96. How do they fare in relation to the earlier scenario of a persistent fall in these ratios and in relation to the broad perspective we sought to provide in our earlier paper based on that scenario? To recall briefly, we had argued that an outstanding and proven aspect of the success stories of the east and southeast Asian economies had been the role of their high levels of initial, and also progressively rising, rates of saving and investment as a contributory factor for their rapid growth during the 1970s and 1980s. But in the Indian case there did not appear to be any sign of improvement in the domestic saving and investment ratios; in fact after three years of reforms the levels of domestic saving and investment remained below what they were prior to the reform process began. More significantly, we went a step further and contended that considering the evolving economic structure and societal propensity as also the public policy framework promoting them, which has served as a constraint on exploiting the saving potential of the community, it is unlikely that the Indian economy would achieve rapid increases in domestic savings in a manner that the successful east and south-east Asian economies achieved as a precondition for rapid economic growth.

In this respect, the broad picture that emerges from the recent trends is that neither the domestic saving rate nor the gross capital formation during the past three-year period

1993-94 to 1995-96 would be higher than that attained during the three-year pre-reform period ending 1990-91 (see Tables 2 and 12). The CSO's official estimates up to 1994-95 suggest an improvement in the gross domestic rate to 24.4 per cent after it fell persistently from the peak reached in 1990-91 at 23.6 per cent to 21.4 per cent in 1993-94. Likewise, the investment rate jumped to 25.2 per cent after it fell from the peak of 27 per cent reached in 1990-91 to 21.6 per cent in 1993-94. However, as has been commented upon earlier ('Overestimating Saving', EPW, June 15, 1996:1424-25), the estimates of saving for 1994-95 are suspect due to a flaw in the estimation procedure. On a detailed study, it is found that the growth in deposits of scheduled commercial banks (SCBs), which constitutes an important component of household saving in financial assets, has been taken for 27 fortnights for the year 1994-95 instead of the usual 26 fort-nights. In addition, the figure for 1994-95 embraced also the year-end closing bulge in bank deposits as the last reporting Friday fell on March 31 in that year. As a result, as depicted in Table 13, the increase in aggregate deposits of SCBs, which went into the saving estimation, galloped from Rs 46,560 crore in 1993-94 to Rs 71,727 crore in 1994-95. On the other hand, the growth of bank deposits for the comparable 26 fortnights would suggest that the absolute expansions were of similar magnitudes during these two years.

Employing the non-comparable set of data as indicated above, the RBI has estimated household saving in the form of bank deposits at Rs 57,426 erore (or 6.1 per cent of GDP) for 1994-95, which was a quantum jump from Rs 29,220 erore (3.6 per cent of GDP). This is truly untenable. It is this flaw in the estimation procedure that contributed to the sizeable increase in household saving in the form of financial assets during 1994-95. It is because of this inflated figure for 1994-95 that there appears a steep fall (from 11.3 per cent to 9.1 per cent) in the household financial savings (net) during 1995-96 – far steeper than what it should be in reality.

In the absence of worksheet inputs into the saving estimation, it is not possible to arrive at an accurate picture of the saving trends, particularly during 1994-95, after smoothing them for the coverage of noncomparable periods.14 However, a rough and ready attempt suggests that the household saving in the form of financial assets appears to have been overestimated probably to the extent of one full percentage point for 1994-95 and by the same token, there may have been some corresponding underestimation for 1993-94.15 Thus, the overall doméstic saving rate may have been stagnant at around 23 per cent during these two years. No doubt, even this level of saving meant a recovery from the depressed level of 21 per cent reached in the first two years of reform 1991-92 and 1992-93, but this recovery has had much to do, as explained in our original paper [EPWRF 1995], with the bloating of short-term liquidity in the system arising from the unprecedented capital inflows, particularly portfolio capital. This is also corroborated now by the RBI's latest estimates of a drastic fall in household saving in financial assets, and possibly in aggregate domestic saving, during 1995-96.

More recent trends in saving and investment referred to above and the nature of public policies pursued thus do not inspire confidence that any significant turning point may be seen in the medium-term in the otherwise sluggish saving scenario. More rapid deterioration than ever before in inequalities in the distributions of incomes and assets, massive growth of rentier and non-functional incomes (as distinguished from wages, genuine entrepreneurial profits and other risk-based earnings), policyinduced impetus to conspicuous consumption amongst the middle- and high-income classes including that through drastic reductions in excise and custom duties on upper-class consumption goods and grant of consumer credit by banks and non-bank financial institutions, and significantly large imports of gold and silver to with the implied leakage in saving, are the important constraints that continue to hold out threat against any rapid improvement in the saving-investment scenario. As has been emphasised by us earlier [EPWRF 1995], any drastic attempt to improve public sector saving, desirable as it is, may nevertheless, under the present social milieu, adversely affect household disposable incomes and in turn household saving.

#### Notes

[Extensive help rendered by Bhagyashree Mandke and Paramita Debnath in the preparation of this note is gratefully acknowledged.]

- 1 This is the general view in the context of the developed as well as the developing countries "It is to be expected -. that the flow-of-funds accounts (FFAs) will provide a more comprehensive coverage of household savings than do the national income and product accounts (NIPAs) This is because the accumulation of financial assets and liabilities of households is directly covered by the financial accounts (except for informal transactions, many of which are interhousehold flows that would net out in the accounts anyway) Also, while the informal sector of the real economy may escape reporting in the NIPAs, the financial flows that they permit may well be captured in the FFAs as changes in financial savings of the producing units (which appear as households)" [Reynolds and Camard 1989.166].
- 2 Through a slightly different perspective, the impact of underground activities on saving

- is said to be minimal. See Wilson et al (1989) 140): "Thus, only when NIPA expenditures are estimated on the basis of methods that already implicitly include payments to 'underground' sellers of services - for instance, payments for repair and maintenance of residential houses - would the addition of the 'underground' income of the seller of such services add to saving Otherwise, the omission of underground activities from the statistical sources used in the preparation of the NIPAs likely reduces the estimates for income and expenditures by the same amounts, leaving the estimate for personal saving unchanged From the FFA perspective, there is a similar balancing of sources and uses of funds Consequently, the omission of underground activities in the NIPAs may not affect the difference between saving estimates in these accounts and those in the FFAs"
- 3 The story of what was revealed by the only census of public limited companies that the RBI conducted in the 1970s and the problems associated with the blowing-up factor for the global estimation of private corporate sector saving and capital formation, as also the absence of satisfactory paid-up capital series and poor quality of sample for private limited companies, are all an indication of these misgivings [See RBI 1982, 71-74 and Rama Rao 1990 219-225]
- 4 The Raj Working Group (p 49) quotes a report produced by the USA's National Bureau of Economic Research (NBER) in 1958. Interestingly, the NBER's most recent study continues to air a similar view. See Lipsey and Tice (1989: 9-10) "However, the saving data, particularly the sectoral estimates, remain a weak element in the accounts, . the quality change adjustment issue remains controversial and unsettled, and the discrepancies among saving estimates from different sources remain enormous" The same theme is expressed in Reynolds and Camard (1988 161-162) "Household savings are always among the weakest figures in the NIPAs, even in industrial countries with well-developed statistical agencies, and the discrepancy between NIPA and FFA estimates can be considerable. In Latin America, NIPA household savings have long been thought to be understated . . and are subject to substantial upward correction when matched with the comparable figure from FFAs'
- 5 "Effort has also been made to make use of as much current data as possible in place of utilising the proportion based on old bench mark surveys—specific mention may be made of the follow up of surveys of the Economic Census (EC). The EC and its follow-up surveys have been specifically designed to fill in data gaps pertaining to unorganised segments of the non-agriculture sectors of the economy" [CSO 1988—2-3, see also Gothoskar 1988 2014]
- 6 We do not rule out the possibilities of estimational errors in foreign capital inflows, but their size and direction should be of the same genre as the other sources of sources and hence unlikely to alter the trend revealed in the official data
- 7 As per the Annual Survey of Industries (ASI) for 1992-93, 66 per cent of the number of factories, 13 98 per cent of the gross factory output and 2 69 per cent of the total fixed

- capital belonged to the institutional categories constituting the 'household' sector.
- 8 "That apart, the bigger enterprises have got into the product lines reserved for SSIs using the lacunae in the 1970 administrative order that put a number of products on the reserved list. The Union Industry Ministry's order lacked the weight of law though it was only a decade and more later that the Bornbay High Court struck down the reservation policy as null and void. Thus, for a long period those units which should not have been around were producing the reserved goods openly on the strength of carry-on-business licences and covertly through their small-scale subsidiaries. A study in 1984 by the corporate policy group of the Indian Institute of Public Administration had listed several such instances to make a case for tighter monitoring of the reservation policy. It was only after the high court's ruling that the central government acted to get an ordinance issued. But a long period of wilful neglect of glaring loopholes in the reservation policy made a mockery of the very idea of giving small and tiny sectors a fighting chance" ('Small Must Be Beautiful'. Financial Express, October 24, 1994).
- 9 This is not contradicted by the upward revision for 1993-94 in the household physical assets formation from 5.6 per cent of GDP in the 1995 NAS to 6.6 per cent in the 1996 NAS (Table 3). This revision coincides with a corresponding downward revision in the GCF estimation for private corporate and public sectors together, thus, possibly proving that the household sector is the 'dumping ground' for estimational errors in the aggregate GCF as well as those in the estimates for the organised sectors. This expression is found in Holloway (1989, 146) Such year-to-year revisions are also a common feature in the estimates for the US. See Wilson et al 1989. To an extent, this may explain the 'stylised fact' of the sectoral behaviour of capital formation in India, as pointed out by Joshi and Little (1994, 315) and A-S (1995, 2185-2186)
- 10 This problem is confronted by all countries which combine data generated from flow-oftunds accounts (FFAs) with those generated from national income and product accounts (NIPAs) See Lipsey and Tice (1989: 11-12). "In other words, financial saving is the net acquisition of assets less the incurrence of habilities; measured saving thus includes measurement errors in both acquisition and disposition of assets and issuance and retirement of liabilities. Here, too, the household sector is mostly derived as a residual, by subtracting known holdings by businesses and governments from known totals outstanding for most assets" See also Holloway (1989) on the government surplus or deficit of government saving and undistributed corporate profits as saving of the corporate sector in the NIPA For a comparison of the personal saving estimates under NIPAs and FFAs framework, see Wilson
- 11 An example somewhat close to this phenomenon is found in the case cited of the influence of inward and outward capital flight between Latin American countries and the US residents in the following statements of George M von Furstenberg (1989: 150): "Funds that originally had arrived through

- capital flight may not have been identified as claims against the US, being credited instead to US residents - perhaps friends, relatives, or their proprietorships... Assuming the foreign private capital arriving in the US would, in good part, be (mis) represented as being owned by US residents once again, there would be an overstatement of household uses of funds in the US that is coupled with an understatement of capital imports". A similar example given by him relates to the ebb and flow of dollars through the drug market (p 151): "In reality, however, the undetected leeching of currency from the US into foreign hands leads to an overstatement of monetary assets owned by US households. Financial uses are then overstated also because they are determined by differencing estimates of stocks at different points in time".
- 12 In such a discussion, the consequences of increased monetary assets on nominal GDP and hence on the ratios of saving and investment to GDP are not of direct relevance.
- 13 There may have been a slight revision in the bank deposit data and hence the household component in it, but the details are not available.
- 14 There could be various methods of smoothening such irregular series such as the use of annual averages, averages of a few year-end fortnights or March 31 data. The change would, of course, have to be considered carefully and the time-series recast accordingly on a consistent basis. Mihir Rakshit (1982 and 1983) had raised the issues associated with the bunching of large-scale payments towards the end of the financial year "which will lead to an overestimation of saving of the unorganised sector". We are not seeking to address the fundamental questions of the appropriateness of the existing methodology of estimation in this regard in the present paper
- 15 This is on the assumption that the estimation should be based on March 31 figures of bank deposits as indicated in CSO 1989
- 16 Imports of gold, which ranged from 150 to 170 tonnes during the three-year period 1989-1991 (clandestine), galloped to a range of 304 to 384 tonnes during the past four years 1992-1995 (both official and clandestine). At 384 tonnes, the import value works out to approximately Rs 18,000 crore at domestic prices.

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## **Savings Rate in Indian Economy since 1991**

#### Pulapre Balakrishnan

It has been widely noted that the estimated household saving rate has declined for almost three years running since 1991. This has been interpreted variously. The government of India has rushed to argue that the 'measured' decline might only reflect a methodological practice. On the other hand, critics of the reform process have argued that the decline is not only real but a direct consequence of the strategy adopted which has encouraged increased consumption of durable goods.

Both these arguments are considered here and found wanting. On the other hand, the behaviour of the household savings rate since 1991 is relatively well explained by a persistence of consumption in the presence of an unanticipated shock in income. The decline in income is itself not too difficult to explain. It is often overlooked that since 1991 the economy has seen not only reforms but also a conventional stabilisation programme that initially lowers growth.

"...a man's habitual standard of life usually has the first claim on his income, and he is apt to save the difference which discovers itself between his actual income and the expense of his habitual standard."

- J M Keynes, The General Theory

'HIS study is concerned with the behaviour f the savings rate in the Indian economy 1 recent years. The first point to note when onsidering the behaviour of the savings rate 1 recent years in the Indian economy is that nere is a multiplicity of estimates of savings choose from, Naturally, therefore the uestion of which estimate one uses assumes aramount importance. An approach to hoosing among the sources is provided by ne well known Working Group on saving ppointed by the government of India in the arly 1980s: "The most detailed and omprehensive estimates of saving and apital formation now available, published y the Central Statistical Organisation (CSO), re the outcome of a series of attempts from ne latter half of the 1950s to generate and mprove the estimates of various components if national income; they are also the most videly accepted official series, though the 'lanning Commission and the Reserve Bank of India have continued to publish estimates ften slightly at variance with them" [RBI 982:1]. This view, though dating to 1982, vould find wide acceptance in India even oday. The savings estimates used in this tudy are therefore those put forth by the CSO.

#### I Savings Rate since 1990

In Table 1 are provided the data on the iggregate savings rate in the Indian economy and its decomposition by 'institution'. Some of the features may be noted. First, ignoring the reluctant increase in 1993-94, the gross domestic savings rate in the Indian economy has declined steadily since 1990-91. This is mirrored by the decline in the household savings rate. The savings rate of the public sector, which comprises the government administration and the public sector undertakings, has behaved more erratically,

but declines steadily after 1991-92. To digress briefly, with hindsight it can now be said that the dramatic improvement in 1991-92 of the public savings rate reflects the reiningin of the budget deficit in that year as part of the imperatives of macro-economic stabilisation. Finally, in contrast to the behaviour of all the other savings rates, the rate of savings in the private corporate sector shows a more or less continuous increase since 1990-91.

#### SAVINGS OF HOUSEHOLD SECTOR

In Table 2 is presented evidence on the composition of household savings. The classification is, of course, that provided by the CSO, and the only one available. It decomposes aggregate savings by households into savings in the form of financial assets and savings in physical assets.

## II Estimation of Saving and Investment in Indian Economy

Investment: For the estimation of capital formation (and consumption) in the Indian economy the CSO employs the commodity flow method. Estimates of the value of construction, machinery and equipment and of changes in stocks for each of these two activities are made separately. Thus, capital formation is measured from data relating to production, export and import of items going into this category of investment and from estimates of the changes in stocks of these goods. In the case of 'construction' a base measure of the total value is obtained by inflating the estimated value of materials used and adding to this factor incomes.

Savings: When it comes to the estimation of savings, the economy is divided into three sectors and the savings of each estimated separately, and not always by the same method.

The reconciliation: Where a discrepancy arises between the estimates of aggregate domestic savings plus net capital inflow from abroad and that of domestic capital formation the former is taken as the

controlling total and the discrepancy is treated as 'errors and omissions'

A more elaborate exposition of the method of estimation is required and is best provided in the Report of the Working Group on Savings:

To begin with the economy is divided into three broad sectors: the public sector, the private corporate sector, and the household sector. Since the first two belong to the 'organised' segment of the economy, estimates of both saving and capital formation at current prices can be made for these sectors from the published government and company accounts; and, if all the relevant documents are available for this purpose, it should be possible in principle to avoid any significant errors in estimation. The problem arises primarily in regard to the 'unorganised' household sector, for which such information is not easily available; it needs to be noted this is of relevance when assessing the evidence] that this sector includes conceptually not only farm households engaged in agricultural production but all unincorporated enterprises engaged in industry, trade, transport and finance, private 'charitable' trusts, as also households that are not directly involved at all in production of any kind (except very marginally perhaps through ownership of residential houses). The estimates for this large, heterogeneous, and unorganised segment of the economy covered by the household sector are essentially in the nature of residuals derived by deducting the saving and investment estimates for the public sector and private corporate sector from estimates of aggregate saving and aggregate investment independently arrived at for the economy as a whole. This makes it a matter of crucial importance how these aggregates are estimated

The first step here is to estimate aggregate domestic investment in the economy each year. This is done by identifying three important forms in which physical assets can be accumulated (such as steel, cement, machinery and equipment) and/or the expenditures associated with such accumulation. What needs to be noted here is that, while it is relatively simple to compute the available quantities each year of the main commodities that go into fixed capital

formation, there can be large margins of error in estimating the total capital outlay with which they are associated since they would depend on the correctness of a variety of norms used for this purpose. In the case of inventories also, while estimates of investment in the public sector and in some of the major industries in the private sector can be made without much difficulty, estimates of inventory accumulation in the rest of the economy are much more problematic. Consequently, the possible errors in estimation of aggregate investment in the economy are not only sizeable but, in the present state of our statistical data base, quite indeterminate. The gross investment in the public sector and in the private corporate sector can be independently estimated from published accounts (as indicated earlier), and this is precisely what is done at the second stage. But when gross investment in the household sector is derived at this stage as a residual, all the errors in estimation of aggregate investment in the economy (done in the first step) and such errors as might enter into the estimates for the 'organised' segment are necessarily carried over to the estimates for this sector. Consequently these estimates of investment in physical assets within the household sector are subject to a possibly significant and necessarily indeterminate degree of error [RBI 1982:3-4]

An accessible diagrammatic representation of the estimation method described above appears in the Report of the Working Group and is recommended viewing for its conciseness. What has been provided here leaves out much of the detail. The ultimate source, of course, remains National Accounts Statistics – Sources and Methods produced by the CSO 1989.

One point that may be seen to emerge from the discussion so far is that the methodology of estimation ensures that the savings of the household sector in terms of physical assets is identically equal to the (unadjusted) estimate of gross capital formation in the household sector. This may have implications for the question that we are seeking to study - the plausibility of the decline in the household (physical) savings rate.

#### III Sources of Bias in CSO's Estimate

Investment in 'Construction' and 'Machinery and Equipment'

The method of estimation of the gross capital formation in the Indian economy is the 'commodity-flow' method. The competing methodology, of course, is the 'expenditure' method of national income accounting. Clearly, it is because of the infeasibility of adopting the expenditure method that the CSO uses the commodity-flow method. Even at the outset we can see the limitations of using the same method for

estimating the value of heterogeneous types of 'construction' and the use of arbitrary ratios of the output of 'partly capital goods' such as furniture and fixtures, locks, cameras, etc, as investment.

Now let us take a slightly more detailed look at the method of estimating the value of construction. For this, the CSO considers two types of construction: 'pucca' and 'kutcha'. The value of 'pucca' construction in any one year is arrived at as follows: (1) Estimate the production of the five basic materials used in construction activity: cement, iron and steel, timber and roundwood, bricks and tiles and permanent fixtures and fittings. (2) Estimate the total material cost of construction by the use of a given ratio of the five basic materials mentioned above to total materials cost. The ratio is taken to be 65.9 for 1970-71. (3) Now work out the total outlay on construction by assuming a certain ratio of factor incomes to the cost of material inputs. The ratio is taken to be 60 per cent for 1970-71.

The ratios mentioned are adjusted from year to year to take into account changes in the relative price of the five basic materials mentioned above and the rest and the relative variation in wage rates and the prices of materials used in construction.

Kutcha construction is estimated by assuming that its value stands in a certain fixed relation to that of the corresponding pucca construction.

Rakshit (1982, 1983) has pointed to three possible sources of bias in the estimation of gross capital formation in construction by the commodity-flow method of the CSO:

- (a) Labour-augmenting technical progress and the greater use of the five basic materials due to the shift to high-rise construction is likely to have altered the ratio of basic materials to both the total and wages. With the ratios remaining constant, these changes lead to an overestimation of factor incomes and the cost of materials other than the five basic ones used in construction.
- (b) The fixed proportions used in deriving the value of kutcha construction are mostly ratios based on sample studies conducted in the late 1950s and the early 1960s. Since the ratio of kutcha to pucca housing may be considered to have declined over the three decades, a systematic overestimation of the value of the former may be expected.
- (c) The commodity-flow method can overstate the use of the five basic materials used in construction and thus lead to an overestimate because it does not correct for change in stocks, and 'the change in stocks' is already counted as capital formation. Though this occurs when the commodity-flow method is used in the estimation of investment in machinery and equipment also, unlike in the case of 'partly capital goods' that constitute investment, an overestimation of the five basic building materials has a

multiplier effect for these materials are first evaluated as inputs into pucca construction and then kutcha construction is evaluated as a fixed proportion of this overvalued outlay on the pucca. Rakshit calculates that for one cagegory of construction the multiplier associated with the overvaluation can amount to as much as 3.13.

Valuation of imports and estimation of capital formation

It is widely recognised that controlled trade and exchange rate regimes lead to false reportage of the value of trade, and indeed many foreign exchange transactions. However, it is the overinvoicing of imports done with a view to gain access to scarce or rationed foreign exchange that is relevant to the problem of estimating domestic capital formation. For instance, the underinvoicing of exports does not affect the estimated value of machinery or equipment available for domestic capital formation, nor would the false reporting of the import of goods other than capital goods. But false reporting of capital goods imports can affect the measure sought. Nevertheless, and this is directly relevant to the issue that we are concerned with ultimately in this study, it has no effect on household saving. An appreciation of this is necessary when confronted with the plausibility that the incentive to overinvoice may have decreased after the progressive freeing of the rupee

Table 1 Composition of Aggregate Savings

| Year    | Aggre-<br>gate | Public | Private<br>Corporate | House<br>hold |
|---------|----------------|--------|----------------------|---------------|
| 1990-91 | 23 7           | 1.0    | 2 7                  | 20.0          |
| 1991-92 | 23 0           | 2.1    | 3 2                  | 17.8          |
| 1992-93 | 20.0           | 1.5    | 3.0                  | 15.5          |
| 1993-94 | 20.2           | 0 2    | 4 0                  | 16.9          |

Source. National Accounts Statistics 1995, CSO, calculated

TABLE 2: THE COMPOSITION OF HOUSEHOLD SAVINGS

| Year    | Aggregate | Financial | Physical |
|---------|-----------|-----------|----------|
| 1990-91 | 20.0      | 8.7       | 11.3     |
| 1991-92 | 178       | 10.1      | 77       |
| 1992-93 | 15.5      | 7.8       | 7.7      |
| 1993-94 | 16.0      | 10.3      | 5.6      |

Source: See Table 1.

TABLE 3: IMPORT OF CAPITAL GOODS MACHINERY
(Rate of growth in dollars)

| Year    | Electrical | Non-Electrical |
|---------|------------|----------------|
| 1990-91 | -15.3      | 0.1            |
| 1991-92 | -83 2      | -37.4          |
| 1992-93 | 27.7       | 11.8           |
| 1993-94 | 0.5        | 23,2           |

Source: Economic Survey 1994-95; calculated.

SINCE LYVI, at least for current account transactions.

A clear statement of the implications for the estimation of capital formation of the incorrect reporting of the value of imports appears in Rakshit: "Overinvoicing in respect of imports of capital goods, on the other hand, directly results in an overestimate of investment under the commodity-flow method. Note, however, that since capital goods are imported almost exclusively by their final users in the private corporate and public sectors, an upward bias will arise in the estimates of either non-household saving or net capital inflow from abroad... It thus appears that inflated accounts of investment costs on the part of producers in the private corporate and public sectors can, after all, produce an overestimate of domestic capital formation even under an otherwise foolproof commodity flow method, if the overstatement of costs relates to the imported component of investment projects" [Rakshit 1982:569, italics added]. This aspect must be borne in mind when evaluating the possible implications for the estimate of capital formation of the removal of the incentive to overinvoice imports after the freeing of the tupee on current account since 1991.

## Two Views on Recent Behaviour of Savings Rate

The first point to take note of when considering the measured decline in the savings rate since 1991 is that the behaviour of the savings rate in India has posed a problem to economists even in the past. For instance, the very considerable rise in the savings rate alongside stagnant growth during the 1970s had generated much attention a little over a decade ago [Rakshit 1982]. So it is not as if the most recent period is egregious by virtue of the non-constancy of the savings rate that has been observed. In fact, as I shall argue, it is relatively easy to provide an economic explanation of the behaviour of the savings rate in recent years. This is done by means of a simple econometric model. But prior to that I consider two arguments that have been made regarding the behaviour of the household savings rate in the Indian economy since 1991.

### (a) The household saving in physical assets is underestimated.

Athukorala and Sen (1995) argue that the measured household physical savings rate is very likely an underestimate, and that the decline in the savings rate is an artefact. Given the definitional equality between household capital formation and household saving in physical assets, i e, they are the same thing, Athukorala and Sen conduct their entire argument in terms of 'household

capital formation'. They start by referring to a divergent pattern in the behaviour of household and private corporate capital formation and argue that this is untenable. They then state that this divergent behaviour is a sort of 'stylised fact' for the Indian economy and that ergo it points to an estimation bias in the CSO methodology: "The negative relationship between the two investment rates is, therefore, difficult to explain in terms of economic behaviour. Since the estimates for private corporate investment can be considered to be more reliable (obtained as they are from the RBI's sample of firms), one can expect that in a context where corporate investment exhibits an increase (decrease) any underestimation of gross domestic capital formation by the commodity flow method in a given year would result in a spurious downward (upward) movement of household capital formation (and therefore household saving in physical assets) in that year" [Athukorala and Sen 1985:2186].

The first problem with this argument is that it is ad hoc. Naturally, if the CSO measure of gross capital formation is an underestimate 'in a given year', then the rest of the argument follows. But the point is to suggest why the CSO methodology is prone to underestimate gross capital formation for the period since 1991 A second thrust that the Athukorala-Sen position must deal with is an empirical one. This is that in at least one of the years in the sample, the divergent movement in private corporate and household capital formation holds but barely. In 1993-94 the value of household saving in physical assets takes a large fall at a time when corporate saving is more or less steady. Since the 'underestimation' argument is based on an accounting relation it must hold without lags, and it would be hard put to explain this contemporaneous behaviour that I have referred to. But the more difficult point to accept is the Athukorala-Sen suggestion that from the 1990s on the CSO methodology begins to underestimate capital formation, or if an underestimation already existed its extent actually increases from 1991. It is in sharp contrast to the Rakshit view that the commodity-flow method of estimating capital formation is very likely an overestimate. Rakshit has provided reasons for his conjecture [Rakshit 1982].

Athukorala and Sen (1995) provide two explanations of why "... recent developments in the Indian economy since 1991...render the old methodology of measuring capital formation vulnerable to measurement errors..." [Athukorala and Sen 1995:2188] I shall evaluate them even as I state them. First, they refer to the "ongoing process of 'informalisation'" of Indian industry since the early 1980s and quote Ahluwalia to suggest that "...small industry is the home of unrecorded growth..." [Athukorala and Sen 1995;2188]. Then they argue "In a context where the relative contribution of informal sector production units continue to grow at a rapid rate, estimates based on the commodity-flow method are likely to understate domestic capital formation, unless the estimation procedures are revised on a continual basis to capture construction material, machinery and other investment goods produced in the unorganised sector" [Athukorala and Sen 1995:2188] This line of reasoning is unhelpful for three reasons First, it is difficult to imagine cement and iron and steel, the principal building materials in the CSO's schema, not to mention any significant range of investment goods, being produced in the unorganised sector. Secondly, even if the CSO is missing out on the commodity flows originating from the unorganised sector so it must miss out on income generation - this being, ostensibly, the home of unrecorded growth - and since we are concerned with the rate of capital formation we would have to make strong assumptions regarding relative rates of growth of capital formation and income, respectively, to generate a declining rate of capital formation. But more damaging for

TABLE 4: PRIVATE FINAL CONSUMPTION EXPENDITURE BY TYPE OF GOODS

(Rs crore in current prices)

| A            | - 1980-81 | 1990-91 | 1991 92 | 1992-93 | 1993 94 |
|--------------|-----------|---------|---------|---------|---------|
| Durable      | 1507      | 7926    | 7771    | 8404    | 8695    |
| Semi-durable | 12779     | 45837   | 47707   | 48416   | 57089   |
| Non-durable  | 67378     | 210995  | 249889  | 276612  | 309442  |
| Services     | 17628     | 67606   | 79432   | 91123   | 104360  |

Source: CSO (1995).

TABLE 5: PERCENTAGE SHARE OF TYPE OF GOODS IN PRIVAIL FINAL CONSUMPTION EXPENDITURE

|              | 1980-81 | 1990-91 | 1991-92 | 1992-93 | 1993 94 |
|--------------|---------|---------|---------|---------|---------|
| Durable      | 1.5     | 2 4     | 2.0     | 20      | 18      |
| Semi-durable | 129     | 1.3.8   | 12.4    | 114     | 119     |
| Non-durable  | 67.8    | 63.5    | 65 0    | 65 1    | 64.5    |
| Services     | 17.8    | 20 3    | 20.6    | 21.5    | 21.8    |

Source: See Table 4.



#### PERFORMANCE HIGHLIGHTS 1995 - 96

|                           |                          |                          | (Rs in Crore    |        |  |
|---------------------------|--------------------------|--------------------------|-----------------|--------|--|
| Parameters                | As on<br>31.03.95<br>Rs. | As on<br>31.03.96<br>Rs. | Up by<br>Amount | Growth |  |
| Total Business            | 22839                    | 27008                    | 4169            | 183    |  |
| Deposits                  | 15403                    | 17892                    | 2489            | 162    |  |
| Advances                  | 7436                     | 9116                     | 1680            | 22 6   |  |
| Investments               | 6115                     | 6700                     | 585             | 96     |  |
| Spread (Interest Farned   | 1                        | ļ                        | ì               | l i    |  |
| less Interest Expended)   | 566                      | 697                      | 131             | 23 1   |  |
| Productivity per employee | 0.74                     | 0.87                     | 0 13            | 176    |  |
| Priority Sector Credit as | [                        | Í                        | Í               | 1      |  |
| % of NBC                  | 38 22%                   | 39 14%                   | <u> </u>        |        |  |

- Reserves jump from 75% of haid-up capital to 266% (including revaluation reserves of Rs 580 crores).
- Capital adequacy 9 5%
   Non Performing Assets below 6% of total advances (net of provision)
- Branch network 2004, up by 95 branches
   Loss making branches -only 3 out of 2004 as against 16 last year

The Bank more or less doubled its size in business mix between March'93 and March'96, from Rs.13,000 + crores to Rs.27,000 + crores Solid with Ilquidity of Rs.300 - 500 crores at any given point of time throughout 1995-96 - the year of the crunch



## UNION BANK OF INDIA

Good people to bank with

this process of informalisation was believed to have gathered pace were a period of sustained growth of the rate of saving in physical assets in the household sector [RBI 1982]. The second explanation provided by Athukorala and Sen (1995) is that there has been a rapid growth of capital (and intermediate) goods imports as a result of import liberalisation since 1991. "This rapid growth in the post-reform period implies a continuous increase in the share of imported capital goods in total domestic availability of capital goods. Given the time lag involved in the compilation of trade data, it is likely that the estimates of total fixed capital formation obtained by using a historical ratio of imported to total available capital goods understate increases in capital formation based on imported capital goods in the post-reform economy, at least in the most recent year for which data is reported" [Athukorala and Sen 1995:2189]. Athukorala and Sen do provide some evidence of the rate of growth of capital goods imports but none to establish that the ratio of imported to domestically produced capital goods that enter fixed investment has increased.

In Table 3 are provided data on the rate of growth of the import of machinery. Since the original data are in values we cannot, of course, be certain that the rates of growth necessarily translate into higher numbers of goods, but let us assume for a moment that this is the case. Let us further assume that the CSO always works with historical ratios of imported to domestically produced capital goods, and that this is always a couple of years outdated as Athukorala and Sen suggest. Then, comparing these figures with those for the growth of these segments of Indian industry [Economic Survey 1994-95] it appears that, over the sample period, there would be both an overestimation and an underestimation, respectively, depending upon the year chosen. This is a rough and ready exercise, especially since, as I have already mentioned, the data is for values while any argument pertaining to the commodity flow method must refer to quantities. But nevertheless, we can say with some confidence that the argument that the CSO methodology, based as it is on historical ratios of imported to domestic machinery, would have underestimated capital formation in the years since 1991 is very definitely false at least for the year 1991-92, the year in which household saving in physical assets shows its largest decline. In that year the behaviour of imports and aggregate capital formation in the economy move in the same direction.

But let us assume, for the sake of argument, that there is divergence in the rates of growth of imports of capital goods and of the production of their domestic counterparts. Now even if this were the case, there is little

Dasis for the Annakorala-Deli argunichi that this would underestimate aggregate capital formation. Only because the CSO's stated methodology makes no reference to historical ratios of imported to domestically produced capital goods in capital formation. I cite from the CSO's statement of the methodology: "To the ex-factory value of capital goods produced domestically, the amount of excise duties, imports and import duties are added. From the total thus obtained, the value of re-exports is deducted to obtain the availability of capital goods. The value of capital goods so obtained is then marked up for trade, transport and other charges to obtain the value at purchasers' prices. Trade, transport and other installation charges have been estimated for 1980-81 on the basis of data collected from leading manufacturing firms in the country. From the total value at purchasers' prices thus obtained, the value of exports is deducted to obtain the value of capital formation at site" [CSO 1989:234]. It is clear from this statement of the methodology for the treatment of imports in the estimation of capital formation that there is no basis for the argument that it is prone to bias as the ratio of imported to domestically produced capital goods alters. This ratio just does not enter into the picture.

Finally, the Athukorala-Sen argument draws its significance from a claimed inverse relation between measured capital formation in the private corporate and the household sectors of the Indian economy - a "stylised fact" in their view. Now, it is certainly the case that for the three years since 1990-91, household saving in physical assets has declined even as private corporate investment has increased. This, it is suggested, is a sure sign of the bias in the CSO methodology. It is also indeed correct that given the estimate of private corporate investment the appropriate measurement of aggregate capital formation in the economy is of significance to the estimate of household saving in physical assets, the latter estimate being in the nature of a residual. However, a closer look at the relevant figures for gross domestic capital formation as a percentage of GDP at current prices by institution over a longer period reveals that an inverse relation is evident only in the 1960s - during which period the household saving in physical assets increased while private corporate investment decreased - and that this is not so in the 1950s and 1960s [RBI 1982: Table 4.3]

(b) The household saving rate is correctly estimated and it has declined for a plausible reason.

There is the view that the reforms have contributed to the decline in the savings rate by leading to increased consumption expenditure, especially expenditure on consumer durables. This is easily tested, at

icasi ai ilic rudimentary ievei. In 1 abie 4 are provided annual expenditure by broad consumption groups. We find that the annual average rate of growth in the expenditure on consumer durables is perhaps higher during the 1980s than it has been in the period since 1990-91. For more conclusive evidence the figures in Table 4 are converted into percentage shares of aggregate final consumption expenditure and the evidence is presented in Table 5. We now see that while the percentage share of durables is certainly higher than it was in 1980-81 it is substantially lower than it was in 1990-91. There appears to be little evidence that increased expenditure on consumer durables, or even semi-durables for that matter, have led the increase in consumption that implies a reduced rate of saving.

Even though the evidence represented by final expenditure on durables is fairly conclusive, it would be of interest to seek the exact counterpart figures on production. These are presented in Table 6. The evidence is so clear-cut that it is not necessary to discuss it. There is little basis for the view that the proliferation of consumer goods, the increased production of which was unleashed by the liberalisation process, has contributed to the decline in the savings rate. Consumer goods remain on the banned list of imports so the data on production alone is relevant here.

While the evidence does not support the view that the savings rate may have declined

TABLE 6. RATES OF GROWTH OF PRODUCTION OF CONSUMER GOODS

| Year    | Consumer<br>Goods | Durables | Non-<br>Durables |  |
|---------|-------------------|----------|------------------|--|
| 1991-92 | 1.5               | -107     | 47               |  |
| 1992-93 | 18                | -07      | 24               |  |
| 1993-94 | 3.1               | 15.2     | 0.5              |  |

Source, Economic Survey 1994-95, Table 6.3

TABLE 7 RATE OF GROWTH

| Year    | GDP | Manufacturing |  |
|---------|-----|---------------|--|
| 1980s   | 6 2 | 7 7           |  |
| 1990-91 | 5 4 | 90            |  |
| 1991-92 | 0.9 | 0.8           |  |
| 1992-93 | 4 3 | 2 2           |  |
| 1993-94 | 4 3 | 3.6           |  |

Source. Economic Survey 1994-95, calculated

TABLE 8: SAVINGS AND GROWTH - A STATISTICAL TEST

| Variable         | Coefficient |  |
|------------------|-------------|--|
| Δy,              | 0.15        |  |
| -1               | (2.24)      |  |
| S <sub>t-1</sub> | 0.96        |  |
| (-)              | (35 69)     |  |

t - ratios in parentheses, dependent variable is the savings rate; N = 44;  $R^2 = .99$  sec = 1.46, serial correlation.  $chi^2(1) = .079$ ; Forecast  $chi^2(3/3) = 1.57$ ; Chow: F[(3, 38)] = 1.37

due to the increased expenditure on durables we cannot rule out an increase in expenditure on one important item considered consumption in the Indian system of national income accounting. This is expenditure on gold. Among the macro-economic reforms in the Indian economy since 1991 has been the relaxation of the import of gold. Insufficiently well understood, the policy was geared to prevent unobservable capital flight, referred to as 'hawala', and thus to pave the way for the final floating of the rupee. While accurate estimates of the import of gold into the economy and thus the increased expenditure on the same following upon the relaxation of imports are not available, it is widely believed to have increased. The World Gold Council provides estimates of the consumption of gold by major consumers of the metal. Figures from the Council's Report for 1994 are cited in Vaidyanathan (1996). These suggest that the demand for gold in India is only a little less than the combined demand of China and Japan. Since India produces little of the metal the greater part of gold consumption has to be imported. The World Gold Council's estimates of consumption of gold has been used in the estimate [Sinha 1996] that Rs 20,000 crore worth of gold was imported in the year 1995. The saving of the household sector in the year 1994-95 amounted to Rs 1,78,696 crore ICSO 1986: Statement 6]. Since the figures on gold consumption are imperfect estimates they are to be seen here only as providing perspective. In this light, we can now see that with expenditure on imported gold alone exceeding 10 per cent of household saving substantial shifts in the household expenditure on gold can affect the measured savings rate. This is so because expenditure on gold is treated as consumption under the national income accounting procedure adopted.

However, the important task of providing reasons for an increased propensity to expend on gold remains. Liberalisation of gold imports was announced only in March 1992, in Manmohan Singh's second budget, and was to be applicable from the year 1992-93 on. So it cannot account for the decline in the savings rate starting 1991-92. Finally, the argument that the heightened uncertainty in the economy since 1991 has been reflected in the increased hoarding of gold thus accounting for the decline in the measured savings rate is plausible but difficult to verify.

## V Behaviour of Household Savings since 1991: A Suggested Interpretation

Among the views considered so far in this study are: (1) that the decline in the savings ratio is an 'artefact' the result of faulty estimation and (2) the decline in savings is real indeed and brought about due to

increased consumption expenditure, in particular, expenditure on consumer durables the production of which was impelled by the liberalisation of the Indian economy, Taking up the latter argument first, we find little evidence for it. Quite simply, expenditure on consumer durables has not led aggregate consumption expenditure during this period. I have also considered in some detail the arguments put forward for the view that the CSO methodology per se underestimates capital formation and thus household savings, and concluded that these are not satisfactory as accounts of why the measured rate showed a decline. One source of underestimation can however be thought of and I do so in due course. But first I consider the possibility that, assuming the estimation to have been done right, there may yet be a plausible explanation of the behaviour of savings in the period since 1991.

A clue to the understanding of the behaviour of savings in the Indian economy since 1991 is provided by looking at a slightly longer time series. Two features emerge. First, a decline in the aggregate savings rate accompanied by a decline in the rate of saving in physical assets by the household sector is not a new phenomenon in the Indian economy. It is a feature countenanced also in the second half of the 1950s [RBI 1982: Statistical Annexure 1]. Interestingly, as at present, this coincided with a major policy initiative - the launching of the heavy industrialisation programme associated with the Second Five-Year Plan. So neither quick resort to arguments of faulty estimation nor the argument regarding the easy availability of consumer goods is inevitable, as it were. The second of the two features that I refer to may well contain the clue to the observed decline in the savings ratio. That is, the savings rate appears to be related to the rate of growth of the economy, among other things. This has been remarked upon, in a similar context in the past, by the Working Group on Savings and I quote: "In the period since the middle of the 1970s there have been some other special factors that could explain the quickening of the rate of saving in the household sector. One is simply the higher rate of growth of national income in the four-year period from 1975-76 to 1978-79; during this period the average rate of increase of real income in the economy

was as high as 6.5 per cent per annum" [RBI 1982:47].

Now the decline of the savings rate since 1991 is no longer so difficult to explain. This period has seen a slowing down of the rate of growth of the economy. The rates of growth of GDP and of the manufacturing sector are presented in Table 7.

It has long been recognised that an implication of the life-cycle theory of saving is that the proportion of income saved is a function of the contemporaneous rate of growth [Farrell 1959]. This was first tested by Houthakker (1965). Later Modigliani (1970) exploited this idea to explain intercountry differences in the savings rate. The relationship between savings and growth has been recently re-examined by Carroll and Weil (1993). They write: "...in a comprehensive study of the determinants of saving rates in the OECD countries in the period from the 1960s to the 1980s, Bosworth (1993) found that the growth rate of income was the most important determinant of saving. Looking over longer spans of time, Maddison (1992) also finds a positive relation between saving and growth." Interestingly, as reported by Carroll and Weil, among the economies in the Maddison sample is India over the period 1890-1913. Now it is well known that the correlations that these are based on cannot establish causality. This is an important issue. For instance, in the neoclassical model of growth epitomised by the work of Solow, higher saving will lead to higher growth, thus producing a positive relation. Carroll and Weil try to resolve this by the use of Granger-Causality tests which they report as favouring the view that income growth causes saving. Now, of course, the question of the precise mechanism is to be faced. Obviously the underlying consumption function is the issue. Carroll and Weil point out that a version of Modigliani's Life Cycle Hypothesis with habit formation and uncertainty regarding income can account for the observed behaviour. Essentially, given a previous habit stock, consumption will adjust only sluggishly to changes in income. They do, however, acknowledge that while habit formation could potentially cause a positive relation between short-term growth and saving, for this result to materialise the 'habit stock effect' ought to be large in relation to

TABLE 9: CAPITAL FORMATION BY INSTITUTION

(Current rupees crore)

|           | 1980-81 | 1990-91 | 1991-92 | 1992-93 | 1993-94 |
|-----------|---------|---------|---------|---------|---------|
| Public    | 11693   | 50176   | 58714   | 59669   | 66004   |
| Corporate | 3541    | 20291   | 34351   | 42108   | 56472   |
| Household | 11042   | 53537   | 43711   | 49401   | 41903   |
| Constn    | 6241    | 29991   | 32639   | 36263   | 37077   |
| Plant     | 4801    | 23546   | 11072   | 13138   | 4826    |

Note: 'Constn' is Construction and 'Plant' is Machinery and Equipment in CSO parlance. Source: Adapted from 'Statement 19', CSO (1995).

the 'human wealth effect' of growth which tends to increase consumption.

As a test of the hypothesis for India I first estimate the following model for the period 1951 to 1994:

$$S_1 = a_0 + a_1 \Delta y_1 + \varepsilon_1$$

where s is the household savings rate,  $\Delta y$  is the rate of growth of real income, and  $\epsilon$  is the error term.

Subsequently, it is re-estimated for the period up to 1991, used to forecast the savings rate for the three years that follow, and tested for parameter stability. Since the Life Cycle Hypothesis concerns personal savings, as opposed to corporate or government saving. the dependent variable is the savings of the 'household' sector of the Indian economy. Note that while so far in the argument I have used the framework of the CSO and discussed the household savings in physical assets and in financial assets separately, the econometric model is specified with aggregate household saving as the dependent variable. This is done on the understanding that while the separation of aggregate saving of the household sector into saving in financial and physical assets may be a convenient factor in estimation it is not a classification with any economic-theoretic content, for an explanation of how households arrive at their chosen allocation between the two types of assets remains. This point has been correctly stressed by Rakshit (1983) in his review of the report of the Working Group on Savings. The data on savings and on the rate of growth (of GDP at factor cost at 1980-81 prices) is taken from the Economic Survey 1994-95. The ordinary least squares estimates are reported in Table 8.

In the estimate, the coefficient on the growth variable  $\Delta y_i$  is positive suggesting that we are not off the mark in hypothesising that the savings rate is influenced by the contemporaneous rate of growth. Further, when the model is re-estimated for the period 1950-51 to 1990-91 and used to forecast the savings rate for the three years since the test statistics (see under 'Forecast') do not reject parameter stability. This is to be interpreted as conveying that the behaviour of the savings rate since 1991 is not egregious in light of the associated growth in real income.

Admittedly, the econometric analysis here is rudimentary and much remains to be done. For a start we should perhaps be estimating a system of equations and work with more sophisticated specifications. So the results must be seen as being indicative, no more. However, eyen while it may not constitute a complete explanation, the slowing down of the growth rate of the Indian economy since 1991 must be taken into account when evaluating the dip in the savings rate coincident with that date. In particular, it needs to be noted that it is the non-agricultural sector of the economy that has been affected

most, and there is the view [RBI 1982;46] that the marginal propensity to save is higher in this segment of the Indian economy. Industrial growth remained depressed for all the three post-reform years for which we have data on savings. In 1994-95 the industrial production rate has finally regained something like the average rate for the 1980s It would be interesting to see how the savings rate, in particular the household saving rate, performs in that year. The data are yet to be in.

As for the relationship of all this to the reform process and liberalisation in particular, it needs to be remembered that the period since 1991, especially the early years is also one that saw the institution of a true-blue stabilisation programme. Conventional stabilisation programmes lead to a slowing down of growth, widely agreed to be an inevitable consequence which some assert is a temporary phenomenon. Now, once you allow for the persistence of consumption, which must link savings to (real income) growth, the observed behaviour of the savings ratio in the Indian economy is neither difficult to explain, nor a matter to be reconciled against all odds with the liberalisation process.

I now return to a feature that I have referred to earlier. This is that the household saving in physical assets, being derived (as a residual) from data on gross domestic capital formation is actually equal to capital formation in the household sector. This feature has been used variously to comment upon the estimates of the savings rate in recent years in the Indian economy. For instance, as mentioned earlier on, Athukorala and Sen have referred to the, alleged, divergence in the household and corporate capital formation rates as suggestive of estimation bias. There is the view that this definition of saving has a tendency to inislead. Rakshit (1982, 1983) has argued that while it may be convenient for the RBI to estimate aggregate household saving in this way, the classification has no substantive content when it comes to the explanation of saving. Household savings in physical assets only refers to that part of household saving that has found its way into capital formation. The savings decision must be explained in the aggregate, as it were. This is a powerful argument indeed but not one that cannot be countered. Savings and investment decisions are indeed separate in advanced industrial economies. In fact, this is the foundation of Keynesian economics. However, it is entirely conceivable that in segments of the Indian economy these two fundamental decisions are vested in the same unit, the 'household' (Kurien (1972) terms these 'producer households'). If this is conceded, then some of the standard arguments advanced for why capital formation gets depressed during stabilisation and adjustment programmes now get a new lease of life. Since these are well known I do not develop the argument [Serven and Solimano 1993]. Nevertheless, it needs to be emphasised that the registered decline in household investment in 'plant and machinery' is indeed very high and remains an issue that requires special consideration. Data on capital formation by institution is given in Table 9. Recall that for hosueholds, capital formation equals savings in the form of physical assets.

In conclusion, I wish to point to one item of expenditure which has a bearing on the finding of a declining saving rate. This is the rising price of land in the Indian economy for about a decade now. When households invest in residential property the price of land is of course factored into the price of the property. Now, the commodity-flow method used by the CSO attempts to estimate the material investment in construction. Even when it does get right the value of such flow it, in full awareness of course, excludes the outlay towards the purchase of land. The point of this is to convey that it is not necessary to resort to arguments of incorrect measurement to understand the declining savings ratio in the Indian economy. Rising real estate prices may well be part of the explanation. Now it does not even matter that they may be under-reported in documentation of the transaction. This item. is just not captured in the estimates of capital formation. There is some reason to believe that a certain amount of external inflows that followed after the policy shifts since 1991 may have been directed into real estate. bidding-up the price of land in urban India.

#### VI Estimation of Household Saving in Financial Assets

I commence with a general comment on the methodology adopted for the estimation of household savings in India. As a concept, the saving of the household sector is the balancing item on the income and outlay account of the household and should equal the sector's current income over current expenditure. This is accepted in principle even by the C3O (1989). However, a direct estimate of household saving as the difference between income and expenditure is not available, and therefore, it must be estimated by deducting from the economywide figure for capital formation and financial saving, rispectively, the estimates of the same for the public and private corporate sectors. The implications of such a procedure for the available estimates of household savings in physical assets has been considered earlier on in this study. I now look at some of the implications as they may arise in the case of the estimation of financial savings.

A brief statement on the method of estimation of household saving in financial

assets is provided in the Report of the Working Group on Savings:

The household sector saving in the form of financial assets is estimated instrumentwise. The instruments of financial saving are: currency, net deposits, investment in shares and debentures issued by the corporate sector, net claims on government in the form of small savings, central and state government securities, and net increase in the claims of households in life insurance and provident funds. In respect of all of these, the basic information on year-end totals is obtained from the accounts of the financial institutions and government budgets (supplemented with special returns) and the estimated holdings of the private corporate sector and the public sector are deducted to arrive at the holdings of the household sector. Some of the instruments are presented in net form by making adjustments for the liabilities incurred by the household sector against the institutions in which those financial assets are held.

It was generally agreed that the data base for the estimation of financial saving was comparatively firm [RBI 1982:83. Note this observation].

EPWRF (1995) had made some observations regarding the estimation of saving in the Indian economy, all of which amount to the claim that household saving in financial assets may have been overestimated in the 1990s. The crucial observation concerns the very high financial inflow into the Indian economy following upon both the relaxation of curbs on foreign investment and the floating of the rupee more generally, at least on current account. I consider the arguments concerned.

EPWRF (1995) first focuses on the increased portfolio investment by financial companies. It is pointed out that under the present methodology a part of the increase in the domestic currency is automatically accounted as saving of the household sector. EPWRF (1995) wavers a little between giving prime importance to the argument that portfolio investment should be treated as foreign saving and the one that in the allocation of the increased currency consequent upon such inflows the use of outdated ratios tends to overestimate household saving. On the latter question, Athukorala and Sen (1995) point out correctly that, under the extant methodology, what results from the use of inappropriate ratios is only the overestimation of household saving (in currency) not aggregate financial saving in the Indian economy. That is, we may have unearthed a sort of allocation problem here, rather than a problem of the correct estimation of the volume of saving in the aggregate. This is clear in the CSO's statement of the methodology it adopts: "On the question of cash in hand, the Advisory Committee on National Accounts in its meeting held in June 1987 had suggested that the present procedure of estimating the currency with the households by deducting from the total currency the currency held by various institutional sectors may be examined. It had further suggested that a simple procedure of possibly taking a proportion of the total currency in circulation might serve the purpose. Accordingly the RBI, on the basis of past trends of currency holding of the household and non-household sectors, estimated this proportion to be 0.93 which has been used for estimating the currency holding of the households from 1985-86 onwards" [CSO 1989:220-21]. This more or less disposes of, given the concerns motivating this study, any real interest that we might have entertained via-a-vis the EPWRF's contention regarding the consequences of increased portfolio investment. Moreover, the focus on the extremely high inflows of 1993-94, even though EPWRF emphasises that in principle the problem exists in other years as well, does rob the argument of a more general appeal. The point is that the household saving rate in financial assets is (Table 21) almost as high in 1991-92 as it was in 1993-94 the year that the EPWRF has focused on [EPWRF 1995: Table 21]. However, the question of the appropriate treatment of portfolio investment is indeed important and the EPWRF (1995) is the only study to have raised this point. But there appears to be a bind. While the automatic treatment of such inflows as domestic savings is certainly inappropriate, the EPWRF's suggestion that it be treated as foreign saving because it goes to increase capital formation IEPWRF 1995:1031] is untenable because many foreign institutional investors buy scrips in the secondary market, and this does not lead to capital formation.

On the question of private transfers or 'foreign remittences on private account' EPWRF (1995) has a more complete argument. It deserves attention and I quote at length:

The nature of increases in foreign inward remittances on private account, including their sharp jump in rupee terms during the past three years due to a sizeable depreciation of the currency have been spelt out earlier. Such remittances are treated as unrequited transfers and included under the current account of the balance of payments (BoP). However, their treatment for national accounts purposes differs somewhat. In this regard, the UN System of National Accounts (SNA) lays down clear guidelines for dividing such transfers between capital transfers and unrequited current transfers, with capital transfers from the rest of the world constituting an independent source of finance for accumulation and current transfers as additions to the recipients' income account. According to the SNA, capital transfers are those grants which the recipient uses for financing accumulation; alternatively, the payer may consider that he is placing part of his saving at the disposal of the recipient. On both the counts such transfers should appear as part of capital finance. On the other hand, if the recipient utilises the grant to finance his consumption expenditure, the size of saving on the consolidated accounts of the recipient and the payer would be correspondingly reduced; such transfers then partake the character of current transfers. The main criteria adopted to distinguish capital transfers from unrequited current transfers are therefore the purposes for which the transfer is to be utilised, the basis and source of the payment, and the frequency with which the transfer occurs from the point of view of either the payer or the recipient (UN SNA, 1968, para 7.77, p 131).

In the Indian system of National Accounts Statistics (NAS), the CSO, considering the difficulties involved in classification, has opted for treating all transfer payments on private account as current transfers (and all on government account as capital transfers) [CSO 1989: 330]. It should be pointed out that considering the enormous size of private transfers now taking place, it is inadmissible to assume that all such private transfers are of a current nature intended for consumption purposes. First, if we have to be true to the UN SNA framework, it would be necessary to classify a part of such transfers as capital transfers flowing from savings of the nonresident Indians living abroad which are used for capital accumulation purposes in India. If such a presumption is accepted, the implication for household saving and investment estimation, and in turn, for the aggregate domestic saving and investment, is of a significant nature. Briefly, under such a dispensation, of the total private transfers indicated above, the part designated as capital transfers will have to be deducted from household saving in the form of financial assets and simultaneously added to the amount of capital inflow from abroad as they would represent that part of the saving of the rest of the world used as a source of finance for accumulation in the domestic economy [EPWRF 1995:1034].

The logic of the EPWRF argument is impeccable. The part of foreign inward remittances that goes into capital formation must be treated as foreign savings. Secondly, to assume that all such remittances go directly to augment domestic saving would indeed be wrong.

Two responses may be made to the EPWRF argument. The first, made by Athukorala and Sen (1995), provides a sort of empirical evaluation of its significance. It is that even if it is taken to be the case that remittances are fully translated into household financial saving, the "... increase in remittances could account for only about 0.7 percentage point increase in the average rate of household financial saving in 1991-92 and 1993-94 over the average level for the preceding three years [calculation based on Table 7 in EPWRF 1995" [Athukorala and Sen 1995:2189. I have treated the Athukorala-Sen estimate as correct].

argument has a bearing on the investigation of the measured decline in the household savings rate since 1991. This is that if we are to take the EPWRF's suggestion and treat the substantially increased foreign remittances since 1991-92 as evidence of repatriation for purposes of capital accumulation, then fluctuation in such remittances would not enter the household (financial) savings rate and this would rob the EPWRF (1995) argument that estimates of this rate for the 1990s is actually an overestimate<sup>2</sup> of much of its sting.

In this discussion I have not discussed sources of bias in the estimation of household saving that are of a perennial nature. I refer to the tendency to estimate year-end figures which had introduced the incentive for various forms of 'window-dressing' such as the bunching of transactions. Instead I have only considered those aspects of the methodology that have particular bearing on the behaviour of the savings rate in the years since 1991.

#### VII Postscript

It is customary in traditional econometric practice to test one's model against data from outside of the sample. In time-series analysis the terrain usually chosen is the post-sample period. I have in this study looked at the evidence for the three years following 1991 up to and including the year 1993-94. In this connection, the publication on February 2, 1996 of the Quick Estimates of national income, consumption expenditure, saving and capital formation for the year 1994-95 provides a research opportunity rather like that of an out-ofsample period test. Essentially, we would be interested in the relationship between the overall growth in the economy and the behaviour of the household savings rate during this year. Domestic saving as a percentage of GDP at market prices amounted to 24.4 per cent in 1994-95. The figure for household saving is 18.9 per cent. The growth rate of GDP was 6.3 per cent. Figures of the savings rate and of the rate of growth in previous years are to be found in Tables 1, 2 and 7, respectively. The contemporaneous rise in the household (and aggregate) savings rate and the growth in real income (GDP) is consistent with the explanation of the behaviour of the savings rate since 1991-92 that has been provided earlier on in this study. What lends particular credibility to the argument that short-run fluctuations in the savings rate are to be seen as resulting from a steady growth of consumption in the face of downward fluctuations in real income growth is that it is the component 'household' saving that fluctuates most and also, more importantly,

most crosery with the growth rate in the economy.<sup>3</sup>

It has not escaped my attention though

that the behaviour of the savings rate in 1992-93 is at odds with the argument attempted to be captured in the econometric model above, or more generally, the argument that the savings rate is related to the rate of growth. In 1992-93 the savings rate declines despite the improvement in the rate of growth [Tables 1 and 7] thus constituting some sort of a puzzle. In fact, it was this feature that had led the government of India to suggest that the methodology of estimation may be erroneous [Economic Survey 1994-95:3]. While the question of explaining the decline in the savings rate in that year remains, the reference to estimation bias may be a little rushed yet. There are at least four reasons to suggest this. First, recall that it was in April-May of 1992 that the financial scandal relating to the use of government securities came to light. It is entirely conceivable that this led to a certain cautiousness with regard to the forms of saving adopted by households. This is reflected in the very considerable decline in household saving in financial assets in 1992-93 [Table 2]. There was an across-the-board deflation of stock prices in that year. Secondly, in March 1992 the government of India liberalised the import of gold with likely consequences for the measured savings rate, as I have discussed above. Import of gold into the economy in the years 1990, 1991, 1992 and 1993, respectively, amounted to 506, 319, 2,46,378 and 3.489 in thousands of US dollars (International Trade Statistics Yearbook 1993, UN Statistical Office, New York). The surge in 1992 is extraordinary and unmistakable. (Of separate interest too is the quick response of the Indian economy to shifts in policy.) Third, in the first flush of its successful handling of the crisis of 1991 and, even more importantly, with the IMFprogramme no longer in place the government had slackened in its resolve to rein-in government spending. Public saving in that year declined [Table 1]. All three factors act on the savings rate independently of the rate of growth of income in the economy. Finally, in a return to the argument of the causal importance of growth we might point out that while it is the case that GDP, led by an exogenous improvement in agricultural production, turns around in 1992-93 the rate of growth of manufacturing remains a paltry 2.2 per cent [Table 7]. We are familiar with the argument that the marginal propensity to consume out of nonagricultural incomes may be higher than it is out of agricultural ones. So, while it is indeed the case that the behaviour of the savings rate in the year 1992-93 cannot be explained in terms of the growth in real income perfectly plausible explanations can be put forward, as they have been here.

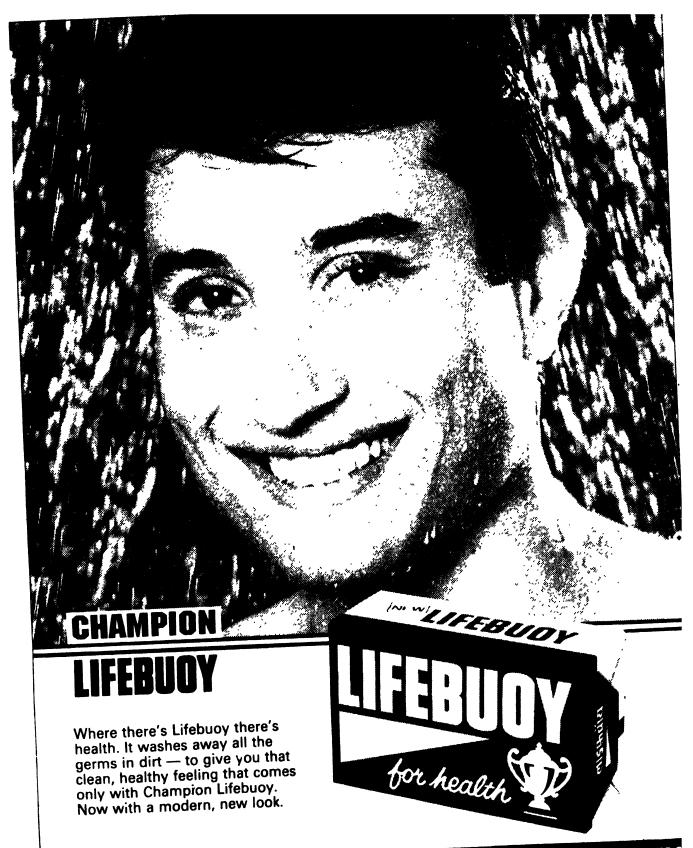
#### Notes

[I am grateful to Mridul Saggar and A Vasudevan of the Reserve Bank of India and Lant Pritchett of the World Bank. Errors, if any, can only be mine.]

- 1 This was written some weeks before the figures for 1994-95 were announced. See Section VII.
- 2 And, as a corrollary, that the actual decline in the household saving rate during this period is greater.
- 3 The figures for the savings rate of the public, private corporate and household sectors of the economy for the year 1994-95 are 1.7, 3.8 and 18.9 per cent, respectively. See CSO (1996). These figures may be read along with those in Table 1 and in conjunction with the figures on growth in Table 7

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#### **Explaining Post-Reform Industrial Growth**

#### C P Chandrasekhar

A close scrutiny of the estimates of capital formation in the post-reform period shows that no linkage can be established between liberalisation, private investment and industrial growth. What liberalisation has done is to unleash a consumption boom, fuelled by a surge in consumer credit that has accompanied financial sector reform. Such a boom not only increases balance of payments vulnerability, but also offers, in terms of markets, only a once-for all boost that would exhaust itself unless some other stimuli ensure expansion of the home market for manufacturers.

AMONG the indicators chosen by advocates of the 'economic reform' of the 1990s as proof of its success, the growth in industrial production is the most persuasive. It is still true that the average rate of industrial growth (as measured by increases in the index of industrial production (IIP)) over the five post-reform years (1991/92-1995/96) is, at 7.4 per cent, below the 8.3 per cent recorded during the immediately preceding five-year period (1986/87-1990/91). However, an examination of annual growth rate figures suggest that they have risen almost consistently over the last five years, from 0.6 per cent in 1991-92 to 2.3 per cent in 1992-93, 6.0 per cent in 1993-94, 9.4 per cent in 1994-95 and 120 per cent in 1995-96 (Table 1). This stepwise return to annual rates similar to, or even better than, those which prevailed during the 1980s manufacturing boom has encouraged the view that after a short period of a stabilisationinduced decline in growth rates, manufacturing production is once again entering a phase of secular growth.

Needless to say, the more recent IIP estimates are still provisional. And, if 1993-94 is any indication, the official index of production sees rather volatile changes in the course of the routine revisions made to it from its 'provisional' to its 'final' form, rendering it a doubtful measure of the degree of buoyancy of manufacturing. When official spokesmen confidently quote 6.1 per cent as the rate of growth of manufacturing production in 1993-94, few remember that that figure is the culmination of a series of revisions. Thus, the Reserve Bank of India's Report on Currency and Finance, released towards the end of the calendar year 1994 had estimated the growth in the index of manufacturing production in 1993-94 at just 2.37 per cent. A few months later, the official Economic Survey from the finance ministry released just before the budget in February 1995 provided a revised estimate of 3.61 per, cent. Subsequently, that figure was revised thrice over, initially upwards to 6.1 per cent then to 5.6 per cent and finally again to the 6.1 per cent figure doing the rounds in official statements now. Such dramatic changes over relatively short periods of time do induce an element of scepticism about the veracity of the figures provided and therefore about the reported rate of growth.

This scepticism is compounded by an analysis of the sectors accounting for the revisions in the index, which have led to significant changes in the rate of growth of manufacturing in any period. A substantial part of the rise in the growth rate on account of the revisions of the 1993-94 manufacturing production index from 2.4 per cent to 6.1 per cent is due to revisions in just three sectors, viz, cotton textiles (resulting in a rise in its growth rate from 3.6 to 6.9 per cent),1 leather and fur products (6.1 to 8.8 per cent) and basic metal and alloy products (5.1 to 33.4 per cent). This concentration of the effects of the revision gives cause for concern because a few sectors, in any case, account for a dominant share of growth in particular years during the 1990s. Thus, rates at the two-digit level indicate that, in 1993-94, three (out of 17) sectors - beverages, jute, hemp and mesta products and basic metals and alloy products - recorded remarkably high rates of growth of 21 2, 18.6 and 33.4 per cent, respectively. On the other hand there were four - food, metal products, electrical machinery and 'others' - which registered a decline in the value of the index of production in that year. Thus one sector which 'benefited' from significant revisions in the index of production, namely, basic metals and alloy products itself would have, with a weight of 9.8 out of manufacturing's total of 77.11, helped the manufacturing sector notch up a growth rate of 4.2 per cent.2

This experience is telling because significant differentials in growth performance at the two-digit level persisted in subsequent years as well. Thus, in 1994-95 five out of 17 sectors (chemicals, metal products, non-electrical machinery and machine tools, electrical machinery and appliances, and, transport equipment), which accounted for a third of manufacturing's weight in the general index, could account for two-thirds of the growth of the manufacturing sector

These sharp variations in the rate of growth across sectors, or the lack of a 'synchronised recovery', tend to reinforce doubts about the reliability of the index. They also suggest that generalised or omnibus stimuli to the recovery like government expenditure or a surge in public and private investment, are either being counteracted by other factors (like import liberalisation) with greater effect in specific sectors or are less significant as explanations for growth in the post-reform period. In fact, post-reform industrial growth trends as reflected in movements in the IIP are puzzling for three reasons. First, while the industrial 'recovery' in 1993-94 was accompanied by a sharp rise in the fiscal deficit in the central budget to 7.5 per cent of GDP, the subsequent two years have actually seen a reduction in that deficit to 6 9 and 5 9 per cent, respectively 3 Inasmuch as deficit spending by the government directly and indirectly (through its income effects) spurs industrial demand, the high rate of industrial growth in years of relatively lower deficits is noteworthy. Second, the years of high growth have been ones in which the government has vigorously pursued a strategy of import liberalisation and customs tariff reduction, resulting in a large inflow of imported manufactures into the Indian market. To the extent that such imports displaced local production catering to domestic demand, it should have slowed down the growth in industrial output Finally, in recent years real interest rates have risen to extremely high levels by historical and international standards. This should have discouraged industrial investment and therefore the growth of domestic production.

The significance of these factors that should have contributed to slower industrial growth airing the 1990s needs closer scrutiny. In the discussion surrounding the factors explaining the sharp slow-down in industrial growth in the immediate post-reform years (1991-92 and 1992-93), five factors were assumed to drive industrial growth. These factors had emerged as significant in explaining patterns of the second episode of post. Independence industrial growth starting

around the mid-17/05. Phist, capital formation in the public and private sectors provides a stimulus for industrial growth in the form of both the direct demand or purchases that such expenditures involve, and the indirect demand resulting from incomes generated by investments. Second, the current expenditure of the government also serves as a demand stimulus and therefore as a spur to industrial growth. Third, the relaxation of government controls on imports during the late 1970s and the 1980s can have contrary effects on industrial growth. This has been seen by some as having stimulated industrial growth because of enhanced access to capital goods. intermediates and components, and by others as having adversely affected manufacturing production because of the 'deindustrialising' effect of increase in manufactured imports. Fourth, the performance of the agricultural sector, being a source of demand as well as of supply of crucial agro-industry inputs for the industrial sector, affects industrial growth from the demand and supply sides. Finally, some have also stressed the role of access to finance and the cost of such finance, which could prove a supply-side constraint on industrial growth.

An examination of the relative significance of these factors as stimuli for the growth of manufacturing production during the years 1975-92, and therefore as explanations for the immediate post-reform recession yields some interesting conclusions. To start with, the analysis suggests that agricultural output and prices, as well as credit variables like the volume of bank credit to the commercial sector or interest rates, have little proximate association with changes in manufacturing production during this period and are therefore inadequate as explanatory variables for rate of growth of manufacturing output. Thus, although agricultural output declined in 1979-80, 1982-83 and 1991-92 which were all years when manufacturing growth dipped, manufacturing continued to have high growth during the period 1984 through 1987 when there was negligible agricultural growth. In any case, what is important about the early 1990s recession was that it was sustained through a year of excellent harvests in 1992-93. Similarly, while there was a marked fall in the growth of credit after 1988-89, the credit squeeze came at least a year before the onset of recession in 1991-92 and the latter was not reversed in 1992-93 despite credit increasing by 5 per cent in real terms. Moreover, although real interest rates were on the rise since 1989-90, those rates were during 1991-93 no higher (after allowing for inflation) than those prevailing between 1981 and 1987, when manufacturing sector growth was rapid. And the general argument which attributed the recession to a supply-side financial squeeze is even less tenable when account is taken of the fact that the share prices rose sharply starting 1991-92 and record amounts of capital were raised in primary issues.

Thus, although they are plausible determinants of manufacturing growth in general, agriculture and rinance do not seem to have been major factors behind the 1990s recession. However, since it can be misleading to consider possible determinants one-by-one, all the variables discussed above were introduced simultaneously into a regression exercise, along with other variables, to explain manufacturing growth between 1975-76 and 1992-93. Neither agriculture nor the financial variables were found to be significant. On the other hand, the level and rate of total capital formation, government expenditure and import competition did emerge as significant explanatory variables.4 As suggested by the statistical results the fitted equation quite closely approximated the actual values, and. in particular, predicted accurately the onset of the recession in 1991 and the continuing sluggishness of manufacturing thereafter, although the model itself used data from the pre-recession period to estimate the parameters.

What the estimation indicates is that the dominating influence on industrial growth in the period after the mid-1970s was the rate of change of real gross fixed investment in the private and public sectors. Since investment in any particular year cannot be expected to contribute to output through higher capacity creation in that year itself, this suggests that the principal factor driving industrial growth was the rate of change of investment demand. This feature also helps cement a relation between the level of total real fixed capital formation in any particular year and the rate o growth of manufacturing production in the subsequent year. However, even in 1991-92, when 'import compression' was held to account for the recession, the

ievei or manufactured imports in real terms was less important as a factor explaining the industrial downturn than the cutback in gross fixed investment. In fact, when we look at the relation between the rates of growth of manufacturing production and those of manufactured imports, we find that while in general the two move in tandem, there are instances, such as in 1984-85 and 1987-88. when high manufacturing growth continued although import compression was greater than in 1991-92. Not surprisingly, the evidence suggests that during the early 1990s it was not import reduction that was driving the recession, but the reduction in output that was dampening the rate of expansion of imports. That is, while periods of decline in manufacturing production do slow down import growth, liberal imports can and do rob the domestic manufacturing sector of the full benefits of any increase in the home market.

In fact, this asymmetric relationship with the rate of change of manufacturing output appears to be true of real total central government expenditure as well. Clearly, the increase in such expenditure has provided a stimulus to industrial growth, since periods of rising government expenditure are also ones in which the rate of growth of manufacturing output is high. However, while real central government expenditure does fall to an extent in 1979-80 and tapers off during the early 1990s because of the enforced cut in the central government's fiscal deficit, the extent of the recession appears to be far more severe than warranted by the trend in real government expenditure. The model suggests that the demand impetus provided to manufacturing by government revenue expenditure is less than that provided by investment expenditure, whether private or public, although public investment clearly has a greater demand impact on manufacturing sector than private investment.

All this makes clear that it was the

TABLE 1: INDICES OF INDUSTRIAL PRODUCTION

|              | General<br>Index | Annual<br>Rate of<br>Growth | Manu-<br>facturing | Annual<br>Rate of<br>Growth | Mining<br>and<br>Quarrying | Annual<br>Rate of<br>Growth | Electricity | Annual<br>Rate of<br>Growth |
|--------------|------------------|-----------------------------|--------------------|-----------------------------|----------------------------|-----------------------------|-------------|-----------------------------|
| 1986-87      | 155.1            | 91                          | 149.7              | 9.3                         | 177.9                      | 6.2                         | 168.1       | 10.3                        |
| 1987-88      | 166 4            | 7.3                         | 161.5              | 7.9                         | 184.6                      | 3.8                         | 181.0       | 7.7                         |
| 1988-89      | 180.9            | 8.7                         | 175.6              | 8.7                         | 199.1                      | 7.9                         | 198.2       | 9.5                         |
| 1989-90      | 196.4            | 8.6                         | 190.7              | 8.6                         | 211.6                      | 6.3                         | 219.7       | 10.8                        |
| 1990-91      | 212.6            | 8.2                         | 207.8              | 9                           | 221.2                      | 4.5                         | 236.8       | 7.8                         |
| 1991-92      | 213.9            | 0.6                         | 206.2              | -0.8                        | 222.5                      | 0.6                         | 257.0       | 8.5                         |
| 1992-93      | 218.9            | 2.3                         | 210.7              | 2.2                         | 223.7                      | 0.5                         | 269.9       | 5                           |
| 1993-94      | 232.0            | 6.0                         | 223.5              | 6.1                         | 231.5                      | 3.5                         | 290.0       | 7.4                         |
| 1994-95      | 253.7            | 9.4                         | 245.4              | 9.8                         | 248.8                      | 7.5                         | 314.6       | 8.5                         |
| 1995-96      | 284.2            | 12.0                        | 278.7              | 13.7                        | 265.7                      | 6.9                         | 340.0       | 8.1                         |
| Trend (1986/ | <b>/87</b> -     |                             |                    |                             |                            |                             |             |                             |
| 1990/91)     | 8.3              |                             | 5.9                |                             | 8.6                        |                             |             | 9.2                         |
| Trend (1986) | /87-             |                             |                    |                             |                            |                             |             |                             |
| 1990/91)     | 7.4              |                             | 4.7                |                             | 7.9                        |                             |             | 7.4                         |

Source: Economic Survey, various issues, Economic and Political Weekly, August 3, 1996 and CSO's Press Release, August 19, 1996.

deceleration in the rate of change of gross fixed capital formation in the public and private sectors that was primarily responsible for the early 1990s recession. The question that arises is: what factors accounted for the deceleration in real investment growth? To those acquainted with the effects of IMF-type 'macro-economic adjustment' elsewhere in the developing world, the deceleration in productive investment should not come as a surprise. As a multi-country research project co-ordinated by economists in the Policy and Research Division of the World Bank<sup>3</sup> suggests, there are a number of elements of such an adjustment package that affect capital formation adversely. To start with, a principal component of adjustment is a reduction in public expenditure. With a pre-existing administrative apparatus and a stock of debt which make a reduction in government consumption spending and interest outflows difficult to ensure, public expenditure cuts more often than not result in a cutback in capital formation in the public sector. Hence, if adjustment is not to result in an overall deceleration in investment, capital formation in the private sector must increase, if is to do more than neutralise the brake on public investment.

Whether private investment will step in to take on the role of public investment depends on whether there is any pronounced positive association between public and private investments. Many economists have argued for such an association in the Indian economy.6 Even the studies undertaken as part of the World Bank project mentioned above found "strong complementarities between public and private investment for a panel of Latin American, African and East Asian countries." The significance of this evidence needs to be noted. There are many who have argued that public sector capital formation, financed with public sector deficits, constitutes a draft on private savings and therefore pushes up interest rates and reduces private sector access to credit. What the evidence suggests is that, even if true, the consequent positive effect of reduced public expenditure on private investment is overwhelmed by the adverse impact of declining public capital formation on such investment.

A preliminary exercise provided more detailed evidence on the influences explaining private investment trends in India. Private investment consists of two components: that undertaken by the 'household sector' which also includes small business; and that undertaken by the "corporate sector". Needless to say, the dominant influences on these need not be the same. A detailed statistical analysis that took account of all the variables mentioned above for the 15-year period 1977 to 1992 did find that the principal determinants of household and

corporate investments varied to an extent.7

In the case of household capital formation. the real interest rate appeared to have a strong negative effect while fixed capital formation in the government sector had a weak positive effect, although the latter relationship was better when lagged by one year. In the case of corporate fixed investment, fixed capital formation in the public sector had a strong positive effect while relative prices which can affect industrial profitability (such as the relative price of agricultural products with respect to manufactured goods or the real effective exchange rate) also exerted their influence in the expected manner. Thus, in both cases, fixed capital formation by the government was a significant determinant, but as expected the responsiveness of fixed capital formation in the household sector to this was far less than in the case of the corporate sector. What is more interesting is that while the level of the interest rate was significantly inversely related to capital formation in the household sector, it was not a significant negative influence on fixed capital formation in the corporate sector.

All of this points to the strong complementarity between public investment and private investment in the Indian economy. Rather than 'crowd out' private investment by its draft on private savings, public investment through its demand-generating effects and its provision of crucial infrastructural support, 'crowds in' private investment. Hence, to the extent that a macroeconomic adjustment programme involves a reduction in the rate of growth of real public investment (as part of the effort to reduce the fiscal deficit), private investment is also likely to be depressed. This means

that unless there is some major structural shift in the factors that drive private investment, such investment is unlikely to compensate for the reduction in public capital formation that adjustment involves.

The advocates of reform in India did expect such a structural shift. Thus, even when industrial growth was still low, the official Economic Survey argued that "structural reforms have had a positive impact on the investment climate in the country" and that "the conventional indicators suggest that the investment climate has remained buoyant"." Clearly, the impression was that even if in the immediate aftermath of adjustment in private investment did not increase to the requisite degree, in course of time the 'animal spirits' of private entrepreneurs would respond adequately to the incentives that the liberalisation associated with adjustment involves. Those incentives came from various elements of the liberalisation programme aimed at facilitating private investment: the dismantling of government controls on capacity creation, production and pricing; improved access to imported capital equipment, raw materials and intermediates; and easier possibilities of technical and financial collaboration with foreign entrepreneurs.

For these advocates of reform, the fact that despite several dampening influences, India witnessed an industrial 'boom' of sorts implicitly suggests that liberalisation has permitted private industrial investment to break with its many-sided dependence on public investment, and register autonomous increases so long as access to finance is ensured to entrepreneurs. According to them, with stock market and capital market reforms and liberalised rules with regard to foreign

Table 2: Components of Gross Capital Formation by Type of Assets and by Institution
(Rs crore at 1980-81 prices)

|                               | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1993-94 | 1994-95 |
|-------------------------------|---------|---------|---------|---------|---------|---------|
|                               |         |         |         | Q       |         | Q       |
| Gross fixed capital formation | 50,317  | 49,063  | 49,825  | 51,695  | 54,189  | 62,207  |
| Public sector                 | 20,601  | 21,003  | 19,350  | 20,440  | 20,765  | 23,669  |
| Private corporate sector      | 9,752   | 14,516  | 16,229  | 21,056  | 20,654  | 22,152  |
| Household sector              | 19,964  | 13,544  | 14,246  | 10,200  | 12,770  | 16,386  |
| Machinery and equipment       | 31,559  | 29,853  | 30,534  | 32,579  | 34,543  | 40,830  |
| Public sector                 | 11,750  | 11,837  | 10,599  | 11,569  | 11,690  | 14,220  |
| Private corporate sector      | 8,759   | 13,143  | 14,671  | 19,131  | 18,752  | 20,104  |
| Household sector              | 11,050  | 4,873   | 5,264   | 1,879   | 4,101   | 6,506   |
| Construction                  | 18,758  | 19,210  | 19,291  | 19,117  | 19,646  | 21,377  |
| Public sector                 | 8,851   | 9,166   | 8,751   | 8,871   | 9,075   | 9,449   |
| Private corporate sector      | 993     | 1,373   | 1,558   | 1,925   | 1,902   | 2,048   |
| Household sector              | 8,914   | 8,671   | 8,982   | 8,321   | 8,669   | 9,880   |
| Change in stocks              | 6,954   | 1,829   | 5,150   | 1,126   | -626    | 1,951   |
| Public sector                 | 987     | -970    | 1,099   | 1,408   | 489     | 449     |
| Private corporate sector      | 2,280   | 1,014   | 2,213   | -1,165  | 2,387   | -979    |
| Household sector              | 3,687   | 1,785   | 1,838   | 883     | 1,272   | 2,481   |
| Gross capital formation       | 57,271  | 50,892  | 54,975  | 52,822  | 53,563  | 64,158  |
| Public sector                 | 21,588  | 20,033  | 20,449  | 21,848  | 21,254  | 24,118  |
| Private corporate sector      | 12,032  | 15,530  | 18,442  | 19,891  | 18,267  | 21,173  |
| Household sector              | 23,651  | 15,329  | 16,084  | 11,083  | 14,042  | 18,867  |

Source: National Accounts Statistics and CSO Quick Estimates Press Release.



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apital entry having ensured such access to inance, the 'animal spirits' of entrepreneurs vere significant enough to set off a wave of nvestment that helps lift the rate of industrial rowth. Capital formation estimates appear o partially corroborate that case. Thus, with overnment capital formation stagnating, vhile agricultural product prices were rising nd the real exchange rate depreciating in he early 1990s, capital formation in the rivate corporate sector should have been dversely affected (Table 2). However, CSO igures suggest that capital formation in he private sector (at 1980-81 prices) rose rom Rs 12,032 crore in 1990-91 to ls 15,329 crore in 1991-92, Rs 18,442 rore in 1992-93 and stood at Rs 18,267 rore in 1993-94. Relative to GDP, this mounted to a rise from 4.6 per cent in 990-91 to 5.9 per cent in 1991-92 and 6.7 er cent in 1992-93 (Table 3). The 1993-94 igure stood at 6.1 per cent. In the case of ousehold capital formation, with governnent capital formation stagnating between 990-91 and 1993-94 while interest rates emained high, this segment of private capital ormation should have also been dampened. Here, the evidence indicates that it was. At constant 1980-81 prices it fell from ls 23,651 crore in 1990-91 (11.3 per cent of GDP), to Rs 15,329 crore in 1991 92 (7.8 er cent), rose marginally to Rs 16,084 crore n 1992-93 (7.7 per cent) and then fell again o Rs 14,042 crore in 1993-94 (6.6 per cent). Thus, the 'corporatisation' of private capital ormation until 1993-94 seems to tally with he expected link between liberalisation, private corporate investment and industrial growth, especially since public capital ormation was declining relative to GDP.

However, there are two aspects of these estimates which conflict with that generalisation. First, the revival of private orporate investment occurred during 1990-91 to 1992-93, which is well before he post-reform industrial recovery. Second, elative to GDP the decline in household capital formation (3.6 percentage points) was much more than the increase in private sector capital formation (2.1 percentage points), so that overall private capital formation has been on the decline. Unfortunately, revised estimates of capital formation are not available for the period after 1993-94 and large revisions of the CSO's 'Quick Estimates' are the norm, making them an inadequate basis for judgment. However, the Quick Estimates for 1994-95 point to a significant increase in real capital formation in all sectors, amounting to 13 per cent in the case of the public sector, 16 per cent in the private corporate sector and 34 per cent in the household sector. If acceptable, they suggest that the break with the earlier period appears more generalised in that year.

The CSO's aggregate figures on capital formation seem to support this argument on the surface. In the immediate post-reform years, gross capital formation in the economy fell sharply from 27.1 per cent of GDP in 1990-91 to 23.6 per cent in 1991-92, 22 per cent in 1992-93, 21.6 per cent in 1993-94 and then rose sharply to 25.2 per cent according to the quick estimates for 1994-95. It is true that capital formation in the private corporate sector rose from 4.6 per cent of GDP in 1990-91 to 5.9 per cent in 1991-92 and 6.7 per cent in 1992-93 and after a marginal fall to 6.1 per cent in 1993-94, settled at 6.6 per cent of GDP in 1994-95. However, capital formation in the household sector, which fell sharply from 11.3 per cent in 1990-91 to 7.8 per cent in 1991-92, 7.7 per cent in 1992-93 and 6.6 per cent in 1993-94, rose back to 7.8 per cent in 1994-95. Thus, while the improvement in corporate capital formation was partly neutralised by the decline in household sector capital formation in the early 1990s, it was supported by it in 1994-95, when the household sector contributed quite significantly to the rise in overall capital formation. If the 1994-95 trend is combined with the fact that public expenditure rose sharply in 1993-94 resulting in the highest post-reform deficit of 7.5 per cent of GDP, an explanation for the return to higher rates of growth appears readily available. Public expenditure and private capital formation together seem to underlie industrial buoyancy.

However, there is still one reason for scepticism. Relative to GDP private corporate capital formation rose only marginally between 1993-94 and 1994-95 from 6.1 per cent of GDP to 6.6 per cent, so that the

overall increase in capital formation from 21.6 per cent in 1993-94 to 25.2 per cent in 1994-95 was due largely to a 1.2 percentage points increase in the ratio of capital formation in the household sector to GDP and a 1.8 percentage points increase in the case of the 'errors and omissions' category. These trends in the sectoral composition of capital formation, especially the unusually large 34 per cent increase in household sector capital formation, call for closer scrutiny of the CSO's figures.

Central to savings and investment estimates in India is the idea that domestic investment must always identically equal the domestic savings plus net capital inflows from abroad. Net capital inflows, which equal the deficit on the current external account are obtained from balance of payments statistics. In a division of responsibility suggested by the Raj Committee on Savings, the CSO is primarily responsible for estimates on the investment side and the RBI for estimates on the savings side. The CSO follows a product-flow approach in estimating investment by assets. Overall investment is taken to be the sum of 'investment goods' (machinery, construction and inventories) available in the economy either based on domestic production or through net imports, which gives the apparent consumption of such investment goods. This global figure is supplemented by estimates of corporate investment from company balance sheet data and of public investment from budget data. The difference between the overall investment figure and the total of private corporate and public sector investment is the residual that is treated as being the investment in physical assets by the household sector

TABLE 3. CSO Estimates of Savings and Capital Formation as Per Cent of GDP at Current Prices

|                                      | 1990-91 | 1991-92 | 1992-93 | 1993-94 | 1993-94 | 1994-95 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
|                                      |         |         |         | Q       |         | Q       |
| 1 Household sector (1.1+1.2)         | 20      | 17.8    | 15.5    | 159     | 17.4    | 189     |
| 1.1 Financial savings                | 8.7     | 10.1    | 7.8     | 10.3    | 10.8    | 11.1    |
| 1.2 Physical savings                 | 11.3    | 78      | 7.7     | 5 6     | 6.6     | 78      |
| 2 Private corporate sector (2.1+2.2) | 2.7     | 3.2     | 3       | 4       | 3.5     | 3.8     |
| 2.1 Joint stock companies            | 2.6     | 3.1     | 2.9     | 39      | 3 4     | 37      |
| 2.2 Co-op banks and societies        | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     |
| 3 Public sector (3.1+3.2)            | 1       | 2.1     | 1.5     | 0.2     | 0.5     | 17      |
| 3.1 Public authorities (3.1.1+3.1.2  | ) -2.1  | -1.4    | -1.2    | 2.7     | -2.5    | 18      |
| 3.1.1 Government administration      | -2.8    | -2 1    | -19     | -3.8    | -3.4    | -2.8    |
| 3.1.2 Departmental enterprises       | 0.7     | 0.7     | 0.7     | 1.1     | () 9    | 0.9     |
| 3.2 Non-departmental enterprises     | 3.1     | 3.4     | 2.8     | 2.9     | 3       | 3.5     |
| 4 Gross domestic savings (1+2+3)     | 23.7    | 23.1    | 20      | 20.2    | 21.4    | 24.4    |
| 5 Net capital inflow                 | 3.4     | 0.5     | 2       | 0.3     | 0.3     | 0.8     |
| 6 Gross capital formation            |         |         |         |         |         |         |
| (4+5 or 7+8 or 9+10)                 | 27.1    | 23.6    | 22      | 20.4    | 21.6    | 25.2    |
| 7 Gross capital formation by type of | ıf      |         |         |         |         |         |
| asset and by institution (7.1+7.2+7  |         | 22 9    | 23.3    | 21.3    | 21.3    | 23.2    |
| 7.1 Household sector                 | 11.3    | 7 8     | 7.7     | 5 6     | 6.6     | 7 8     |
| 7.2 Private corporate sector         | 4.6     | 5.9     | 6.7     | 6.8     | 61      | 6.6     |
| 7.3 Public sector                    | 9 1     | 9.2     | 8.9     | 8.9     | 8.6     | 8 8     |
| 8 Errors and omissions               | 1.4     | 07      | -1.3    | -0.9    |         |         |

Source: Same as Table 2.

Any errors in estimating the overall level of investment in the economy or in the public and private corporate sector components therefore affect the estimated household investment in physical assets.

On the savings side, public and private corporate sector savings are once again estimated from budget and balance sheet data. Household savings are estimated in two parts; one consisting of household saving in the form of physical assets, which is nothing but the residual obtained on the investment side as described above, and, the other of household financial savings, obtained from data on the assets and liabilities of the financial sector, adjusted for outstanding positions with the public and private corporate sector. Given the need to satisfy the investment savings-identity, any excess of domestic savings plus net external capital inflows over the CSO's investment estimate is added on to the capital formation figure under the head 'errors and omissions'. It should be clear that any overestimation of the 'residual' in the form of household physical savings, inflates the overall level of savings, and therefore the estimate of capital formation 'adjusted' for errors and omissions.

This structure of estimation suggests that when scrutinising capital formation estimates we have to look, in particular, at three possibilities. First, that there is no error in the global estimate of investment, which by inflating the 'residual' estimate of household investment in physical assets increases household savings as well. Second, that there is no inflation of household financial savings which is calculated as a residual from data on the assets and liabilities of the financial sector. And, third, that these two errors together do not inflate the 'errors and omissions' item in the 'adjusted' capital formation estimates.

Unfortunately, on all these counts there seems to be reason to doubt the veracity of the investment and savings figures in 1994-95, which support the case for a sharp revival in capital formation during the later reform years. Consider the overall investment figure, for example. In 1994-95, when capital formation as a proportion of GDP rose quite sharply, capital formation by the household sector in the form of machinery and equipment rose by 59 per cent. This, in that year, amounted to 22 70 per cent of the increase in total capital formation. As a result, the share of the household sector in purchases of machinery and equipment is shown to have risen from 12 per cent in 1993-94 to 16 per cent in 1994-95. This implies that the estimate of total purchases of machinery and equipment rose much more. than that which can be directly attributable to the public and private corporate sectors, resulting in a noticeable increase in physical asset creation by the household sector.

Whether this increase is acceptable or not depends on two factors: whether the aggregate estimate of machinery and equipment purchases is reliable; and whether the direct estimates of capital formation of the public and private sectors is valid: However, from the point of view of the aggregate capital formation estimate 'unadjusted' for errors and omissions, the latter is not a problem, since it would merely attribute to the household sector, what might rightfully belong to the other sectors. However, if the aggregate estimate itself is questionable, then the residual, large increase being attributed to the household sector may be an overestimate. There is reason to believe that this is what has actually happened in 1994-95.

One reason why capital formation in the form of machinery and equipment has gone up significantly in 1994-95, by as much as 18 per cent in constant price and 29 per cent in current price terms, is because that was a year in which both domestic production and imports of capital equipment went up sharply. Unlike 1992-93 and 1993-94, when production of capital goods fell while imports rose by more than 20 per cent a year because of liberalisation, in 1994-95 production rose by 24 per cent when imports rose by 26.1 per cent.10 That is contrary to the view that prevailed during much of the post-1985 liberalisation that increases in capital goods imports adversely affect production in the domestic capital goods sector, 1994-95 seems to suggest not merely that capital formation rose sharply, but also that it benefited both the domestic industry and international firms.

There is, however, a major change which has occurred in the period of accelerated

liberalisation since 1991. Because of the liberalisation of trade and foreign investment rules, many domestic and international manufacturers have chosen to set up capacities in India, separately or in collaboration, to assemble a range of commodities varying from 'electrical machinery' - which because of classification problems is often a euphemism for consumer durables of various kinds - to automobiles. To assemble these commodities, which are by their very nature import-intensive, imports, even of semi- or completelyknocked down kits, from the a foreign company or its third-country subsidiary, are resorted to. These imports, of machines and components, get recorded as capital goods imports in the form of either complete equipment or parts. Since domestic assembly based on such imports, is accompanied by sale at relatively high margins of the final product, which is also a capital good, the domestic value added associated with such activity also tends to be high. And, in any case, the value of domestic production, or domestic output, would include not merely the value added component, but the value of imported inputs as well. That is, a change in the nature of the domestic capital goods industry, encourages a tendency for imports and domestic production of this category of goods to rise simultaneously. If in these circumstances the methodology of using both imports and domestic production as 'independent' indicators of capital goods demand is used, there would be a definite tendency towards double counting, when overall purchases are estimated.

Interestingly, 1994/95 is the first year in which the trend towards a simultaneous increase in imports and domestic production

"ABLE 4. SAVINGS OF THE HOUSEHOLD SECTOR IN FINANCIAL ASSETS

|                     | 1985-86 | 1990-91 | 1992-93 | 1993-94 | 1994-95 |
|---------------------|---------|---------|---------|---------|---------|
| Gross savings       | 25,562  | 56,858  | 75,723  | 98,126  | 135,348 |
| Bank deposits       | 10,603  | 16,600  | 27,542  | 29,220  | 57,426  |
| LIC and PF, etc     | 5,967   | 16,754  | 21,931  | 27,796  | 31,963  |
| Share and debenture | 1,394   | 4,974   | 1,332   | 8,853   | 9,098   |
| Others              | 7,598   | 18,530  | 23,026  | 32,257  | 36,861  |

Source: Reserve Bank of India, Report on Currency and Finance, Vol II.

TABLE 5: FINANCIAL LIABILITIES OF THE HOUSEHOLD SECTOR

| 1985-86 | 1990-91                                        | 1992-93                                                                          | 1993-94                                                                                                             | 1994-95                                                                                                                                               |
|---------|------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 25,562  | 56,858                                         | 75,723                                                                           | 98,126                                                                                                              | 135,348                                                                                                                                               |
|         |                                                |                                                                                  |                                                                                                                     |                                                                                                                                                       |
| 6,983   | 10,505                                         | 16,395                                                                           | 11,995                                                                                                              | 30,046                                                                                                                                                |
| 6,043   | 8,480                                          | 13,820                                                                           | 9,134                                                                                                               | 26,077                                                                                                                                                |
|         |                                                |                                                                                  |                                                                                                                     |                                                                                                                                                       |
| 646     | 1,154                                          | 1,839                                                                            | 1,868                                                                                                               | 2,854                                                                                                                                                 |
| t 205   | 611                                            | 441                                                                              | 698                                                                                                                 | 805                                                                                                                                                   |
|         |                                                |                                                                                  |                                                                                                                     |                                                                                                                                                       |
| 89      | 260                                            | 295                                                                              | 295                                                                                                                 | 310                                                                                                                                                   |
|         |                                                |                                                                                  |                                                                                                                     |                                                                                                                                                       |
| 18,579  | 46,353                                         | 59,328                                                                           | 86,131                                                                                                              | 105,302                                                                                                                                               |
|         | 25,562<br>6,983<br>6,043<br>646<br>t 205<br>89 | 25,562 56,858<br>6,983 10,505<br>6,043 8,480<br>646 1,154<br>t 205 611<br>89 260 | 25,562 56,858 75,723<br>6,983 10,505 16,395<br>6,043 8,480 13,820<br>646 1,154 1,839<br>t 205 611 441<br>89 260 295 | 25,562 56,858 75,723 98,126<br>6,983 10,505 16,395 11,995<br>6,043 8,480 13,820 9,134<br>646 1,154 1,839 1,868<br>t 205 611 441 698<br>89 260 295 295 |

Source. Same as Table 4.

has affected the numbers. This is possibly explained by the fact that, after a year when production recovered from its 1991-92 and 1992-93 slump, this was the year when we had seen a revival in industrial growth. It must be noted that the pick up in capital goods production is accounted in large part by the segment 'electrical machinery and parts', which, besides automobiles, is one in which the tendency towards new international alliances is most visible, partially corroborating the case for double counting. Unfortunately, neither does the category capital goods in imports data correspond with that in production data, nor do we yet have access to commodity group-wise information on capital goods imports. However, there are strong reasons to believe that when the data becomes available the argument on double counting would be corroborated.

, If it is, then the 'residual' investment in physical assets in the household sector would prove an overestimate. To that extent the figures quoted by the CSO suggesting an increase in the rate of saving and investment in the economy, while in keeping with the CSO's methodology, would be the result of an overestimation that calls for correction. If and when corrected, the figures may show that the improvement in saving propensities or investment rates in the economy were not that significant.

The second area of doubt regarding the investment and savings estimates relate to the estimates of household financial savings. Household financial savings are estimated by the RBI using the data on holdings of individual financial instruments, with annual savings being the addition to total financial assets net of all financial liabilities. In 1994-95, such savings accounted for a significant part of a 3 percentage points increase in the savings rate from 21.4 per cent in 1993-94 to 24.4 per cent. Underlying this contribution was the fact that, despite signs of a decline in life insurance, provident funds and units, household financial savings are reported to have risen relative to GDP because of a steep increase in bank deposits from Rs 29,220 erore (or 3.6 per cent of GDP) to Rs 57,426 crore (or 6.1 per cent of GDP). This implies an increase in total household deposits (bank and non-bank) trom Rs 37,359 crore in 1993-94 to Rs 65,782 crore in 1994-95. The RBI's Report on Currency and Finance, 1994-95 reproduces these figures.

Interestingly, however, the RBI's Annual Report for 1994-95 released earlier had shown that household deposits had risen from Rs 37,329 crore in 1993-94 to only Rs 52,434 crore in 1994-95. To many observers this 25 per cent difference of more than Rs 13,000 crore (or 1.4 per cent of GDP) between the Annual Report figures

and those finally used by the CSO was a puzzle. It subsequently emerged that part of the increase has occurred because the 'revised' figures for 1994-95 are based on data for 27 fortnights while that for 1993-94 was based on data for 26 fortnights as should be the case. As the Economic and Political Weekly, which first reported this discrepancy argued: "It is obviously wrong to take data for an unequal number of fortnights in the different years as this would distort savings trends."11 When this distortion is corrected. not only do the savings rate decline, but so do the "errors and omissions" item in adjusted capital formation estimates, for reasons cited above.

This leads to the last point on the capital formation figures for 1994-95. If, as has been argued above, there is strong likelihood of an overestimation of both 'household savings in physical assets' and household financial savings, there should be a substantial degree of discrepancy between the estimates of savings and of unadjusted investment, resulting in a large 'errors and omissions' figure in the adjusted capital formation estimates. As expected, the 'errors and omissions' category in 1994-95 amounts to 2.1 per cent of GDP, up from just 0.3 per cent in 1993-94. This increase accounts for 50 per cent of the increase in the capital formation rate in 1994/95.

Thus, there are adequate grounds to believe that a major adjustment of the 1994-95 capital formation figures is likely, which may contradict the claim of a revival of investment and in all probability point to the persistence of a declining trend. Among the many macroeconomic indicators the Government has put together in Economic Survey 1995-96 to support its propagandist overview of five years of 'reform', are the quick estimates of savings and investment recently released by the Central Statistical Organisation (CSO). The above discussion suggests that not only has there been no such revival in investment but also that the stagnation in private corporate investment after 1992-93 works against whatever remains of the 'animal spirits' argument

This of course leaves unexplained the evidence of industrial recovery provided by the indices of industrial production. It can be argued that liberalisation, combined with

devaluation, has resulted in an increase in manufacturing production directed towards export markets, especially from the small and even unorganised manufacturing sectors This explanation is supported by the evidence that the value of exports in dollar terms has recorded a turnaround and that much of the expansion in manufactured export production is attributable to the small and unorganised sectors. The difficulty here is that net exports have in all probability declined, since liberalisation has also resulted in a share increase in capital goods imports. So while exports might provide sectoral explanations of growth, the overall effect of liberalisation on industrial production would in all likelihood have been adverse.

We therefore need to look elsewhere for features of liberalisation that spur manufacturing production. Viewed from the supply-side there is one reason why it should It has been known for long that one consequence of the complex of importsubstitution policies pursued by India till the mid-1980s was the pent-up demand for a range of manufactured goods, including specific brands of such goods. Knowledge of these could be acquired by consumers from the international market, but the products themselves could either not be acquired within India or acquired only at prohibitive costs. Liberalisation of the kinpursued in India, which frees access to intermediates, components and capital goods while protecting most end-products, as welas reduces tariffs substantially, allows for the domestic production/assembly and sale of these commodities in a relatively shor span of time. This occurs at two levels: first by relatively small firms that combine chear imports and domestic parts to service wha is not always correctly described as the 'grey market'; and second, by larger firms, very often in collaboration with international producers with a well-cultivated brand image

While such products do have a ready market, they would not contribute to a ne addition in domestic production if they displace similar or other products in the consumer's basket of purchases. Thus if the availability of new goods is to spur growth it must be accompanied by a net accretion to demand after accounting for the displacement of previously available 'substitutes'

TABLE 6: SHARE IN GDP AT MP OF COMPONENTS OF HOUSEHOLD SAVINGS

(Per cent

|                     | 1985-86 | 1990-91 | 1992-93 | 1993 94 | 1994 95 |
|---------------------|---------|---------|---------|---------|---------|
| Gr savings in FA    | 97      | 10.6    | 107     | 12 2    | 14 3    |
| Bank deposit        | 4 ()    | 3.1     | 39      | 3 6     | 6.1     |
| LIC and PF, etc     | 2 3     | 3.1     | 3.1     | 3.5     | 3.4     |
| Share and debenture | 0.5     | 0.9     | 1.0     | 1.1     | 10      |
| Others              | 29      | 3.5     | 3.3     | 4.0     | 39      |
| Net savings in FA   | 7 1     | 8.7     | 8.4     | 10.8    | 11.1    |

Source: Same as Table 5

In the short run such net additions to demand can be financed either with the flow of hitherto unaccounted incomes into the market for goods, or with an element of dissaving reflected by reduced financial savings, or through increased recourse to consumer credit. There is reason to believe that in much of urban India and some parts of rural India, such a tendency is underway, driven by easy access to consumer credit.

It has been argued above that a liberalisation-induced rise in imports of knocked-down components for capital goods of various kinds, especially items like automobiles and electronic goods, can result in an overestimation of aggregate investment through a form of double counting. The problem, however, does not end here. The financial savings of the household sector consist of the addition to its holding of different kinds of financial instruments net of the increase in its financial liabilities. These financial liabilities take the form of loans and advances obtained from commercial banks and from the rest of the financial sector. An interesting feature in recent times has been the consumer finance boom, which on the one hand increases the financial liabilities of the household sector, and on the other increases its purchases of precisely those commodities that contribute to the 'double-counting' error that exaggerates the household physical savings spoken of above.

It could be argued in response to this argument that the real growth has been in household financial savings rather than physical savings. Through much of the 1980s physical savings exceeded financial savings, accounting for more than 60 per cent of the total in 1980-81, more than 51 per cent in 1985-86 and more than 55 per cent in 1990-91. However, in 1993-94 physical savings contributed just around 38 per cent of total household savings, and in 1994-95 it accounted for just over 41 per cent. <sup>12</sup> Thus, one feature of liberalisation has been a sharp rise in household financial savings, which involves no double counting.

The reasons for this trend appear to be an increase in investments in financial instruments other than bank deposits, such as life insurance, provident funds and pensions, on the one hand, and shares and debentures, on the other (Table 4). Financial liberalisation has meant both an element of disintermediation with banks losing their role as major channels for financial savings as well as a rise in financial savings by households. However, there are two features of household financial behaviour which are missed out in this characterisation. First, the financial portfolio of households is quite volatile. There was a hike in the interest rates on bank deposits in response to the diversification away from deposits. This, combined with the slump in stock markets in 1994-95, increased bank deposits by households sharply in 1994-95, with their share in gross household financial savings rising from 29.8 per cent in 1993-94 to 42.4 per cent in 1994-95. The 1994-95 share of bank deposits is higher than that in 1985-86. Second, while gross financial savings of households rose sharply (Table 6) from 10.7 per cent of GDP in 1992-93 to 14.3 per cent in 1994-95, net financial savings after rising between 1992-93 and 1993-94 from 8.4 per cent in 1992-93 to 10.8 per cent in 1993-94, stagnated in 1994-95. This was because the financial liabilities of the household sector, having fallen from Rs 16,395 crore in 1992-93 to Rs 11,995 crore in 1993-94, rose sharply to Rs 30,046 crore in 1994-95 (Table 5). Much of this increase was because of huge increase in bank advances to the household sector.

This aspect of the financial behaviour of the household sector is also related to financial liberalisation. Banks, which are being forced to offer higher interest on deposits given the relative returns of other assets, and are now also partially freed from constraints on their lending, are opting for consumer finance which offers much higher spreads than other forms of lending. Flush with funds because of the rise in deposits and concessions provided by the government, banks increased their lending by 28.7 per cent in 1994-95 to Rs 47,143 crore, as compared with an 8.2 per cent increase to Rs 12,346 crore in 1993-94. Not surprisingly, this increase was all due to non-food credit, with the growth in food-credit being lower at 12.5 per cent in 1994-95 as compared with 61.8 per cent in 1993-94. That consumer credit was an important contributor to non-food credit growth is indicated by the fact that scheduled banks' lending to sectors 'other' than agriculture, small-scale industries, other priority sectors, medium and large industry and the wholesale trade, rose by Rs 9,232 crore in 1994-95 as compared with just Rs 1,916 crore in 1993-94. In addition, there has been a phenomenal growth of nonbank financial companies in the postliberalisation period to an extent that there is now no real RBI monitoring over these companies, which have become a major source of consumer finance.

Thus, if the household sector has been buying more financial instruments, it has been borrowing more as well. In the event, there has been a dissociation between the gross financial investments by the household sector and its actual net financial savings, even according to the RBI accounts. This means that unless this much increased household borrowing was entirely for purposes of carrying out physical investment, the overall savings rate could be stagnant,

 notwithstanding the rise in household, gross financial savings. One can of course take the official figures at face value and conclude that there was indeed a massive increase in physical investment by the household sector. and the higher household debt was entirely to finance such investment. But given the overwhelming evidence of a hefty liberalisation-induced increase in debtfinanced purchases of consumer durables of various kinds, there is an alternative explanation. In a liberalised regime, where imported components are used to manufacture consumer durables which are then marketed with the provision of liberal consumer credit, financial dealings by households conceal a consumption trenc which aggravates the problem of double counting of household physical savings.

Consumer finance is provided precisely for those commodities - automobiles electronic goods, personal computers - which because of classification problems get registered as capital goods and in whose case the import-intensity of domestic production is extremely high. These are precisely the commodities which contributed to both the simultaneous rise in capital goods imports and the domestic production of capital goods For reasons mentioned earlier, the rise in the consumption and domestic production of such commodities increases the doublecounting error in product-flow estimates of total investment and therefore in ar overestimate of the residually calculated household saving in the form of physica assets. Put simply, the changed financia behaviour of households, which results in a stagnation in financial savings in a year in which financial investments rise, also results in a greater overestimation o household saving in the form of physica assets.

The implication of this is that though capital formation figures partially suppor the argument of an investment-led boom what is actually occurring is a consumption led boom which because of estimation problems shows up on the investment side This process of course is limited by two factors: first, the fact that credit of this kind can be provided only for durables with some resale value; and, second, by the level to which the overhang of credit can proceed before defaults become routine. Thus, the rapid growth in 'new markets' of this kind is bound to exhaust itself, just as the 'once for-all' market that import substitution initially provides did. This would be true for one other reason; consumption spending of the kind unleashed by liberalisation would have limited multiplier effects in the domestic economy given the high import intensity and low employment intensity characteristic of the production of sucl commodities.

To conclude, in the implicit debate on the relative role of 'animal spirits' and creditfuelled consumption in explaining the paradoxical recovery of industrial growth in post-reform India, the corporatisation of private investment and the recent evidence of a sharp rise in aggregate savings and investment have provided support to those who argue for a link between liberalisation. private investment and industrial growth. However, close scrutiny of capital formation estimates indicates that no such linkage can be established. What liberalisation has done is to unleash a consumption boom, fuelled by the consumer credit surge that accompanies financial sector reform. Such a boom not only increases balance of payments vulnerability if it is not accompanied by rapid export growth, but also offers in terms of markets only a oncefor-all market that would exhaust itself unless some other stimuli ensure an expansion of the home market for manufactures

#### **Notes**

- 1 The revisions in the case of textiles were over and above a revision in the index carried out inearly 1994 which had the effect of increasing the estimated output of this sector during April-December 1993 by over 10 per cent compared to that published in December 1993. Refer C P Chandrasekhar and Abhijit Sen, 'Industrial Recession and Prospect of Industrial Recovery', Macroscan, Business Line, February 3, 1994.
- 2 Figures are computed from data in Reserve Bank of India, Report on Currency and Finance, Mumbai, 1996.
- 3 Government of India, Ministry of Finance, Budgetata Glance, 1996/97, Budget Division, MOF, July 1996
- 4 The regression exercise which seeks an explanation for changes in the rate of growth of manufacturing production had as its determining variables the rate of change total gross fixed capital formation and the lagged level of total fixed capital formation, the level of total central government expenditure, the level of manufactured imports, and the lagged level of the index of industrial production, which captures the persistence over more than one period of the effects of the other determining variables. To avoid dimensional problems logarithmic values of absolute real values had been taken in the analysis. The estimated equation was of the form:
  - $Y = -2.05 + 0.59X_1 + 0.26X_2 0.06X_3 + 0.36X_4 0.58X_5$
  - Y = Rate of change of index of industrial production for manufacturing
  - X<sub>1</sub> = Rate of change of real gross fixed capital formation
  - X<sub>2</sub> = Log of real total central government expenditure
  - X<sub>1</sub> = Log of real value of manufactured imports
  - X<sub>4</sub> = Lagged value of log of real total gross fixed capital formation
  - X<sub>5</sub> = Lagged value of log of index of industrial production for manufacturing

- The R-squared value was 0.85. All variables were significant at less than 5 per cent level. The Durbin-Watson Statistic was 2.78. CPChandrasekharand Abhijit Sen, 'Industrial Recession and Prospect of Industrial Recovery', Macroscan, Business Line, February 3, 1994.
- 5 Serven, Luis and Andres Solimano (eds), Striving for Growth After Adjustment: The Role of Capital Formation, World Bank, Washington, DC, 1993, pp 287.
- 6 See for example Prabhat Patnaik and S K Rao, 'Towards an Explanation of Crisis in a Mixed Underdeveloped Economy', Economic and Political Weekly, Annual Number, 1978.
- 7 C P Chandrasekhar and Abhijit Sen, 'An Overview of the Investment Strategy', Macroscan, Business Line, March 11, 1994.

- 8 Government of India, Ministry of Finance Economic Survey, 1993-94, Delhi, 1994 pp 99-100
- 9 Thus in 1993-94, household sector capital formation and private sector corporate formation were Rs 11,083 crore and Rs 19,891 crore, respectively, as per the quick estimates. These were subsequently revised to Rs 14,042 crore and Rs 18,267 crore.
- 10 Government of India, Ministry of Finance, Economic Survey, 1995-96, Delhi, 1996.
- 11 'The Economy: Overestimating Saving', Economic and Political Weekly, June 15, 1996, pp 1424-25
- 12 Figures computed from Reserve Bank of India, Report on Currency and Finance, various issues.

#### Indian Institute of Public Administration New Delhi

#### ESSAY COMPETITION ON THE OCCASION OF WORLD FOOD SUMMIT 1996

It gives us great pleasure to announce an all-India Essay competition (sponsored by the Ministry of Food, Government of India) on the occasion of the World Food Summit on the following topics.

- (1) Food Security: India's Quest For Self-Reliance in Food.
- (2) Fight Against Hunger.
- (3) Food Security in a Borderless World.

Original essay on any one of the above topics should be based on personal study/research/experience of the competitors and should be written in English. The entries (of about 5000 to 7000 words and neatly typed in double space on one side of the paper only) should be submitted in triplicate under a **Nom de Plume**. Full name and address of the competitor should be given on a separate sheet and enclosed in a sealed envelope bearing on the outside the **Nom de Plume**. All essays should be sent to Professor Kamal Nayan Kabra, Indian Institute of Public Administration, Indraprashtha Estate, New Delhi - 110002 by registered post so as to reach us by October 4, 1996. The envelope should be marked "ESSAY COMPETITION – WORLD FOOD SUMMIT 1996".

The value of one First Prize is Rs. 10,000/-, Two Second Prizes of Rs. 5,000/- each and Four Third Prizes of Rs. 2,500/- each. The essay will be adjudged by a body of judges selected by the IIPA. The award of the judges shall be final and no correspondence on this matter will be entertained. The Institute reserves the right not to make any award if none of the essays submitted reaches the necessary standard.



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## Foreign Direct Investment and Domestic Savings-Investment Behaviour

#### **Developing Countries' Experience**

Biswajit Dhar Saikat Sinha Roy

Two main arguments have been advanced in support of the role of foreign direct investment (FDI) in stimulating growth processes in developing countries. The first, essentially a short-term view, maintains that FDI can help mitigate problems encountered in external debt management. The second takes a longer-term perspective while arguing that FDI has the potential of meeting the domestic resource gaps of developing countries thereby enhancing their growth prospects. This paper examines these two views by looking at the experience of 16 developing countries which have attracted the largest flows of FDI and have the largest stocks of FDI in the developing world.

IN recent years, the role of foreign direct investment (FDI) in stimulating growth processes, particularly in developing countries, has increasingly been emphasised. Two main arguments have been advanced in support of this view. The first, essentially a short-term view, maintains that FDI can help mitigate problems encountered in external debt management [Kume and Ito 1989]. The second takes a longer-term perspective while arguing that FDI has the potential of meeting the domestic resource gaps of developing countries thereby enhancing their growth prospects

The former view gained currency in the aftermath of the debt crisis that several developing countries encountered in the 1980s. It is based on the argument that FDI enables countries to manage their problems arising out of mounting external debt by providing an alternative source of long-term finance. The importance of this non-debt creating source of inflow was emphasised as several developing countries experienced negative net transfers on debt in the second half of the 1980s. Such negative transfers exposed the inherent vulnerability developing countries faced as they increased their dependence on private capital markets within a relatively short period of time. Among other measures that were employed in this situation was the debt-equity swaps, in which foreign investors offered to buy a predetermined volume of debt stock of the severely indebted countries at the going market rate and thus reduce the debt-overhang of these problem debtors. Although the debt-equity swaps did no become a major component of the debt management strategy adopted in the late 1980s, the importance of equity capital has increased quite substantially in the 1990s, while all other forms of capital flows to developing countries were increasing at vastly slower rates than in the past.

FDI flows, which in 1990 were \$ 25 billion increased to more than \$ 90 billion in 1995 (World Bank 1996). The importance of these flows in relative terms can be gauged from the fact that while in 1990 these flows were less than a quarter of the aggregate net resource flows to all developing countries, in 1995 their share had increased to nearly 40 per cent.

The long-term view of benefits arising out of FDI is based on the perception that such inflows of capital act as 'engines of growth' in developing countries [UN 1992]. It has been argued that FDI, by raising the levels of capital formation in host countries. significantly contributes to the countries' growth processes. FDI, according to this view, is seen as an important source of foreign savings for the host countries which augment their domestic resources available for investment. These above-mentioned views on the beneficial impact of FDI flows on host countries have, however, lacked adequate empirical basis. The absence of any systematic analysis to evaluate the role of FDI in enhancing the growth potential of developing countries in particular, stands out as one of the major deficiencies in the policy-related literature.

The present paper makes a modest attempt to examine the two views pertaining to FDI by taking into consideration 16 developing countries. Countries included here are those that have attracted the largest flows of FDI as also ones in which the stocks of FDI are the largest in the developing world.

The paper has four substantive sections. In the first, we would set the present study in perspective by briefly discussing some of the past studies that have dealt with the observed relationship between foreign capital inflows and savings-investment behaviour in the recipient countries. The second section discusses the pattern of FDI flows as well as outflows across countries included here by taking an 18-year span beginning with 1975 and ending with the most recent year for which data are available for most countries. This discussion allows an examination of what we have termed as the short-term view of the benefits arising out of FDI flows. The short-term view, as we had stated above, is that FDI can be useful source of counting the negative net flows that developing countries have experienced on account of other forms of capital flows. The third section would discuss the savingsinvestment behaviour in the sample countries for the same 18-year period for which we have analysed the behaviour of FDI. Alongside discussing the trends in savings and investment, this section also brings out the significance of FDI flows in the overall magnitude of investment undertaken in these countries. And finally, in the fourth section, we analyse the observed relationship between FDI flows and the savings-investment behaviour of the identified host countries. The implications for developing countries, growth would be drawn on the basis of this analysis.

#### Foreign Capital Inflows and Growth Prospects of Developing Countries

The impact of foreign capital inflows on economic growth of recipient countries has long been diseassed in received literature. Central to the analyses have been the influence of capital inflows on domestic savings and investment behaviour of the countries in question

In one of the early studies, Chenery and Strout (1966) provided a detailed exposition of the manner in which external resources could lead to increases in the overall rates of investment, and hence GNP, in developing countries. External resources, according to the authors, could enhance the growth potential of these countries by augmenting the domestically available investible surplus. The low levels of domestic savings. Chenery and Strout indicate, act as constraints on the investment activity, and consequently on the desired levels of economic growth. With external resources removing the limits on domestic investment, in other words stepping up investment rates, developing countries can launch into a path that would eventually result in self-sustaining growth."

The above framework provided by Chenery and Strout wherein foreign inflows are seen to result in a virtuous circle of growth for developing countries was however sharply divergent from the findings of an earlier study carried out by Haavelmo (1965). Haavelmo indicated that domestic investment in developing countries was directly related not only to the level of GNP but to capital inflows as well. From the above relation Haavelmo inferred that domestic savings in the recipient countries could be negative if

capital inflows were large enough. This was taken to imply that foreign inflows did not necessarily supplement domestic investment. The latter findings were confirmed by several subsequent papers testing the Haavelmo hypothesis [Rahman 1968; Ahmed 1971]. Rahman verifies Haavelmo's hypothesis showing that domestic savings is not a function of income alone but also has an inverse relationship with the inflow of foreign capital. The cross country data used in this study confirms the hypothesis and rejects the view that foreign capital is used only for increasing investment and not as a substitute for domestic savings. Corroboration of Haavelmo's findings were provided by later studies which included Griffin (1970) and Weisskopf (1972). In subsequent studies, however, this view has come to be analysed more closely wherein specific forms of capital inflows were considered.

Stoneman (1975) used a simple model to show in particular the impact of foreign capital in the form of FDI on the rate of growth of developing countries. Among the most significant findings of the study were that while aid and foreign inflows in general contributed to economic growth of the recipients, the stock of FDI was found to be negatively correlated with growth.

The relationship between FDI and savings and investment behaviour in host countries has been systematically observed in some studies. Notable among these is Areskoug (1976) which used data from 21 developing countries. The relationship between domestic capital formation and various sources of gross savings was worked out, FDI being included, FDI as one of the major components of savings. The study found a negative relationship between foreign capital inflows and capital formation in host countries.

Agosin (1994) has shown that in Latin American economies, foreign capital inflows since the late 1980s have not led to significant rise in investment rates in these economies. The study attributes this observed phenomenon to two factors: first, inflows have financed debt service payments, and secondly, the economic policies have led to dampening investment propensities with exchange rate appreciation and credit conditions remaining tight. UNCTAD has presented a more recent scenario of capital flows, savings and investment for the Latin American countries [UNCTAD 1995]. Contribution of the external sector to capital accumulation was found to be negative in the second half of the 1980s. The reason for this, the study points out, was that these countries were virtually cut-off from the international capital markets. But in the 1990s, despite capital inflows being significant, investment rates did not pick up as the corresponding domestic savings rates had fallen steeply. However, cross-country experiences in this regard were found to be varying. While in Chile, investment rates increased between 1990 and 1992 when the increase in capital inflows was only modest, in Peru and Argentina, investment rates fell despite sharp increases in capital inflows. The studies referred to above indicate the divergence of views that exist on the impact of foreign capital inflows on host countries. What is more important to note here is that there have been several studies which provided empirical basis while arguing that foreign capital inflows in general may have a less than favourable impact on the recipient countries. It is this view that would be examined in this paper by taking into consideration a specific set of countries and their experiences with FDI flows more closely in order that meaningful conclusions can be reached.

#### II Nature of Net Flows on FDI

The analysis in this paper is based on data covering 16 developing countries that have either been the largest recipient of FDI flows or have had the largest stock of FDI in the developing world in 1993. China, which has been by far the largest recipient of FDI among developing countries, has been excluded from the set of countries considered here since the nature of FDI it has attracted differs qualitatively from those of the rest. Unlike the other recipient countries, China has seen its non-residents contributing in sizeable proportions in the country's inward investment.

The data on FDI flows and outflows have been taken from the Balance of Payments Statistics of the IMF. Inflows on FDI are inclusive of re-invested earnings for all countries with the exception of Chile, Saudi Arabia and the Philippines. The outflows, for the purposes of this analysis, include the debit item of direct investment income on the current account. This comprises dividends and interest payments accruing to foreign investors, as well as earnings of branches of foreign companies. We have, in other words, included remittances arising directly out of FDI as outflows, all other payments that foreign investors are made have been excluded.

The analysis is based on data beginning with 1975 and ending with 1993, the terminal year being the most recent year for which data are available for most countries. At the outset, we would present the broad trends of net flows on FDI experienced by the sample countries. From the available data, the countries can be divided into two broad analytical groups based on the direction in which net flows on FDI have moved during the entire period taken as a whole under consideration. Nine of the 16 countries have experienced positive net flows and in the remaining seven, net flows have been negative (Tables 1 and 2).

Several interesting features of FDI behaviour can be seen from the tables. Singapore attracted the largest inward investment of nearly \$ 40 billion. However, this inflow was accompanied by considerably larger outflows which totalled more than \$ 49 billion. As a consequence, the negative net flows were close to a fifth of the total

Table 1: Inflows, Outflows and Net Flows for Countries Experiencing Positive Net Inflows on FDI (1975-1993)

(US \$ millions)

| Venez                    | Flows                |                        | Net Floure           |
|--------------------------|----------------------|------------------------|----------------------|
| Years                    | Flows                | Outflows               | Net Flows            |
| Mexico<br>1975-80        | 2652.00              | -2025.20               | 626.80               |
| 1981-85                  | 5669.06              | -1982.30               | 3686.76              |
| 1986-90                  | 13010.00             | -3550.00               | 9460.00              |
| 1991-93<br>1981-90       | 13303.00<br>18679.06 | -3489.00<br>-5532.30   | 9814.00<br>13146.76  |
| 1981-93                  | 31982.06             | -9021.30               | 22960.76             |
| 1975-93                  | 34634.06             | -11046.50              | 23587.56             |
| <i>Turkey</i><br>1975-80 | 229.30               | -205,40                | 23.90                |
| 1981-85                  | 408.83               | -297.81                | 111.02               |
| 1986-90                  | 1941.00              | -517.00                | 1424.00              |
| 1991-93<br>1981-90       | 2290.00<br>2349.83   | -566.00<br>-814.81     | 1724.00<br>1535.02   |
| 1981-93                  | 4639.83              | -1380.81               | 3259.02              |
| 1975-93                  | 4869.13              | -1586.21               | 3282.92              |
| Thailand<br>1975-80      | 283.40               | -199.80                | 83.60                |
| 1981-85                  | 1404.21              | -165.30                | 1238.91              |
| 1986-90                  | 4657.00              | -912.00                | 3745.00<br>4249.00   |
| 1991-93<br>1981-90       | 4305.00<br>6061.21   | -56.00<br>-1077.30     | 4983.91              |
| 1981-93                  | 10366.21             | -1133.30               | 9232 91              |
| 1975-93<br>Chile         | 10649.61             | -1333.10               | 9316.51              |
| 1975-80                  | 717.00               | -202 20                | 514.80               |
| 1981-85                  | 1060 16              | -748.49                | 311.67               |
| 1986-90<br>1991-93       | 3854.00<br>2063.00   | -1422.00<br>-2302.00   | 2432.00<br>-239.00   |
| 1991-93                  | 4914.16              | -2302 00               | 2743.67              |
| 1981-93                  | 6977.16              | -4472 49               | 2504.67              |
| 1975-93<br>Argentina     | 7694 16              | -4674 69               | 3019.47              |
| 1975-80                  | 1292 90              | -1000.30               | 292.60               |
| 1981-85                  | 2416.88              | -1114.89               | 1299.73              |
| 1986-90<br>1991-93       | 4566.00<br>12923.00  | -506.00<br>-1101.00    | 4060.00<br>7647.79   |
| 1981-90                  | 6982.88              | -1620.89               | 5359.73              |
| 1981-93                  | 19905.88             | - 2721.89              | 13007.52             |
| 1975-93<br><i>Korea</i>  | 21198 78             | -3722.19               | 13300 12             |
| 1975 80                  | 372 90               | 292.70                 | 80.20                |
| 1981-85                  | 583.04               | -448 11<br>-937 00     | 134.93<br>3034.00    |
| 1986-90<br>1991-93       | 3971.00<br>2495 00   | -750.00                | 1745 00              |
| 1981-90                  | 4554.04              | -1385.11               | 3168.93              |
| 1981-93<br>9175-93       | 7049.04<br>7421.94   | -2135.11<br>-2427.81   | 4913.93<br>4994.13   |
| Brazil                   | 7421.74              | -2427.01               | 4774,1               |
| 1975-80                  | 11112.20             | -2981.20               | 8131.00              |
| 1981-85<br>1986-90       | 6988.62<br>6882.00   | -4156.48<br>7877.00    | 2832.14<br>-995.00   |
| 1991-93                  | 3266.00              | -2920 00               | 346.00               |
| 1981-90                  | 13870.62             | 12033.48<br>14953.48   | 1837 14<br>2183 14   |
| 1981-93<br>1975-93       | 17136.62<br>28248.82 | -17934.68              | 10314 14             |
| Nigeria                  |                      |                        | *****                |
| 1975-80<br>1981-85       | 2488.20<br>1860.65   | -4642.30<br>-2709.60   | -2154.10<br>-848.95  |
| 1986-90                  | 3629.00              | -1559.00               | 2070.00              |
| 1991-93                  | 2954.00              | -1628.00               | 1326.00              |
| 1981-90<br>1981-93       | 5489.65<br>8443.65   | -4268.60<br>-5896.60   | 1221.05<br>2547.05   |
| 1975-93                  | 10931.85             | -10538.90              | 392.95               |
| Malaysia                 | 2100.50              | 4900 00                | 1517.00              |
| 1975-90<br>1981-85       | 3188.50<br>5419.29   | -4705.30<br>-6707.62   | ~1516.80<br>~1288.33 |
| 1986-90                  | 5631.00              | - 6823.00              | -1192.00             |
| 1991-93                  | 14187.00             | -8436.00               | 5751.00              |
| 1981-90<br>1981-93       | 11050.29<br>25237.29 | -13530.62<br>-21966.62 | -2480.33<br>3270.67  |
| 1975-93                  | 28425.79             | -26671.92              | 1753.87              |
|                          | ulana of D           |                        |                      |

Source: Balance of Payments Statistics, IMF, various years.

flows of FDI coming into Singapore between 1975 and 1994. On the other hand, Mexico, which followed Singapore in terms of the magnitude of inflows, had a significantly lower level of outflows. While its inflows were over \$ 34 billion, the outflows were a modest \$ 11 billion in the entire period. The important aspect about Mexico was that positive net flows were recorded throughout. Aregentina was the only other country attracting sizeable volumes of FDI and which like Mexico had sizeable net inflows.

Malaysia and Brazil, the two other countries receiving large volumes of inward investment, had negative net flows on FDI during at best one quinquennium. But while Malaysia had negative net flows till the beginning of the 1990s, in Brazil, the net flows turned negative in the second half of the 1980s. Saudi Arabia is among the more interesting of the countries included in the set. The total FDI stock of the country in 1993 was among the highest in the developing world,6 but quite paradoxically it did not attract any fresh inflows of equity capital during the entire period considered here. The outflows were, however, of a sizeable magnitude as a consequence of which the country's net outflows were the largest amongst the sample countries, totalling more than \$ 57.5 billion.

The trends in FDI flows across countries show that with the exception of Brazil and the Philippines the increase in FDI flows had taken place after 1980. In Mexico, Venezuela and Thailand, increases in inflows were particularly significant during the 1980s, while Malaysia experienced on steep increase in FDI in the 1990s. However, FDI was not found to be rising by any significant measures in some of the more dynamic countries, as, for example, Singapore and Thailand in the more recent years. Malaysia was the only high growth country where there was a marked step up in inward investment. The country experienced a trebling of FDI flows in the first half of the 1990s as compared to the second half of the 1980s, an experience that was shared by Argentina.

The impact of the changes in the pattern of FDI on the growth possibilities of the host countries would be discussed below. The savings-investment behaviour in these countries would be juxtaposed against the pattern of FDI flows. But before this exercise is carried out in a later section, we would present the trends in savings and investment rates in the sample countries in the two decades for which we observed the FDI flows.

#### III Trends in Savings and Investment Rates

The savings-investment behaviour across countries would be discussed by considering four sub-periods covering the period 1975 to 1993; the choice of the latest terminal year was guided by the availability of data for most countries. The trends in savings-investment rates seen in the sample countries allow us to classify the countries into two

distinct groups. The first includes countries in the dynamic Asian region which show consistent improvement in both savings and investment rates. More importantly, these countries increased their rates of savings and investments from the moderately high levels they were recording during the second half of the 1970s. The only country in this region not to follow this pattern has been the Philippines, where the savings rate, in particular, declined quite sharply in the later phase. In contrast, most Latin American countries, with the exception of Chile, have experienced declining savings-investment rates. Of the remaining countries, while Nigeria and Saudi Arabia followed the Latin American pattern, Turkey was in the ranks of the dynamic Asian countries. These patterns notwithstanding, there are appreciable variations in savings-investment rates across countries in both the groups mentioned above. Among the east Asian countries. Singapore had consistently high rates of both savings and investment. Korea had investment rates reaching an average of 30 per cent during the second half of the 1970s, and after a relative stagnation in the 1980s, the rates recorded appreciable increases in the 1990s. The country's savings rate, on the other hand, increased quite sharply during the second half of the 1980s after which the rates declined somewhat. In case of Malaysia and Indonesia, savings rates were high throughout the period. But while Malaysia experienced sharply rising investment rates during the 1980s, in Indonesia, investment rates were bordering on stagnation. The most noteworthy case among the Asian countries is that of Thailand where both savings and investment rates increased phenomenally since the mid-1980s. The country's investment rate increased from an average of around 27 per cent during second half of the 1970s to nearly 41 per cent during 1991-93, and savings rate from around 22 per cent to over 35 per cent during the same period. Thailand's experience was almost replicated by Chile with its savings rate increasing from below 18 per cent in the late 1970s to over 29 per cent in the 1990s

The declining rates of savings and investment that most Latin American countries included here experienced led to a worsening of their already low rates prevailing in the 1970s. Exceptions to the low rates syndrome were Argentina and Venezuela where savings-investment rates in the late 1970s were comparable with those that the east Asian countries have registered in the more recent years. But by the 1990s, the countries saw a nearly halving of rates compared with the initial period. Furkey and Nigeria present cases of low savings and investment rates, though Turkey saw only marginal improvements in the rates during the entire period. Venezuela and Saudi Arabia are typical oil surplus economies with high rates of savings during the 1970s and a sharp decline thereafter

The significance of FDI in the overall investments undertaken by the countries in

the period under consideration is given in Table 3.7 Singapore is the singular case where FDI has made size able contributions to domestic investment, reaching a high of more than 35 per cent during the second half of the 1980s. In Malaysia, FDI was contributing to just over 10 per cent of investment on an average till the end of the 1980s, but in the 1990s, its contribution increased to about a fourth of the total investment. For Chile, Argentina and Mexico, there has been a definite improvement in the flow-investment ratio after the mid-1980s, and for Venezuela during the 1990s.

Table 2 Incrows Outlows and Net Frows for Countries Experiencing Nagative Net Incrows on FDI (1975-1993)

(US \$ nultions)

| Years                                 | Flows               | Outflows  | Net Flows  |
|---------------------------------------|---------------------|-----------|------------|
| · · · · · · · · · · · · · · · · · · · |                     |           |            |
| Singapore<br>1975-80                  | 4545 90             | 4064 50   | 481.40     |
|                                       |                     |           |            |
| 1981-85                               | 6752 53             | 7106 42   | 353 89     |
| 1986 90                               | 16663 00            | 17556 00  | 893 (0)    |
| 1991-93                               | 12255 00            | 20500 00  | 8245 00    |
| 1981-90                               | 23415.53            | -24662 42 | 1246 89    |
| 1981-93                               | 35670.53            | -45162.42 | 9491 89    |
| 1975 93                               | 40216 43            | 49226 92  | 90104)     |
| Indonesia                             |                     |           |            |
| 1975-80                               | 0.00                | 11787 00  | 11787.00   |
| 1981-85                               | 321 88              | 16480 91  | 16157 03   |
| 1986-90                               | 1361 00             | 8144 00   | 6783 00    |
| 1001-03                               | 2223 00             | 7518 00   | -4830 00   |
| 1981-90                               | 1684-88             | 2 1624 91 | 22940 03   |
| 1981-93                               | 3907.88             | 32142.91  | 27770 03   |
| 1975 93                               | 3907.88             | 43929 91  | - 39557 03 |
| Saudi Aral                            | ra                  |           |            |
| 1975-80                               | 0.00                | 23371.60  | 23371.60   |
| 1981-85                               | 0.00                | 23724 88  | 23724 88   |
| 1986-90                               | () <del>()</del> () | 4288 00   | -4288 00   |
| 1991-93                               | 0.00                | 6176 00   | 6176 00    |
| 1981-90                               | 0.00                | 2801.: 88 | 28012.88   |
| 1981 93                               | 0.00                | 34188 88  | 34188 88   |
| 1975 93                               | 0.00                | 57560 48  | 57560 48   |
| Philippine                            |                     |           |            |
| 1975 80                               | 200.50              | 565 00    | 265.50     |
| 1981.85                               | 156-77              | 64193     | 187 16     |
| 1986 90                               | 113 00              | 985 00    | 842 00     |
| 1991 93                               | 119 00              | 958 00    | 839 (10    |
| 1991 90                               | 299 77              | 1628 93   | 1329 16    |
| 1981 93                               | 418 77              | 2586 93   | 2168.16    |
| 1975 93                               | 718 27              | 3151 93   | 2433.66    |
| Columbia                              | //// _/             | 11 11 71  | 24 11100   |
| 1975-80                               | 410.20              | 414 10    | 3 90       |
| 1981-85                               | 267.61              | 154441    | 1275 58    |
|                                       | 219 00              | 3659 (0)  | 3440 00    |
| 1986-90                               | 163 00              | 1764 00   | 1601.00    |
| 1991 93                               |                     |           |            |
| 1981-90                               | 486 61              | 5202 41   | -4715 58   |
| 1981 93                               | 649.61              | 6966 41   | -6316 58   |
| 1975 93                               | 1059 81             | 7380 51   | 6320 48    |
| Peru                                  |                     | 2         | 2 A C C    |
| 1975 80                               | 102.70              | 7 48 20   | 645 50     |
| 1981-85                               | 17 ( 79             | 461.26    | 287 47     |
| 1986-90                               | 134 00              | 20 00     | 111 00     |
| 1991-93                               | 39 00               | 114 00    |            |
| 1981-90                               | 301.79              | 481 26    | -176 47    |
| 19a1.93                               | 343 79              | 595 26    | 251 47     |
| 9175 93                               | 446 49              | 1343-46   | 896 97     |
| Venezuela                             |                     |           |            |
| 1975-80                               | - 301-60            | 2128 80   |            |
| 1981-85                               | 686 47              | 1251.71   | -571 24    |
| 1986-90                               | 790 00              | 879 00    | 89 ()()    |
| 1991-93                               | 2917 00             | - 1309 00 | 1608 00    |
| 1981-90                               | 1470 47             | 2130.71   | 660 24     |
| 1981-93                               | 4387 47             | 3439.71   | 947 76     |
| 1975 93                               | 4085 87             | 5568.51   | 1482 64    |
|                                       |                     |           |            |
| Course C                              | anne as an Tal      | later i   |            |

Source Same as in Table 1

The low shares of FDI in investments across countries in general indicate quite clearly that for the sample countries where total volumes of FDI inflows have been considerably high as compared to most developing countries, foreign investment has made only a nominal contribution to the investible resources. The real significance of FDI can really be seen by examining its influence on domestic savings-investment rates in the host countries, as is elaborated in the following section.

#### IV FDI and Savings-Investment Behaviour of Host Countries

The relationship between FDI flows and savings-investment behaviour of host countries is analysed for the sample countries with the help of a simple statistical exercise. The causality between FDI and investment behaviour is worked out by taking the figures for gross inflows of FDI and the gross fixed capital formation of the countries in question. The FDI-domestic savings relationship has been analysed by taking the net inflows instead.

The analysis here has been done using data from 1980 to 1993. The selection of the period is guided by our earlier observation that FDI flows in a majority of the countries included here started to increase appreciably only in the 1980s. The exercise would be carried out in two stages. In the first instance, correlations have been obtained between the two sets of variables for individual countries. A further exercise of obtaining the OLS estimates have been carried out for countries where the correlation coefficients are found to be significant.

In order to understand the relationship between FDI and domestic savings behaviour in the sample countries we have taken into consideration the net flows on FDI and savings rate (defined as domestic savings to GNP for purposes of comparability with the rate of FDI flows which also has GNP as the denominator). The results presented in Table 4 show that for most countries experiencing positive net flows on FDI, there are weak associations between FDI and domestic savings behaviour. Three countries do not follow this trend. Thailand and Turkey have a strong positive relationship, in case of Korea, the relationship is negative.

Several countries show that net flows on FDI and domestic savings rate have a negative causality. For instance, in Singapore negative net flows have been accompanied by upward movement in the savings rate. Similar has been the case of Peru and Columbia, the latter showing a particularly strong negative relationship. On the other hand, Mexico, Argentina and Nigeria have positive net flows in the entire period taken together, but the savings rates in these countries have in fact declined. Thus, the results obtained for the sample countries do not support the view that FDI is generally accompanied by improvements in the savings rates of host countries.

But while the above inference can be drawn quite appropriately for countries which have experienced only moderate levels of savings, a further explanation would be necessary, in our view, to establish its validity in respect of the high savers. The four east Asian countries, viz, Singapore, Korea, Malaysia and Thailand have had high levels of domestic savings during the entire period of our analysis here and it is therefore important to consider whether or not the savings-FDI link was established in an earlier phase. Table 3 shows that in all the abovementioned countries, barring Thailand, the historical break with the past trends of savings took place prior to the phase in which FDI flows had registered a similar break. All these countries, we had stated above, were recording high rates of savings even during the 1970s. It can therefore be said that domestic resource mobilisation played a key role in influencing the increased dynamism

these countries have witnessed particularly in the 1980s. We would examine this aspect further in the following discussion which deals with the likely influence of FDI on investment behaviour in host countries.

The observed relationship between FDI and investment varies significantly across countries (Table 5). The correlation coefficients are found to be positive and significance for six of the 16 countries in the sample. In case of Chile, the coefficient is positive but is insignificant and for Brazil. the coefficient is close to zero. Of these countries showing positive association between FDI inflows and domestic investment, Peru and the Philippines have experienced downturn in both variables, while for Chile the variables have been stagnating as between 1986 and 1993, 1 c, for a better part of the period considered here. Most of the remaining countries show low coefficients with a negative sign with

TABLE 3: TRENDS IN SAVINGS AND INVESTMENT RATES, 1975 to 1993

(Per cent)

| Year    |       | Singa   | porc   |       | Kore  | ea    |       | Chile | :     |       | Peru     |      |
|---------|-------|---------|--------|-------|-------|-------|-------|-------|-------|-------|----------|------|
|         | T     | II      | III    | 1     | 11    | III   | ī     | II    | III   | I     | II       | III  |
| 1975-79 | 39.97 | 33.26   | 23.57  | 29.71 | 25.69 | 0.76  | 18.84 | 17.70 | 3.27  | 22.37 | 18.94    | 0 70 |
| 1980-85 | 44.95 | 42.34   | 19 74  | 30 63 | 28 60 | 0.41  | 17 87 | 16.53 | 5.30  | 25.72 | 29 39    | 072  |
| 1986-90 | 35.55 | 41.80   | 35 63  | 31.65 | 37.28 | 1.45  | 22.43 | 29.68 | 14.79 | 20.58 | 20 93    | 0.36 |
| 1991-93 | 38.54 | 46.80   | 21.87  | 37.10 | 35 83 | 0.73  | 24.10 | 29.02 | 7.96  | 14.54 | 15.54    | 0.16 |
|         |       | Indon   | esia   |       | Thail | and   |       | Malay | sia   | 1     | Philippi | nes  |
| 1975-79 | 24.93 | 28 77   | 0.00   | 26.73 | 22 01 | 0 65  | 27.10 | 33.84 | 12.79 | 31.73 | 26.84    | 0.94 |
| 1980-85 | 24.62 | 32 57   | 0.54   | 28 11 | 24.24 | 2.52  | 35.49 | 33 58 | 11.17 | 26 08 | 22 29    | 0.36 |
| 1986-90 | 27.40 | 34 37   | 1.14   | 32 28 | 31.21 | 4 24  | 28 64 | 36.89 | 10.59 | 19.20 | 19 45    | 0.39 |
| 1991-93 | 28.30 | 32.41   | 2.00   | 40.89 | 35.41 | 3.65  | 36.46 | 36.66 | 24 47 | 21 13 | 16 18    | 0.36 |
|         |       | Bra     | zil    |       | Argen | tina  |       | Mexic | co    |       | Columi   | bia  |
| 1975-79 | 24 03 | 21.93   | 4.86   | 29.01 | 31.37 | 0.98  | 22 96 | 18.86 | 1.26  | 18 27 | 20 96    | 1 92 |
| 1980.85 | 20.89 | 22.61   | 2.98   | 32 89 | 24.66 | 2.09  | 22.59 | 28.48 | 2.61  | 17 75 | 18.65    | 0.80 |
| 1986-90 | 22.93 | 26.21   | 1.78   | 22.26 | 21 69 | 5.05  | 19.67 | 23.45 | 8 19  | 18.85 | 25 69    | 0.62 |
| 1991-93 | 19.51 | 22 07   | 1 47   | 16 77 | 16 26 | 11.02 | 21 47 | 18 16 | 6.66  | 18.63 | 21.43    | 1.18 |
|         |       | Saudi A | \rabia |       | Venez | uela  |       | Niger | ia    |       | Turke    | ·y   |
| 1975-79 | 25 53 | 56.57   | 0.00   | 37.73 | 35.93 | -0.53 | 27 31 | 26.00 | 2.77  | 22 36 | 16 24    | 0.59 |
| 1980-85 | 23.66 | 33.14   | 0.00   | 21.08 | 27.89 | 0.89  | 17.66 | 16.99 | 3 00  | 19.67 | 16.56    | 0.68 |
| 1986-90 | 18.97 | 16.15   | 0.00   | 19.69 | 24.69 | 2.10  | 15.54 | 21.07 | 16 84 | 24.94 | 23.89    | 1 88 |
| 1991-93 | 18.87 | 23 43   | 0.00   | 20.01 | 21.47 | 9.39  | 17 73 | 22.62 | 13.28 | 23.90 | 21.87    | 0,00 |
|         |       |         |        |       |       |       |       |       |       |       |          |      |

Notes: I refers to Domestic Investment-GNP ratio; II refers to Savings-GNP ratio and III refers to FDI-Domestic Investment ratio.

Source: Balance of Payments Statistics, IMF and World Tables, World Bank, various years.

TABLE 4: RELATIONSHIP BETWEEN NET FLOWS AND SAVINGS (1980-93)

| Country      | Sing of    | Correlation |        | OLS Estimate         | S              |
|--------------|------------|-------------|--------|----------------------|----------------|
| •            | Net Flows* | Coefficient | β      |                      | R <sup>2</sup> |
| Singapore    | -          | -0.51       | -0.66  | (-2 03)              | 0.26           |
| Indonesia    | _          | 0.07        |        |                      |                |
| Mexico       | +          | -().4()     |        |                      |                |
| Brazil       | +          | 0.10        |        |                      |                |
| Malaysia     | +          | 0.19        |        |                      |                |
| Argentina    | +          | -0.27       |        |                      |                |
| Saudi Arabia | _          | -0.85       | -8.13  | (-5.10)              | 0.72           |
| Thailand     | +          | 0.81        | 7.65   | (4.62)               | 0.66           |
| Columbia     | -          | -0.74       | -3.76  | ( <del>-</del> 3.68) | 0.55           |
| Chile        | +          | 0.36        |        | •                    |                |
| Peru         |            | -0.66       | -11.45 | (-3.07)              | 0.44           |
| Philippines  | <b>-</b>   | 0.80        | 19 92  | (4.67)               | 0.64           |
| Venezuela    |            | -0.08       | -      | ,                    | -              |
| Nigeria      | +          | -0.34       |        |                      |                |
| Turkey       | +          | 0.55        | 10.04  | (1.99)               | 0.31           |
| Korea        | +          | -0.89       | 23.95  | (6.93)               | 0.80           |

Note: OLS estimates are carried out only for those countries whose correlation coefficient is above 0.5. Figures in parentheses show t-ratios.

<sup>\*</sup> See Tables 1 and 2.

the exception of Argentina, which shows a strong negative relation between FDI flows and domestic investment.

The results would suggest that for most countries FDI inflows were not accompanied by any appreciable changes in their domestic rates of investment. What is striking is that this tendency can be seen prominently in countries such as Singapore, Mexico and Brazil, which have attracted very large volumes of FDI. Malaysia is the only country from among the larger host countries to FDI that shows improvement in the rates of investment with increased inflows over time.

Table 5 shows that FD1 flows and investment have a positive and significant correlation for Indonesia, Malaysia, Thailand, the Philippines, Peru and Turkey. However, for Peru and the Philippines, the observed correlations are over a declining trend in both variables. For Chile, the correlation coefficient is positive but is less significant while for Brazil, it was found to be insignificant. The other developing countries show a negative correlation between FDI flows and investment, but this is significant only for Argentina.

Certain important inferences can be drawn from the above results. The growth potential of the sample countries have not been enhanced by FDI in most cases as is indicated by the low or even negative correlation between FDI and domestic investment. This finding could be influenced by the low share of FDI in the domestic investment undertaken by most countries described in the previous section. The negative coefficients, particularly in case of countries like Singapore and Mexico, could be taken as an indication of crowding out of domestic investment at the margin. This conclusion can be made more strongly for Singapore where the share of FDI in domestic investment has been significant.

#### Conclusions

The potential benefits of FDI for the host countries were analysed by looking at the experience of the major destinations of this

TABLE 5. RELATIONSHIP BETWEEN FDI NET FLOWS AND INVESTMENT (1980-93)

| Country            | Correlation | (     | LS Estin | nates  |
|--------------------|-------------|-------|----------|--------|
| •                  | Coefficient | β     |          | R²     |
| Singapore          | -0.37       |       |          | ·····  |
| Indonesia          | 0.76        | 9.52  | (3.29)   | 0.57   |
| Mexico             | -0.07       |       |          |        |
| Brazil             | 0 01        |       |          |        |
| Malaysia           | 0.69        | 1.61  | (3.33)   | 0.53   |
| Argentina          | -0.72       | -8.36 | (-3.62)  | 0.52   |
| Thailand           | 0.78        | 7.36  | (4.15)   | 0.61   |
| Columbia           | -0.22       |       | , ,      |        |
| Chile              | 0.47        |       |          |        |
| Peru               | 0.59        | 57.37 | (2.28)   | 0.30   |
| <b>Philippines</b> | 0.55        |       | ,        |        |
| Venezuela          | -0.28       |       |          |        |
| Nigeria            | -0.09       |       |          |        |
| Turkey             | 0.59        | 6.77  | (2.20)   | 0.35   |
| Korea              | -0.01       |       | (2.20)   | 21,000 |

Note: OLS estimates are carried out only for those countries whose correlation coefficient is above 0.5. Figures in parentheses show t-ratios.

torm of private capital. I wo dimensions of the potential benefits were considered. The first was regarding its contribution to the external debt management, particularly in arresting the increase in negative net transfers that had become a feature of the debt-creating privately sourced flows. The experience of several countries included here with FDI on this count has been far from encouraging. It was found that FDI had given rise to negative net flows, in some cases of large magnitudes, during the period for which data was presented.

Secondly, the influence of FDI on domestic savings and investment was analysed with the help of a simple statistical exercise. The results obtained show that for most countries in the sample, FDI flows were not accompanied by any significant changes in the savings and investment rates in the host countries. This, in other words, implies that FDI would have a limited role in raising the growth potential of the recipient countries. The lack of significant relationship between FDI and domestic investment could be influenced by the relatively small share of the former in the investments undertaken by the sample countries. But this fact also underlines the point that the true potential of FDI in developing countries has been mostly overstated. More importantly, our findings suggest that in countries like Singapore and Mexico, both of which attracted large volumes of FDI, there may have been a crowding out of domestic investment. Thus, instead of complementing domestic investment efforts, FDI may well be acting as a substitute to the local efforts at promoting investment activity.

#### Notes

[Comments received from Sunanda Sen are gratefull acknowledged.]

- Balasubramanyam, Salisu and Sapsord (1996) found that FDI induces growth in developing economies, more strongly for export promoting economies than for import substituting ones
- 2 The model that provides the basis for this conclusion arrived at by Chenery and Strout has a three-phase structure. In Phase I, external resources help in augmenting domestic investible surplus in order to help realise the target rate of growth. The requirements of capital inflows could decline in Phase II as incremental savings rate exceed the investment rate, but the system could encounter another limit on the growth prospects arising out of trade imbalances and this could again step up the capital inflows For, the inflows to be reduced and the economy become self-sustaining, the model laid out requires that in Phase III, export growth must exceed that of imports
- 3 The functional relationship seems to be holding is: I(t) = a [Y(t) + H(t)], where, I=gross investment, Y=GNP, and H=capital inflows.
- 4 The World Investment Report 1995 identifies the top 10 countries in terms of FDI flows and stock [see UN 1996:Table 1.3, p 12]. In addition to these countries, we have included the other major destinations of FDI in the developing world.
- 5 Payments due to technology imports are among

- the major indirect effects of FDI that recipient countries have to be contend with
- 6 World Investment Report, 1995 (Table 13, p 12) indicates that the stock of FDI in Saudi Arabia was US \$ 22,463 million in 1993.
- 7 To compute the flow-investment ratio, one confronts with the problem of comparability of the data. The data for FDI is obtained from Balunce of Payments Statistics, IMF while the source of data on domestic investment is World Bank's World Tables We have used the ratio of FDI to domestic investment as a broad indicator of the relative significance of FDI across countries.

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#### **India's Capital Market Growth**

#### Trends, Explanations and Evidence

#### R Nagaraj

This study, first, documents India's capital market boom, and its proximate causes. What does it mean for the economy and private corporate sector? It is largely disintermediation: household sector substituted 'shares and debentures' for bank deposits, and corporate sector securitised its debt. There is no association netween growth rates of the capital market mobilisation and aggregate saving rate, corporate physical investment and value added. Long-term decline in the contribution of internal finance to corporate fixed investment and in profitability in 1980s are noted, despite a fall in ratio of corporate tax to gross profit. The study concludes by raising some questions.

FOR some time now, the capital market in India is much in news. There is a widespread appreciation of the private corporate sector's (corporate sector, hereafter) ability to issue a growing volume and variety of marketable securities, as this suggests an increasing role for markets in the economy's resource allocation. It also raises many questions. What does the trend imply for the economy's aggregate saving rate and its composition, and for corporate performance. Is it necessary and desirable for the economy's long-term development prospects? This study seeks to explore these and related questions.

Section I describes long-term trends in India's capital market growth. To understand them, Section II briefly reviews the recent literature. On this basis, Section III examines the implications of the observed trends for the economy and the corporate sector. Summarising the main findings, the concluding section raises some questions that seem to follow from the capital market development.

#### I Trends

After remaining dormant for nearly two decades since around 1960, resource mobilisation in the primary capital market showed an upturn from the late 1970s (Figure 1). The growth accelerated towards the end of 1980s. The market capitalisation ratio went up from about 5 per cent of GDP in 1980-81 to 63 per cent in 1992-93.2 In eight years after 1986, the average daily turnover in the secondary market grew at about 35 per cent per year. Between 1980-81 and 1992-93, the RBI index of securities prices increased almost thrice (20.7) per cent per year) as fast as the wholesale price index (7.6 per cent per year). This, in principle, reduces cost of equity capital and increases prospects for capital gains.

However, much of the growth is for debt securities. About a third is for convertible debentures. Proportion of equity (or risk) capital in market mobilisation came down from about 90 per cent in the early 1970s to about 30 per cent two decades later (Figure 2). However, in absolute terms, nominal value of fresh equity capital raised grew at 18 per cent per year. Promoters' contribution in this more than doubled, from 21 per cent in 1970-71 to 45 per cent in 1990-91. This, in principle, is a favourable change as they now have a greater stake in the companies' financial success (Table 1).5 Proportion of equity underwritten also rose steadily, reflecting the stock market's growing maturity [Samuel 1996a]. Moreover, the market witnessed growth of new financial institutions offering a variety of services and tradable instruments with varying components of debt, equity, maturities and risk.6

How does India compare with other 'emerging market economies '(EME)? Reportedly, India is the biggest among them with about 8,000 quoted companies in 1995, an increase of over 70 per cent over the last decade (*The Economist*, July 6, 1996).7 In market capitalisation, India ranked seventh in 1995 (*The Economist*, July 15, 1995).\* However, as Indian firms are small (measured by market capitalisation), they do not figure in the list of top 30 firms in EMEs (*The Economist*, August 12, 1995).

What explains the capital market growth? Proximate causes are a series of policy initiatives since around the late 1970s when, as mentioned, the stock market had a marginal role in financing industry. Initially, dilution of equity holding in foreign-controlled rupee companies - popularly called the 'FERA companies', as they attracted this 1973 act -- was perhaps a conscious effort to stimulate the primary capital market [Morris 1985]. FERA companies' success was probably significant for further development of the market.

This broadly coincided with the rise in nominal interest rates and the financial sector's growing resource constraint. With increasing reserve requirement and 'priority sector' lending targets at concessional interest rates, commercial banks reportedly could not meet the industrial sector's credit needs. In these circumstances, development finance

institutions (DFI) persuaded firms to raise part of the required funds from the capital market. <sup>12</sup> Anticipating corporate sector's resource constraint in the Sixth Plan (1981-85), government initiated many steps to encourage flow of household saving into capital market [Planning Commission 1982]. <sup>13</sup> These included hike in interest rates on debt instruments, their convertibility into equity, raising of tax exemption limits on dividend income and easing its (and interest) deduction at source. Similarly, corporate tax rates were reduced. <sup>14</sup> Thus capital market reforms since 1991 perhaps reflect a continuation of a trend initiated over a decade ago. <sup>15</sup>

What do these trends (and policies that seem to underpin them) imply for long-term development? Do they represent a 'natural' evolution of a 'repressed' financial system towards a more 'market-oriented' system with a greater need for regulation, as the Narasimham Committee noted [Government of India 1991]. Does it necessarily mean a greater allocative efficiency as resource use is increasingly market determined? Are there alternative 'models' or 'systems' of financial development to choose as our trajectory. To explore these questions, the recent analytical literature and comparative experience is briefly reviewed below.

#### II An Analytical Sketch

For much of the recent literature on financial markets, Mackinnon (1973) and Shaw (1973) form the points of departure These studies argue that state intervention in setting interest rates and quantitative measures of resources allocation - defined as financial repression -- adversely affect not only allocative efficiency but also depress the aggregate saving rate (hence investment) in less developed economies (LDCs). Therefore, they advocate liberalisation of financial markets. However, their arguments are mostly related to interventions in banking, like interest rates ceiling, statutory reserve requirements and directed lending programmes at concessional interest rates.

FIGURE 1: CAPITAL RAISED IN INDIA'S PRIMARY CAPITAL MARKET IN NOMINAL TERMS, 1960-61 to 1992-93

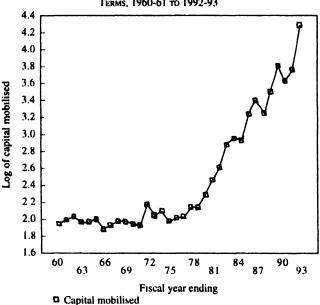
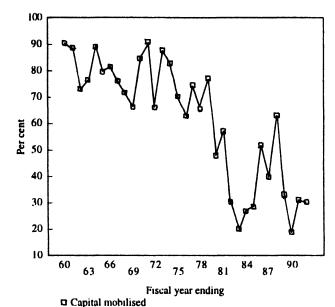


Figure 2: Share of Equity in Fotal Capital Mobilised, 1960 to 1992



Source. RBI Report of Currency and Finance, various issues

Source: RBI Report of Currency and Finance, various issues

Extending their thesis, Cho (1986) argued that financial market liberalisation may remain incomplete without an efficient market for equity capital as a means of spreading risk (and reward).<sup>16</sup>

In principle, stock market, as a part of a well organised financial system, has many advantages. It allows efficient risk sharing. Stock market induces gathering of information which gets reflected in stock prices. These prices are then signals for resource allocation. In the secondary market, stock prices are powerful signals for managerial incentives and corporate governance.

Attributing part of the debt crisis of the 1980s in LDCs to inadequate development of their financial markets, the World Development Report (WDR), 1989 [World Bank 1989) broadly reflects the preceding analytical position. However, recognising information failure that can be acute in financial markets, the report argues for a sound supervisory mechanism and institutions to ensure their efficient functioning. On these considerations, the World Bank (and its affiliate, International Finance Corporation) makes policy-based lending and offers technical assistance for capital market development. Stock market growth in many LDCs in recent years perhaps reflects these policies and financial incentives. In India too, of late, much of the policy discussion seems to follow this dominant thought.

Till some time ago, shortage of long-term capital was believed to be a major constraint on industrialisation, since banks supply only short-term loans. As capital markets were practically non-existent (or reportedly

inefficient) in most LDCs, state promoted DFIs (often supported by World Bank's advice and lines of credit) were expected to make up for the absence of an efficient capital market. Keynes' precepts about inefficiency (and fickleness) of the stock market and banks' limitation in meeting long-term financial needs of industrialisation perhaps underpinned much of the earlier policy.<sup>17</sup> Gerschenkron's (1962) historical account offered empirical support for it.<sup>18</sup>

Many believe one of the reasons for the post-war success of Japanese and German growth and productivity is the difference in their institutional set up for financing industry [Zysman 1983, Dore 1985, Dimsdale and Prevezer 1994]. In these economies, large firms and banks have close financial (and managerial) links, while stock markets are relatively small and illiquid. Hence, firms reportedly take a long-term view of corporate success. In contrast, firms in the US and UK have arms length relations with banks. Firms are apparently more concerned about shortterm prospects as their market valuation depends on quarterly/half-yearly financial performance.19 A growing opinion seems to find the US system of stock market - though efficient and liquid - unsatisfactory for corporate governance. [Bhide 1994].

Another reason for questioning capital markets' role in financing development is the recent empirical research that revived the 'financing hierarchy' hypothesis in corporate finance literature [Koch 1943, Donaldson 1961]. Contrary to the widely held belief, Mayer found, using company balance sheet data, that internal resources finance bulk of corporate (physical) investment in major OECD countries and stock market's role

(net of redemption) is very limited. To quote him:

The first is that retentions are the dominant source of finance in all countries...where external finance is raised it generally comes from banks rather than from securities

Table 1. Proportion of Promoters' Subscribtion to Equity Capital Raised, 1970-71 to 1990-91\*

| Year    | Per Cent |
|---------|----------|
| 1970-71 | 20 7     |
| 1975-76 | 9 ()     |
| 1980-81 | 22.5     |
| 1986-87 | 24 0     |
| 1987-88 | 38.3     |
| 1988-89 | 28.5     |
| 1989-90 | 56 9     |
| 1990-91 | 45.0     |

Promoters' include collaborators and employees.

Source: RBI Report on Currency and Finance, 1991-92.

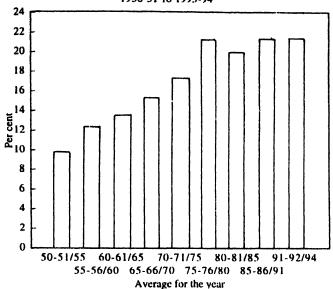
Table 2: Changing Composition of Net Financial Saving, 1960-61 to 1993-94

| Year          | Bank<br>Deposits | Shares and Debentures | Govern-<br>ment |
|---------------|------------------|-----------------------|-----------------|
| 1960-61/64-65 | 23.4             | 14.3                  | 57 1            |
| 1965-66/69-70 | 29.9             | 11.2                  | 55.0            |
| 1970-71/74-75 | 42.8             | 3.8                   | 52.5            |
| 1975-76/79-80 | 44.9             | 3.3                   | 51.2            |
| 1980-81/84-85 | 38.8             | 60                    | 54.1            |
| 1985-86/90-91 | 26.9             | 11.8                  | 59.1            |
| 1991-92/93-94 | 29.6             | 22.6                  | 44.3            |

Notes: Government includes net claims on government, life insurance fund and provident and pension funds

Source: National Accounts Statistics, various issues.

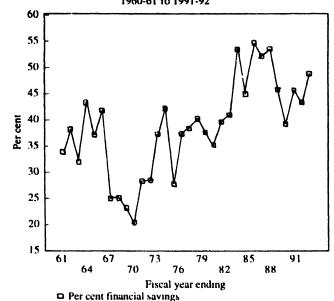
FIGURE 3. URUSS DUMESTIC SAVING AS PER CENT OF GUPMP, 1950-51 TO 1993-94



Source: National Accounts, Statistics, various issues.

☐ GDS as per cent GDPmp

FIGURE 4: SHARE OF FINANCIAL SAVING IN GROSS DOMESTIC SAVING, 1960-61 to 1991-92



Source: National Accounts, Statistics, various issues

market...stock markets contribute very little to new sources of finance for companies: new equity issues account for well under 10 per cent of the total sources of finance raised by companies in all major OECD countries... bond markets are a relatively minor source of finance for industry in aggregate in all countries other than the US and Canada. [Mayer 1992: 465]<sup>20</sup>

Reiterating the same stylised fact, Stiglitz highlights problems of information failure that are severe in financial markets and notes the need for state intervention [Stiglitz 1991, 1993]. He says, "... we must bear in mind the quite limited role that they [market for equity | play in raising capital in developed countries. Hopes of raising substantial amounts of capital in this form within LDCs appear to me to be unreasonable." In a footnote, he further adds, "Today, investors in LDCs bring to bear the full experience of how equities have been abused, even in societies with fairly well functioning legal systems. This should make them wary about what would happen in LDCs" [Stiglitz 1991:11].

Thus, we seem to have two broadly competing perspectives. One, the financial liberalisation thesis that emphasises centrality of stock market in resource allocation and the secondary market's disciplining role (with independent supervision) on managerial behaviour. Two, information economics theorists who, on theory and history, argue for its limited role.

In development economics, stock market did not receive adequate attention as it is a recent phenomenon in LDCs. To our knowledge, Singh and Hamid (1992) and Singh (1995), analysing corporate financing pattern of top 50 (100) private corporate firms in nine (ten) EMEs in 1980s, are significant efforts.<sup>24</sup> Contrary to the OECD experience they find, on average, equity capital finances about 40 percent of corporate investment growth in these economies.<sup>22</sup> However, noting the limitations of sample size and methodology, Cobham and Subramaniam (1995) seriously quality Singh's finding. Following Mayer's methodology, they show a much limited role for equity in financing corporate growth in India. To quote them:

...India is broadly comparable to. France and Italy which have relatively small stock market (with no market for corporate control), large sectors of medium and small

sized companies and a banking system which lends substantial amounts to companies but does not have very close ties with firms and cannot exert the same influence and control over them typical of Japanese banks [Cobham and Subramanian 1995; 31]

Mindful of the OECD experience and analytical limitations of the financial liberalisation thesis, Singh (1992) suggested that the real test for capital market in developing economies is its effect on saving, investment and growth. To quote him.

the important question is whether the development of the stock markets in these economies has led to an increase in aggregate savings or whether it simply represents the substitution of one form of saving (say bank

Table 3, Sharf of Retention in Financing Corporate Physical Investment, 1956-57 to 1991-92

| Year          | Datta Roy Cha                    | RBI                            | NAS                     |                            |
|---------------|----------------------------------|--------------------------------|-------------------------|----------------------------|
|               | Gross Retention <sup>1</sup> (1) | Net Retention <sup>2</sup> (2) | Series <sup>4</sup> (3) | Series <sup>4</sup><br>(4) |
| 1956-57/59-60 | 64.4                             | 34 2                           |                         | 34 5                       |
| 1960-61/64-65 | 67.1                             | 54.3                           | 60.1                    | 50.5                       |
| 1965-66/69-70 | 126 5                            | 55.6                           | 619                     | 94.8                       |
| 1970-71/74-75 | 95.2                             | 92.5                           | 64 3                    | 119 0                      |
| 1975-76/79-80 | 86 7                             | 75.0                           | 62.4                    | 89.7                       |
| 1980-81/84-85 | 58.5                             | 37 9                           | 49 6                    | 16.3                       |
| 1985-86/86-87 | 39 4                             | 5 ()                           |                         | 30 L                       |
| 1985-86/89-90 |                                  |                                | 49.5                    | 42 3                       |
| 1990-91/91-92 |                                  |                                | 50.1                    |                            |

Notes: Gross saving (retained earnings plus depreciation) as per cent of gross fixed capital formation at current prices

2 Net saving (retained earnings) as per cent of net fixed capital formation at current prices.

3 Gross saving as per cent of gross capital formation, for medium and large non-financial public limited companies.

4 This includes financial companies and co-operative banks and societies. But since non financial companies form over 90 per cent of the total, these figures are broadly comparable with the rest of the table.

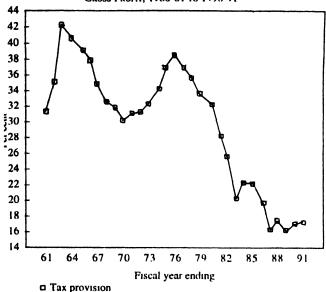
Source: Datta Roy Chaudhury (1992); RBI Bulletin, various issues



Adapting and developing products to meet specific foreign needs. Studying buying behaviour. Opening up non-traditional markets. In fact creating a dynamic environment for Indian exporters to grow and pursue new opportunities. EXIM is playing a pivotal tole in all this and more, with export contracts financed exceeding Rs. 60 billion. Helping our exporters nicet standards of excellence the world demands. In the take of international competition.

#### **EXPORT- IMPORT BANK OF INDIA**

FIGURE 5: TAX PROVISION AS PERCENTAGE OF CORPORATE SECTOR'S GROSS PROFIT, 1960-61 to 1990-91

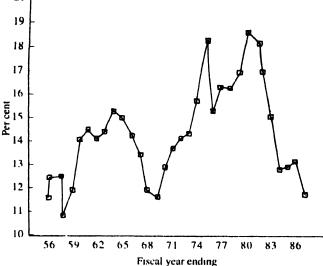


ource: RBI Bulletin, various issues.

20 19 18

FIGURE 6 CORPORATE PROFITABILITY, GROSS PROFIT AS PERCENTAGE OF

CAPITAL EMPLOYED, 1955-56 to 1986-87



Corporate profitability Source Dutta Roy Chaudhari (1992)

savings or government bonds) for another (purchase of corporate shares in stockmarket)...it could be argued that the stock market is still useful insofar as it leads to a more efficient allocation of these savings or to better corporate performance as a result of stock market exposure (pp 38-39, emphasis as in the original).

The preceding brief review helps us ask elevant questions about the recent Indian experience. What does capital market growth nean for domestic saving rate, corporate nvestment rate and output growth? What proportion of physical investment is financed by internal resources? Has it changed since he capital market boom? Does capital market nobilisation represent additional resources or investment or a substitution of external inance for internal resources? Has the composition of external finance changed in ecent years? Is capital market boom issociated with improved corporate perormance? The following section examines hese questions empirically.

#### Ш **Evidence**

#### India's Corporate Sector: A Brief Account

In this study, the corporate sector is lefined as non-financial, non-government oint stock companies. As this sector accessed bulk of the capital market resources, it will be useful to begin by Jescribing the broad dimensions of this sector. In 1994, it consisted of about 3.4 akh registered companies [Department of Company Affairs 1995]. Slightly less than half of them are engaged in manufacturing and about a quarter in 'finance, insurance, real estate and business services'. However, bulk of corporate value added originates in registered manufacturing. Only about 12 per cent of the corporate sector are public limited companies, yet they account for about 86 per cent of the total paid up capital. Among public limited companies, the top 670 companies accounted for 43 per cent of net value added in the corporate sector in 1986-87.11 Only about 2 per cent of public limited companies accessed capital market in 1993-94.

Corporate sector constituted 11 per cent of current GDPfc in 1986-87 (about 9 per cent in 1960-61), and about 27 per cent of non-agriculture, private sector GDPfc.24 Within the corporate sector, public limited companies' share in value added declined by 10 per cent (from 80 per cent), over two and a halt decades from 1960-61. This seem to broadly correspond to faster growth in the number of private limited companies. In other words, private limited companies, representing mostly small and closely held firms, increased their share in corporate sector value added 25 These statistics show the relative size of India's corporate sector and the (skewed) distribution of firms in it

Table 4. Changing Composition of Corporate Sector's External Finance, 1961-62 to 1990-91

| Years         | As Per Cen         | t of Total Exten | nal Finance     | As Per Cent of Gross Capital Formation |           |                 |  |
|---------------|--------------------|------------------|-----------------|----------------------------------------|-----------|-----------------|--|
|               | Paid-Up<br>Capital | Borrowing        | Trade<br>Credit | Paid-Up<br>Capital                     | Borrowing | Trade<br>Credit |  |
| 1961-62/64-65 | 17.3               | 52.6             | 30.0            | 106                                    | 33.2      | 189             |  |
| 1965-66/69-70 | 109                | 56 4             | 32.5            | 7.5                                    | 38.7      | 22 1            |  |
| 1970-71/74-75 | 57                 | 40 9             | 54.5            | 27                                     | 23.6      | 31.9            |  |
| 1975-76/79-80 | 4 4                | 46.6             | 48.7            | 1.2                                    | 45 ()     | 46 4            |  |
| 1980 81/84-85 | 4 ()               | 55.2             | 40.2            | 3.6                                    | 50.2      | 36-3            |  |
| 1985-86/89-90 | 113                | 55.7             | 33.5            | 10.4                                   | 57 8      | 39 3            |  |
| 1990-91/91-92 | 118                | 54.5             | 33.6            | 115                                    | 55 1      | 34 ()           |  |

Paid-up capital includes share premium

Source RBI Bulletin various issues

Table 5: Changing Profile of Corporate Borrowing, 1961-62 to 1990-91

| Year          | Share in Total Bortowing |            |                |        |  |  |
|---------------|--------------------------|------------|----------------|--------|--|--|
|               | Banks                    | Debentures | Fixed Deposits | Others |  |  |
| 1961-62/64-65 | 63.3                     |            | -              | 36.7   |  |  |
| 1965-66/69-70 | 62.0                     |            |                | 38 0   |  |  |
| 1970-71/74-75 | 72 9                     |            |                | 27 1   |  |  |
| 1975-76/79-80 | 55.6                     |            |                | 44 4   |  |  |
| 1980-81/84-85 | 30 0                     | 22 0       | 13.3           | 34 7   |  |  |
| 1985-86/89-90 | 38 3                     | 28.0       | 6.8            | 26 9   |  |  |
| 1990-91/91-92 | 26 6                     | 23.7       | 27             | 47 0   |  |  |

Source RBI Bulletin, various issues

#### Trends in Aggregate Saving and Its Composition

As is widely known, India's gross domestic saving rate (GDS) after peaking at 23 per cent of GDP at market prices (GDPmp) in 1978-79, fluctuated around 21 per cent for about a decade, till it regained the earlier level in 1990-91. Figure 3 shows five-yearly average in GDS since 1950-51.26 The share of financial saving in GDS rose steadily from 20 per cent in 1970-71 to about 55 per cent in 1984-85. However, it declined to about 40 per cent in the second half of 1980s, though it has improved somewhat subsequently (Figure 4). Therefore, no association exists between capital market growth and aggregate saving rate (or its share in financial assets).27

However, in the 1980s financial saving's composition shifted away from bank deposits to 'shares and debentures', with little change in the share of resources accruing to government through contractual saving schemes, like provident fund (Table 2). Between 1980-81 and 1992-93, the proportion of 'shares and debentures' in financial saving increased four times, from 5 per cent to 21 per cent. Therefore, the growth of (primary) capital market mobilisation represents a substitution of tradable securities for (fixed interest rate) bank deposits. Higher than bank interest rate on debentures, with opportunities for capital gains (in case of convertible debentures) and tax saving (in case of tax-free public sector bonds) are perhaps responsible for the shift in the portfolio.28

#### CHANGING PATTLEN OF CORPORATE FINANCE

This subsection uses three sets of time series data: (i) Datta Roy Chaudhury (1992) for 1955-56 to 1986-87, (ii) RBI finances of medium and large non-financial public limited companies, 1960-61 to 1991-92 and (iii) flow of funds (FOF) of private corporate business sector, for 1951-52 to 1991-92. We use balance sheet data as welf as FOF table covering overlapping time periods to ensure robustness of our findings. Our effort seems an improvement over Singh (1995)

as well as Cobham and Subramaniam (1995) since we use data for the entire private corporate sector, and for three to four decades.

A significant long-term trend is a decline in share of internal finance in corporate physical investment. According to the Datta Roy Chaudhury series, gross internal finance as a proportion of (nominal) gross fixed capital formation at (GFCF) declined from a high of 126.5 per cent to 39 per cent between 1966-70 and 1985-87 (Table 3, column 1). In the RBI series (column 3), ratio of gross internal finance and (nominal) gross capital formation (GCF) also show a similar trend, though the extent of decline is less. The trend is broadly similar on a 'net' basis as well.30 In the Datta Roy Chaudhury series, ratio of net retention (retained earning) and (nominal) net fixed capital formation peaked during 1971-75 and reached a low of 5 per cent during 1986-87 (column 2). Using National Accounts Statistics (NAS) also, the ratio shows a similar trend, though it improved by early 1990s (column 4). FOF data for four decades since 1951-52 confirms these changes.31 This seems significant, as it is at variance with the trends in the developed economies. As mentioned earlier. Mayer showed that in all major OECD countries internal finance forms a high and stable proportion of capital formation.

In India, the share of internal finance fell, despite a secular decline in corporate tax provision as a proportion of gross profit, from about 40 per cent in mid-1970s to about 15 per cent by the end of 1980s (Figure 5). This perhaps questions the widely held view that tax reduction increases corporate sector's internal resource generation.

What happened to the composition of external finance with capital market growth? The RBI series show that the share of fresh paid-up capital (including premiums) in total external finance increased from 4.4 per cent during the second half of 1970s to 11.3 per cent a decade later (Table 4). This level of equity financing is comparable to that during 1960s. <sup>12</sup> A similar change in external finance's composition is evident as a proportion of corporate gross capital formation also.

However, the share of borrowing ha remained stable at over one-half of externs finance in 1980s. Therefore, increase i equity finance has compensated for th decline in the share of trade credit. However composition of 'borrowing' has changed shares of banks and fixed deposits hav come down significantly, with a corresponding increase in the proportion of debenture (Table 5).

FOF data since 1951-52 are also consister with these observations, suggesting that muci of the growth of capital market represent substitution of securitised debt for ban credit, trade credit and fixed deposits (wit a limited increase in equity financing (Table 6).

In principle, greater reliance on externa finance subjects firms to the constant scrutin of capital market. If increase in share c external finance boosts corporate investmer rate, it may be desirable since, as Singh an Hamid noted, many rapidly industrialisin economies like South Korea display such pattern. As Table 7 shows, in India, corporat GFCF as a proportions of (i) GDPmp an (ii) aggregate GFCF increased in the secon half of 1980s.

However, is this association statisticall significant? Over three decades since 1961-62 (nominal) annual growth rates of capita raised and corporate GFCF have a statisticall significant positive correlation (Table 8 However, the correlation turns statisticall insignificant for the period since 1980-81

Table 7: Gross Fixed Capital Formation, 1955-56 to 1993-94

| Year          | Corporate GFCF as Per Cent of |            |  |  |  |
|---------------|-------------------------------|------------|--|--|--|
|               | GDPmp                         | Total GFCF |  |  |  |
| 1955-56/59-60 | 1.6                           | 12.3       |  |  |  |
| 1960-61/64-65 | 2.5                           | 17.6       |  |  |  |
| 1965-66/69-70 | 1.4                           | 9.5        |  |  |  |
| 1970-71/74-75 | 1.6                           | 10.6       |  |  |  |
| 1975-76/79-80 | 1.6                           | 8.8        |  |  |  |
| 1980-81/84-85 | 3.4                           | 17.5       |  |  |  |
| 1985-86/89-90 | 3.5                           | 16.3       |  |  |  |
| 1990-91/93-94 | 5.7                           | 26.0       |  |  |  |

Note: All values at current prices.
Source: National Accounts Statistics, various

TABLE 6: FINANCING OF CORPORATE BUSINESS SLCTOR, 1951-52 to 1991-92

| Year        |         | Deficit Financed by Sectors |            |              |                      |        | Deficit Financed by Instruments |            |       |                 |      |
|-------------|---------|-----------------------------|------------|--------------|----------------------|--------|---------------------------------|------------|-------|-----------------|------|
|             | Banking | Other Fin<br>Institution    | Government | HH<br>Sector | Rest of<br>the World | Others | Currency                        | Securities | Loans | Trade<br>Credit | Othe |
| 51-52/55-56 | 15 1    | 96                          | 7.0        | 66 1         | 19                   |        | -11.5                           | 47.8       | 57.5  | 5.8             | _    |
| 56-57/60-61 | 38.6    | 8.7                         | 10.1       | 29.9         | 6.5                  | 62     | -3.4                            | 31.2       | 81.6  | -7.5            | -1.8 |
| 61-62/65-66 | 50.9    | 22 2                        | 7.2        | 15.8         | 3.9                  | -      | -3.8                            | 28.6       | 80.8  | 5.6             | -    |
| 66-67/70-71 | 54.9    | 197                         | 69         | 15.3         | 27                   | 0.5    | -5.1                            | 197        | 85.6  | -2.3            | 2.4  |
| 71-72/75-76 | 35.5    | 14.4                        | 6.8        | 35.2         | 3.0                  | 5.1    | 10.7                            | 9.7        | 45.4  | 16.6            | 17.6 |
| 76-77/80-81 | 20.6    | 18.9                        | 5.7        | 35.5         | 0.6                  | 18.6   | 4.7                             | 14.1       | 43.6  | 10.6            | 26.9 |
| 81-82/85-86 | 29.6    | 24.1                        | 0.8        | 24.6         | 0.7                  | 20.2   | -2.8                            | 18.6       | 47.5  | 4.0             | 32.7 |
| 86-87/89-90 | 37 4    | 48.7                        | -02        | 8.7          | 1.1                  | 4.3    | -1.4                            | 30.7       | 43.5  | 1.0             | 26.2 |
| 90-91/91-92 | 107     | 77.9                        | -0.7       | 8.6          | 7.4                  | -3.8   | -17.4                           | 29 8       | 54.4  | 5.2             | 38.0 |

Source RBI Bulletin, various issues.

when the capital market boomed. The same finding holds with one year lag also. Therefore, on the face of it, the hypothesis that capital market resource mobilisation could have favourably influenced corporate physical investment growth does not seem valid.

Arguably, capital market boom may have contributed to output growth by encouraging better use of existing capital stock. This does not seem to be true either. Growth rate of real net value added in corporate manufacturing is lower than that of registered manufacturing as a whole (Table 9).<sup>33</sup> This holds for 1973-74 to 1990-91 as well as for its sub-period, 1980-81 to 1990-91, when manufacturing output growth witnessed an upturn. This means (as noted earlier), small sized, non-corporate firms have contributed more to the improvement in manufacturing growth rate in 1980s than the corporate sector.

Is the capital market boom then associated with improved corporate profitability? Datta Roy Chaudhury data suggest that profitability (gross profit as percentage of capital employed) fell sharply by 7 per cent. from around 19 per cent during 1981-87 (Figure 6). This is consistent with Singh and Hamid's estimates for top 50 companies for 1980-88. During the three decades since 1960-61, corporate sector's profit margin (profit before tax as percentage of total income) has come down by more than half (Table 10). Profit before tax as percentage of net assets and profit after tax as percentage of net worth (representing return to investor) show a gradual decline since the mid-1970s. However, these trends may have changed somewhat in the 1990s, though the evidence is limited for two years.

One could argue that real efficiency gain in securities market is likely to come from contestability of managements through threat of take-over. This question is as yet largely hypothetical. since this route to possible efficiency gains is legally restricted in India.

To answer the questions that we posed (quoting Singh) in the last section: there is little association between capital market resource mobilisation and aggregate saving rate, and corporate physical investment and output growth rates. As Singh speculated, primary stock market growth seems to represent households sector's substitution of 'shares and debentures' for bank deposits. Firms securitised their debt, instead of getting it from banks, or as trade credit and fixed deposits. These developments represent financial disintermediation that many OECD countries witnessed about a decade ago. 14 No statistically valid relationship exists between growth rates of capital market mobilisation and corporate physical investment (and output) in manufacturing. Significantly, corporate profitability declined in 1980s when capital market boomed." In other words, with capital market growth, an increasing share of loanable funds have accrued to a sector that contributed relatively less to output growth and that did not improve its investment rate either.

#### IV Conclusion

In sum, India's capital market witnessed a rapid growth since around 1980. It accelerated by the end of the decade. This is also significant in comparison with other emerging market economies. Increases in nominal interest rates since early last decade, incentives offered on traded securities, and changes in related policies (and procedures) seem responsible for this development.

The financial liberalisation thesis posits its likely positive effect on the economy's saving, investment and efficiency. A well functioning stock market also has a screening and monitoring role. However, recent advances in analytical literature highlights the possible inefficiencies in financial markets due to imperfect information that could be acute in LDCs, and underscores the need for state intervention. Further, reviving the financing hierarchy hypothesis, the new evidence on corporate financial structure in major OECD countries shows that the stock markets contributed very little to fixed investment. Secondary market's role in improving corporate governance is also open to a serious debate both on theoretical and empirical grounds. In the light of these competing perspectives, this study examined the implications of the India's capital market boom for the economy and the corporate sector.

Capital market growth has changed domestic financial saving's composition from bank deposits to 'shares and debentures', without favourably influencing domestic saving rate, or its share in financial assets. Equity capital's share in the total capital market mobilisation declined, as bulk of such mobilisation is in the form of debt securities. However, growth rate of fresh equity capital raised is substantial. Promoters' contribution to it has more than doubled. This could possibly improve financial

performance as promoters have a greater stake in their firms.

Over the last two decades, the corporate sector that secured most of these resources witnessed a long-term decline in the share of internal finance in corporate physical investment. In mid-1980s, retained earning accounted for less than 10 per cent of gross internal resources. This happened, despite a steady fall in tax burden (tax provision as proportion of gross profits). These changes are quite at variance with the developed countries' experience, where internal finance forms the largest and stable source of finance for corporate capital formation.

In 1980s, composition of external finance shifted away from trade credit to equity capital (including share premium), while the proportion of borrowing remained high and increased somewhat. However, within borrowing, debentures replaced bank credit and fixed deposits.

There is no statistically valid association

Table 9 Growth Rates of Real Net Value Added in Registered Manufacturing and Corporate Manufacturing Sectors

(Per cent per year)

| Years              | Registered | Corporate |
|--------------------|------------|-----------|
| 1973-74 to 1990-91 | 57         | 4 4       |
| 1980-81 to 1990-91 | 7 1        | 6.3       |

Note. Implicit registered manufacturing GDP deflators are used to compute real values

Source Annual Survey of Industries. Summary Results of Factory Sector, various issues

Table 10 Corporate Profitability, 1960-61 to 1991-92

| Years         | PBT as<br>Per Cent<br>of Total<br>Income | PBT as<br>Per Cent<br>of Net<br>Assets | PAT as<br>Per Cent<br>of Net<br>Worth |
|---------------|------------------------------------------|----------------------------------------|---------------------------------------|
| 1960 61/64-65 | 90                                       | 14 ()                                  | 97                                    |
| 1965-66/69-70 | 69                                       | 11.5                                   | 8.3                                   |
| 1970-71/74-75 | 7.3                                      | 15.5                                   | 11.5                                  |
| 1975-76/79-80 | 59                                       | 150                                    | 10.2                                  |
| 1980-81/84-85 | 47                                       | 112                                    | 11.1                                  |
| 1985-86/89-90 | 37                                       | 6.8                                    | 77                                    |
| 1990-91/91-92 | 5 9                                      | 10 0                                   | 12 8                                  |
|               |                                          |                                        |                                       |

Note. PBT - Profit before tax, PAT Profit after tax

Source: RBI Bulletin, various issues

TABLE 8 SIMPLE CORRELATION COEFFICIENTS BETWEEN NOMINAL ANNUAL GROWTH RATES OF CAPITAL RAISED AND GROSS FIXED CAPITAL FORMATION IN CORPORATE SECTOR

| Year          | No of<br>Observations | Correlation<br>Coefficient | No of<br>Observations | Correlation<br>Coefficient |
|---------------|-----------------------|----------------------------|-----------------------|----------------------------|
| (1)           | (2)                   | (3)                        | (4)                   | (5)                        |
| 1961-62/91-92 | 31                    | 0.361*                     | 30                    | 0.0                        |
| 1961-62/79-80 | 19                    | 0 446*                     | 18                    | (-)() 424*                 |
| 1980-81/91-92 | 12                    | 0.246                      | 11                    | 0.0                        |

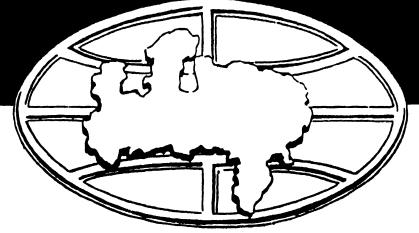
Notes. 1 Columns 4 and 5 refer to a lagged relationship between capital raised in year 't' with nominal GFCF in year (t+1)

2 \* Statistically significant at 90 per cent confidence level

Source: National Accounts Statistics, various issues

## ankirm

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between capital market resource mobilisation and growth in corporate fixed investment or growth in this sector's real value added. Thus, we have witnessed, mainly, financial disintermediation, with little effect on aggregate saving rate and corporate investment and output growth rates. This seems similar to what happened in many developed economics with financial deregulation about a decade ago. All indicators of corporate profitability show a decline in 1980s.

If our findings are valid, they appear significant. The widely held view of positive effects of stock market growth on the economy's real sector, perhaps, needs to taken with caution. Moreover, the findings seem to raise many questions. How could corporate sector access such large resources when its profitability was steadily declining? Why did the share of retained earning decline when the corporate tax burden fell? Is the fall in profitability related to decline in share of internal finance? Finally, and perhaps more fundamentally, if capital market has little relation to corporate investment rate and output growth rate, what does capital market growth mean for the economy9 Is it, then, merely a side show?36

Capital market is not just an institution for resource mobilisation, but equally important, a market for corporate control that necessarily follows. Assume that, over time, widely perceived capital market imperfections are overcome with better regulation and technology. Are we, then, prepared for contestability of corporate management through mergers and take-overs in the secondary market? Assuming such a market is organised efficiently, does it necessarily improve corporate performance? These widely debated issues in developed economies seem to have an increasing relevance for India.

The Anglo-Saxon 'model' of corporate governance reportedly leads to 'shortism' as investors have arms length relation with managers. Threat of take-over apparently leads managers to resort to short-sighted policies, at the expense of long-term goal of growth and technical progress. In contrast, German and Japanese firms, that have close links with their banks, are said to be free from such pressures to show immediate results, and hence are able to take a long-term view of the firm's prospects.

In other words, the critical question is, what sort of a market economy we intend to move towards: is it the Anglo-Saxon 'model' with the primacy of capital market emphasising 'efficiency' and liquidity with the attendant shortism of corporate managements, or the German and Japanese styles of bank centric corporate governance with limited role for stock market but primacy to long-term growth and technical progress.<sup>37</sup>

These issues perhaps cannot be ignored any longer.

#### **Notes**

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- 1 In this paper 'capital market' is used narrowly to refer to India's stock markets. Strictly, stock market refers to issuing and trading of equities. Since the bulk of resources mobilised in Indian stock markets are debt securities, we prefer, for convenience, using the term capital market.
- 2 Market capitalisation ratio, is the market value of all traded shares, as a proportion of current gross domestic product at factor cost (GDPIc) This is a widely used measure of stock market size.
- 3 Though the secondary stock market has grown substantially both in absolute and comparative terms, one has to recognise its narrow base. In 1992-93, top 50 firms account for over two thirds of trading volume in Bombay stock exchange that does over 70 per cent of trading in all stock exchanges in India [CMIE 1994, Machiraju 1995].
- 4 A convertible debenture is a debt instrument, which is (or can be) partially or fully converted into equity share(s) at predetermined time and ratio, as specified in the initial public offer.
- 5 Increased promoters' contribution could partly be an illusion, as those eligible for contributing to promoters' share may have been enlarged. One suspects that in a regime of licensing and capital controls with booming securities prices, promoters' quota could have been used to dispense favours, similar to Japan's 'Recruit scandal' some years ago.
- 6 In 1980s a number of financial services firms like merchant bankers, underwriters, mutual funds, custodial services, etc, came into existence, mostly by existing public sector banks and financial institutions. Some of them were discredited in the 1992 stock market scam. However, since 1991 private sector firms including many with foreign origin also entered these newer industries. Instruments are convertible debentures, variety of mutual funds, etc. See Machiraju (1995) for descriptive details.
- 7 This is an overestimate due to double counting We know, a significant proportion of firms is listed in more than one stock exchange in India Bombay stock exchange, oldest and busiest of all, listed 2,601 companies in 1992 [CMIE 1994] This figure, we guess, is more accurate
- 8 Demirgue-Kunt and Levine's (1995) stylised facts seem to underestimate size of India's stock market. In their set of 41 countries, India ranks 31st in market capitalisation, with 16 per cent of GDP, during 1986-93.
- 9 Documenting India's financial development up to 1977, Goldsmith (1983) said "The open capital market has been only a secondary source of funds for corporate business. Thus, the market for corporate issues seems not to have developed since independence, and, in

addition, to have lost considerably in importance" (pp 204-06)

In describing India's financial system and structure. Raj (1992) perhaps did not find capital market significant enough to mention it

- 10 Foreign Exchange Regulation Act (FERA), 1973, required all foreign-controlled ruped companies to dilute foreign equity hold to 40 per cent, though the law's implementation depended on the firms' relative bargaining power vis-a-vis the government. However, in most cases, these firms did not disinvest their holding. Instead they issued fresh equities to Indian public, thus reducing their share in the paid-up capital, without losing their controlling interest in most cases.
- Rao's (1980) conclusion aptly reflects the dominant opinion before the capital market boom, " .industrial units have relied heavily for finance on the public financial institutions and banks, and have raised relatively little capital from the market with reordering of priorities over the last decade, an increasing proportion of resources of the commercial banks are channelled to other uses such as meeting increased reserve requirements and credit to priority sectors. Industrial expansion, therefore, must rely on raising more capital from the market industrial units can be encouraged to meet their financing requirement from a wide range of investors through marketable securities that can assist in the development of capital market" (pp 153-54)
- 12 Observing that firms depend on banks and DFIs for finance, and households invest in bank deposits. Patil (1979) argued for greater participation of household sector in financing firms' equity capital. Flus led to an interesting debate, mostly by practitioners of finance, on the need to develop capital market as a source of risk capital. See also, Chitale (1980)
- 13 Lall (1983) offers a critical comment on the assumptions underlying the Committee's recommendation that seem relevant even now.
- 14 CMIE (1986) documents these changes in policies and procedures
- 15 World Development Report, 1989 highlighted success of India's capital market reforms [World Bank 1989 108]
- 16 To quote Cho, "In a credit market with imperfect information, liberalisation of the banking system would not, by itself, be sufficient to achieve full efficiency. This is due to the adverse selection effect (and also the moral hazard effect) that occurs when debt contracts are used in the presence of asymmetric information. Equity contracts however, are free from adverse selection effects and could thus overcome inefficient allocation of capital when the same degree of imperfect information on borrowers exists as in the case of debt contracts" [Cho. 1986-198]
- 17 To quote Keynes' well known remark on Wali Street, "In one of the greatest investment market in the world, namely New York, the influence of speculation is enormous. Speculators may do no harm as bubbles on a steady stream of enterprise But the position is serious whenenterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country.

- becomes a by-product of the activities of a casino, the job is likely to be ill done. The measures of success attained by Wall Street, regarded as an institution of which the proper purpose is to direct new investment into most profitable channels in terms of future yields, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism..." [Keynes 1936].
- 18 To quote Gerschenkron, "Depending on a given country's degree of economic backwardness on the eve of industrialisation, the course and character of the latter tended to vary in a number of important respects. Those variations can be readily compressed into the short hand of six propositions. The more backward a country's economy, the greater was the part played by institutional factors designed to increased supply of capital to the nascent industries." [Gerschenkron 1962].
- 19 Dore (1985) says, "The senior British manager, it is said, is bothered about the bottom line in his next half-yearly results, the Japanese manager about his market share in five years time. The Japanese manager is more concerned with long range planning, more assiduous in gathering information about the probable state of markets and the directions to be taken by technological development over the long-term" (p. 10).
- 20 Quite at variance with the WDR view, Mayer's background study for the report cautions against a benign view of stock market development. Tilting it provocatively, Myths of the West Mayer (1989) makes following 10 observations, based on his studies using corporate balance sheet data.

Retentions are the dominant source of finance in all countries (p 9)

There are some marked variations in self financing ratios across countries. In UK and US more than three quarters of investment is funded from retentions. In France, Japan and Italy, appreciably more is raised externally. Canada and Germany lie somewhere between the two groups (pp. 9-10).

In no country do companies raise substantial amount of finance from securities market (p. 10)

Banks are the dominant source of external finance in all countries

Bank finance is particularly pronounced in France Italy and Japan. It represents a surprisingly small proportion of German corporate financing.

UK investment has been consistently financed from retentions (91 per cent on average). Bank finance has contributed close to zero (3 per cent on average) on a net basis.

There is a strong inverse relation between the proportion of expenditure financed from retentions and bank credit.

Securities markets have declined in significance as source of finance for British industry. Trade credit increased in importance at the end of 1960s and early 1970s.

Small and medium sized firms are considerably more reliant on external finance than large firms. A smaller proportion of small than large company

- finance comes from securities market. Bank (and short-term) finance account for approximately two-thirds of UK companies total debt but more than five-sixth of small companies debt.
- 21 Demirgue-Kunt and Levine (1995) is the other significant study that collects and compares stock market development indicators in a cross-country perspective, from 1986 to 1993. This study's focus is on the characteristics of secondary market and relates them to financial development.
- 22 Singh is very circumspect on the implications of this findings. However, on their basis IFC seems to justify its efforts in promoting stock markets in these economies
- 23 This is estimated using CMIE (1994) and Datta Roy Chaudhury (1992).
- 24 These estimates are based on Datta Roy Chaudhury (1992) and National Accounts Statistic.
- These numbers should be interpreted cautiously. Private limited companies should not be simplistically viewed as 'independent' and/or 'small' firms doing better than large ones. As Hazari had revealed long ago, a sizeable proportion of private limited companies are closely related to large firms, in terms of ownership and management otien called 'satellite' companies in popular parlance Moreover, many holding companies that control India's large business houses are private limited companies Very often, newer entrepreneurial groups that emerge in capital market usually do so after their success with a number of private limited companies and family owned business
- 26 The average for the second half of 1980s is extended by a year to include 1990-91 as this marks an end of a certain policy regime. In this and subsequent graph, we avoid interpreting the trends since 1990-91, as the saving estimate is disputed
- 27 Interestingly, the period of rapid rise in the share of financial saving ratio is associated with rapid geographical expansion of banking services, though offered negative real interest rates
- 28 During 1989-90 and 1991-92, public sector tax-free bonds formed 40 per cent of capital market mobil.sation.
- 29 RBI's surveys of medium and large nonfinancial public limited companies, using uniform definitions and concepts since 1949, accounting for over four-fifths of private corporate sector's paid-up capital and sales forms the basis of this study

Using RBI company finance data, Datta Roy Chaudhury (1992), has arrived at 'population' estimates for the non-financial private corporate sector and relate them to national income aggregates. Thus we have consistent time series for about three decades since the mid-1950s

We also use RBI's flow of funds table for 'private corporate business'. This includes non-financial private corporate sector plus non-financial co-operative sector. Since the latter is very small, private corporate business can be proxied for the corporate sector.

- 30 These, we guess, are strictly comparable to Mayer's estimates as we use company balance sheet data, and on a 'net' basis.
- 31 Gross saving financed two-thirds of gross capital formation in private corporate business

- during the First Plan (1951-52 to 1955-56).

  The ratio came down to a little over one-third
- The ratio came down to a little over one-third in the Seventh Plan (1986-87 to 1987-88) [Ramachandra Rao 1989].
- 32 But, unlike then, when DFIs used to subscribe much of it as underwrites (as Goldsmith suggested), in 1980s public seems to hold bulk of the fresh equity.
- 33 Following Shanta's (1992) method, using Annual Survey of Industries, we estimate private corporate manufacturing value added by subtracting proprietary and partnership firms' share from that of 'wholly privately owned' firms.
- According to Goodhart (1992), "disintermediation is...said to occur when some intervention, usually by government agencies for purpose of controlling, or regulating, the growth of financial intermediaries, lessens their advantages in the provision of financial services, and drives financial transfers and business into other channels. In some cases the transfer of funds that otherwise would have gone through the books of financial intermediaries now pass directly from saver to borrower" (p 683)
- 35 We are very circumspect in interpreting this trend, since 1980s also witnessed an increase in competition in industrial goods markets in response to gradual loosening of investment licensing and import restrictions
- 36 This is a widely debated issue in recent literature developed country context. For a brief review of the literature and freshevidence for the US, see Samuel (1996b).
- 37 The Economist, (May 5, 1990) in a perceptively titled survey. 'Capitalism: In Triumph, In Flux', raised some of these issues, for a wider audience

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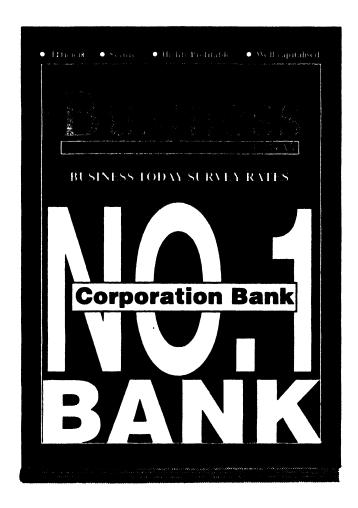
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#### Too Little, in the Wrong Places?

## Mega City Programme and Efficiency and Equity in Indian Urbanisation

#### Sanjoy Chakravorty

The first major urban policy initiative announced after the government of India began the economic liberalisation process was the Mega City programme, directed by the ministry of urban affairs and employment. It is an attempt to shore up infrastructure in five of the six largest metropolitan regions in India (Bombay, Calcutta, Madras, Hyderabad and Bangalore), using innovative financing mechanisms, and emphasising cost recovery. After detailing the political-economic background, the programme and its implementation, three critical questions are considered one, is the amount of money being invested too little, and has it come too late to turn the situation around? Two, while programme being targeted to the wrong cities? And, three, will the elite continue to remain beneficiaries, and the moban poor neglected? The answers to these questions raise doubts about the Mega City programme. Since the reforms will have to succeed in the cities (if they are to be durable), urban development policies must be considered with a very to sustaining efficient and, specially, equitable urbanisation patterns.

WHEN the government of India announced a rapid economic liberalisation programme in July 1991, it joined a growing group of countries that have jettisoned development paths followed for decades for market orientation (Bokil 1990; Dehejia 1993). In the hubbub over exactly which industries should be opened to foreign capital and which protected, and how the new relationship with foreign capital should proceed, little attention has been given to spatial or urban development policy. This is surprising since the liberalisation programme will succeed or fail in India's cities. That is, the contribution of programmes for urban development to making the urbanisation process efficient and equitable may significantly impact the future of structural reform. The Mega City programme, which was initially announced in 1993, and is into partial implementation, is so far the only major urban policy component of the structural reform process. In the following pages I discuss the programme and its implementation. I argue that in the context of India's recent urbanisation pattern this programme may be inefficient because the wrong urban size class is targeted, and because the funds are not large enough to make a significant difference for the selected Mega Cities. Also, I argue that the role of the state should continue to focus on mitigating the effects of market failure and excess for the most vulnerable sections of the population; this is specially true when significant change, with the potential of further skewing the income distribution, is being introduced. As it is being implemented, the Mega City programme fails to address this concern, and appears to continue the centralisation and unequal distribution of resources. In the long run structural reform has to be politically acceptable (as the elite alone cannot keep it viable); this and other future

urban development programmes should be designed and implemented with social justice and political sustainability in mind.

The larger question raised here relates to the spatial dimensions of the post-reform development process. Indian policy-making has long been accused of lacking, even wishing away, all spatial aspects of development [see Johnson 1970; Lewis 1995]. In reality, every development action has a locational attribute which may affect the long-term prospect of the development action; a large literature in economic/ industrial geography deals with this aspect of development. In urban areas the central question has often revolved around the contradictions between the economies of agglomeration and scale on the one hand, and size-related congestion diseconomies on the other [Wheaton and Shishido 1981; Krugman 1995]. It is argued that for sustained, yet indeterminate, periods of time after the beginning of industrial development, large cities offer increasing returns to capital investment from higher labour productivity, larger plant size, and cost savings from proximate location of factors of production (suppliers, skilled labour, etc.) Eventually, though, the costs of size related congestion rise, and are manifested in higher wages and taxes, so that more efficient locations may be found in smaller urban areas. There is no agreement on what the optimal city size limit may be - the literature suggests that the efficiencies related to agglomeration may peak at urban sizes between three and seven million [Shukla 1984; Carlino 1985; Montgomery 1988]. Yet large cities often grow rapidly well beyond this size range. With reference to India, critics have pointed to 'urban bias' in macro-economic policy [Lipton 1977], or implicit spatial policies on transportation, import substitution, etc. as the source of this later growth.

Like all other development actions, structural reform, too, is not space neutral Markusen (1995) has argued that after liberalisation large cities may be favoured by large-scale industries, and hi-tech or innovative industries which need skilled labour, information and business services Export-oriented industries, on the other hand, may be able to locate in non-metropolitan settings (often in coastal locations). As a result we may see the creation of more dominant 'metroregions' or 'agglomerative fields' as in Sao Paulo in Brazil [Storper 1991; Diniz 1994]. That is, the reform process may result in further polarisation of population and economic activity into the already leading urban areas. This may be the efficient solution for industry (certainly when smaller urban areas lack basic infrastructure), but often is sub-optimal from a social welfare aspect: the costs of large city employment provision are high [Richardson 1987], interregional and intra-regional inequality may increase [Chakravorty 1994], and the problems of visible concentrated poverty, and metropolitan management become more acute.

The formulation or evaluation of urban/ spatial policy must be undertaken within this context. One must ask whether the existing large cities are efficient enough to offer agglomeration advantages, or some selected smaller urban centres may be better locations for new industry; one must know whether the investments to be made will be large enough, or sufficient to significantly improve productive potential. Once the questions on efficiency are answered, the policy-makers must deal with equity and evaluate the distributional aspects of the specific new policy (particularly as it is being implemented, rather than from a normative perspective), and in the context of the overall change in the policy framework

#### MEGA CITY PROGRAMME

Understandably, no new urban policy was announced immediately after the start of liberalisation. Neither did policy-makers act substantially on the report of the National Commission on Urbanisation (1988), which was the first comprehensive national level urban policy statement. The report was an urgent call to recognise the importance of urbanisation in the development process, and the policies necessary to make urbanisation manageable, sustainable, and equitable. The detailed and comprehensive report stressed the economic and social importance of the four largest metropolises (Bombay, Calcutta, Delhi, and Madras) and suggested that these be declared national cities with Rs 5 billion invested in each during the Eighth and Ninth Five-Year Plans. This investment recommendation has since been rejected by the policy-makers in the Planning Commission and the ministry of urban development (since reorganised into the ministry of urban affairs and employment, or MUAE), which felt that large-scale urban grants were incompatible with the new economic policy. Instead, in 1992, the MUAE and the Planning Commission initiated discussions on a new urban infrastructure financing scheme, called the Mega City programme (MCP).

The MUAE felt that the primary goals of urban development in the new economic order should be cost recovery and replicability of projects. Each project should be evaluated on its own merits - in terms of technical feasibility, revenue generation capability, etc - and should be financed as one item in a basket of feasible projects. Arguing that cost recovery was not possible in certain sectors, the MUAE proposed that three types of projects be put forward for the MCP: (1) no cost recovery (waste management, drainage and sanitation, etc); (2) partial cost recovery through user charges and taxes (water supply, transportation, slum shelter, etc); and (3) full cost recovery and surplus generation (housing, new area development, commercial complexes, etc). The suggested proportion of investment in these three project types was in the ratio of 30:30:40. The financial stake of the central government would be 25 per cent of the total programme cost, the state government would provide another 25 per cent of the cost; and the remaining 50 per cent would have to be raised from financial institutions such as HUDCO.

A Mega City programme outline highlighting these basic features was agreed upon in May 1993. On the basis of this outline the selected Mega Cities submitted their project lists over the following year (see next section). In March 1995 the MUAE clarified its position further, and specifically

underlined the following features: (1) Funds would not be provided for power, telecommunication, rolling stock such as buses, education, health, and small projects that could be implemented with local funds; (2) Only projects of regional or city wide significance, ones that are not of limited impact, and cannot be undertaken within existing municipality/agency budgets, would be considered; (3) A nodal agency, identified for each metropolis, would co-ordinate all projects and maintain a separate bank account in a commercial bank for all financial transactions under the scheme; (4) A sanctioning committee, with members from the central ministry, the Planning Commission, the state, the nodal agency, and financial institutions (for projects with institutional involvement), would examine and approve projects submitted by the implementing agencies, and review/monitor the implementation process; (5) At the end of the Ninth Plan period, a minimum of 75 per cent of the total outlay should remain available as an infrastructure development fund on a continuing basis [MUAE 1995].

The MCP is being implemented in five Mega Cities – Bombay, Calcutta, Madras, Hyderabad, and Bangalore. Originally the idea was to make the programme applicable only to agglomerations with populations more than five million in the 1991 Census. Hyderabad and Bangalore, both with populations between 4 and 4.5 million, were added later by the Planning Commission (after considering factors like estimated population in 2000, and urban growth rate). Delhi was not considered because its financing comes from a different account, the National Capital Region programme.

Project lists and outlines were prepared in response to the ministry circular from mid-1993 onwards. The nodal agencies responsible for these responses are: Bombay Metropolitan Region Development Authority (BMRDA), Calcutta Metropolitan Development Authority (CMDA), Madras Metropolitan Development Authority (MMDA),

Hyderabad Urban Development Authority (HUDA), and Karnataka Urban Infrastructure Development Finance Corporation (KUIFDC) for Bangalore. These reports were prepared before the more specific circular of March 1995 (discussed above), and as a result do not fully conform to its guidelines. For example, some nodal agencies have included additions to bus fleets among their costs; this will not be allowed according to the latest thinking. Also, an important element of the Mega City programme, the involvement of financial institutions with project specific cost recovery details, was generally poorly developed in these five project lists; i.e. these reports are similar to project reports that were done earlier - the MUAE wants new approaches in response to the new economic realities. As a result, according to the MUAE, these reports are not necessarily final - certainly not until the sanctioning committee for each Mega City has approved the 'basket of projects' [Mohanty 1995]. Nevertheless, these reports are indicative of investment priorities, and reflect a policy orientation that probably will eventually be implemented.

Table 1 lists the sectoral spending allocations planned within the Mega City programme for the five selected cities. It is clear that the spending priorities for the five metropolises are significantly different. Also, the amount planned for varies considerably from metropolis to metropolis – from a low of Rs 700 million for a single year in Bangalore, or a five-year low of Rs 1,698 million in Madras, to a high of Rs 6,080 million in Calcutta.<sup>2</sup>

In Bombay the projects are divided into two types – one for which there will be some degree of cost recovery through taxes, duties, user charges, tolls, etc, and the rest, which may be considered pure public investments. The projects with a cost recovery element include urban renewal, street lighting, bus service, water supply from Morbe dam, a diagnostic centre, and bridge tolls. Excluding Navi Mumbai Municipal Corporation (which

TABLE 1. MEGA CITY PROGRAMME INVESTMENT PLANNING

| Sector                   | Bombay | Calcutta | Madras | Hyderabad | Bangalore |
|--------------------------|--------|----------|--------|-----------|-----------|
| Transportation           | 37.8   | 17.7     | 19.0   | 20.6      | 71.4      |
| Commercial development   | 16.4   | 16.3     | 42.0   | 10.7      | -         |
| Area development/housing | 10 1   | 28.1     | 3.2    | 2.3       | _         |
| Sanitation               | 66     | 13.3     | 35.6   | 37.1      | 14.3      |
| Water supply             | 26.2   | 19.9     | _      | 24.2      | 14.3      |
| Slum improvement         | 0.5    | 1.8      | _      | 1.0       | 7.0       |
| Other                    | 5.4    | 2.9      | 5.4    | 4.1       | _         |
| Total (per cent)         | 100 0  | 100.0    | 100.0  | 100.0     | 100.0     |
| Amount                   | 4034   | 6080     | 1698   | 3985      | 700       |

Note: Figures shown are for percentage of total investment in each sector. The 'amount' is in million rupees. The data for Bombay, Calcutta, Madras, and Hyderabad are planned Mega City programme investments in the Eighth Plan (1992-97), The Bangalore data are for the financial year 1993-94 only.

Sources: BMRDA (1994); CMDA (1994); Kirloskar Consultants (1994), Government of Andhra Pradesh (1994); Government of Karnataka (1993). accounts for Rs 192 million of the budgeted total of Rs 4,034 million), 52.5 per cent of the total investment is to be spent on 'cost recovery' projects. Much of the cost recovery is to come from commercial development and transportation projects (though, interestingly, area development and housing do not figure prominently in the cost recovery list). Slum improvement is allocated less than 1 per cent [BMRDA 1994].

The CMDA in Calcutta has focused on area development/housing and commercial development as the cost recovery sectors. During the Eighth Plan the CMDA hopes to recover Rs 2,040 million in the area development/housing sector (from an investment of Rs 1,700 million), and Rs 1,095 million from commercial development (after investing Rs 990 million). The CMDA is clearly not expecting to apply user charges or tolls, since the combined cost recovery from these sectors is foreseen to be Rs 40 million (the investment being Rs 2,290 million). As in Bombay, the slum improvement sector is virtually ignored (with a mere 1.8 per cent of the budget) [See CMDA 1994].3

The Mega City plan in Madras was prepared by a private sector consulting firm rather than by the MMDA. The plan makes a distinction between 'remunerative' and 'service' projects, with 70.4 per cent of the total investment belonging in the former category. Remuneration is expected from bus/truck terminus/parking facilities, shopping-cum-office complexes, a large sewage renovation plant in Kodungaiyur, and some new town development. No money has been budgeted for improvements to water supply or slum areas [Kirloskar Consultants 1995].

The Hyderabad Mega City plan, appears to be heavily slanted towards the sanitation and water supply sectors (with over 61 per cent of the budget). Each HUDA project is classified as remunerative, cost recovery, or service most closely following the ministry guidelines – covering respectively 46 per cent, 25.9 per cent, and 28.1 per cent of the budget. Remuneration is expected from office, commercial, and shopping complexes, and water storage and supply; cost recovery is planned from sewerage improvements, hostels, and auditoria. Slum improvement is allocated 1 per cent of the budget [Government of Andhra Pradesh 1994].

The KUIDFC's response on behalf of Bangalore was unusual. Instead of proposing a five or 10 year investment plan (as the other Mega Cities had done), it offered a single year project list (for 1993-94). This list was worth Rs 700 million, much of it concerned with transportation (including synchronising traffic signals, improving street lighting and existing roads, creating an outer ring road, and purchasing 400 new

buses). About 7 per cent of the budget was to be spent on slum improvement through house construction and provision of basic amenities. The Bangalore report did not outline any cost recovery mechanism [Government of Karnataka 1993].

#### POLICY AND POPULATION BACKGROUND

The Mega City programme raises a number of issues, particularly since it is "being projected as the first post-liberalisation experiment by the ministry... "[Raina 1995]. Partly the issues raised relate to the question of efficiency - are the amounts being considered large enough to make significant changes, and whether these amounts would be better spent in smaller cities with more growth potential. Also, there are issues related to the liberalisation process itself - the argument may be made that the way in which the programme is designed and is being implemented, by ignoring equity considerations, may be counter-productive to the longterm success of market reform; in order to be durable, the reforms must receive support from populations other than the urban elite [Kohli 1989]. A summary of some relevant background information will help place a discussion of these issues in context.

First, consider the MCP in the context of other urban development programmes of the government of India, and the relative importance given to urban development in the national planning context. Table 2 charts the proportion of investment in urban development (often clubbed with housing) and for other major expenditure heads from 1961 through the Eighth Plan. The combined investment in housing and urban development, was less than 2 per cent until 1974, and has always remained below 3 per cent of total outlay. The urban development component has varied between 1.1 and 1.3 per cent from the Seventh Plan onwards. The

Eighth Plan came into effect after liberalisation, and reflects the changes in priority brought about by the New Economic Policy; investments in the financial years 1990-91 and 1991-92 were not part of any overall Five-Year Plan partly because of the impending shift to the new policy regime The difference between the Seventh and the Eighth Plans, should, as a result, reflect the new investment and policy priorities.

In general, though, using broad heads of development, there are few changes. The most significant change has taken place in the industry and minerals sector, whose share has declined by about 20 per cent; this follows declines of 32 and 13.5 per cent during the previous two Plan periods (the Fifth and Sixth Plans) - it can hardly be argued that a declining government interest in the ownership of heavy industry is a result of liberalisation. The share of the energy sector has increased by about 6 per cent, while that of transport and communication has increased by about 7.5 per cent. The last figure is somewhat misleading because the communications sector alone has seen an increase of about 50 per cent over the actual Seventh Plan expenditure. The social services sector of which urban development is one element, is now budgeted a 14 per cent increase over Seventh Plan actual spending (the bulk of the increase is in education). Clearly there has not been a fundamental shift in the policy-makers' attitudes towards urban development - it is receiving no special attention despite the clear argument that liberalisation will 'succeed' or 'fail' in India's urban areas (see conluding section).

The urban development sector money is mostly spent among the following programmes (1) Integrated development of small and medium towns (up to 5,00,000 population size); (2) Programme for the liberation of scavengers by conversion of

TABLE 2. INVESTMENT BY SECTOR (1961-97)

| •                      | Per Cent of Investment in    |                                         |       |                       |                                         |                                                    |  |  |
|------------------------|------------------------------|-----------------------------------------|-------|-----------------------|-----------------------------------------|----------------------------------------------------|--|--|
| Period                 | Total<br>Outlay <sup>i</sup> | Agriculture/<br>Irrigation <sup>2</sup> | Power | Industry/<br>Minerals | Transport<br>and<br>Communi-<br>cation' | Housing/<br>Urban<br>Develop-<br>ment <sup>4</sup> |  |  |
| Third Plan (1961-66)   | 85.8                         | 20 6                                    | 14 6  | 20 1                  | 24.6                                    | 1 5                                                |  |  |
| Annual Plans (1966-69) | 66.3                         | 23 8                                    | 183   | 22 8                  | 18.5                                    | 1.1                                                |  |  |
| Fourth Plan (1969 74)  | 157.8                        | 23 3                                    | 186   | 18 2                  | 19.5                                    | 17                                                 |  |  |
| Fifth Plan (1974-79)   | 394.3                        | 22 1                                    | 188   | 22.8                  | 17 4                                    | 29                                                 |  |  |
| Sixth Plan (1980-85)   | 11047                        | 22.5                                    | 167   | 15.5                  | 16.2                                    | 2.6                                                |  |  |
| Seventh Plan (1985-90) | 2214 4                       | 20 4                                    | 17.3  | 13 4                  | 17 4                                    | 2 3                                                |  |  |
| Annual Plan (1990-91)  | 583.7                        | 19.7                                    | 19.5  | 109                   | 18.9                                    | 2.9                                                |  |  |
| Annual Plan (1991-92)  | 647.5                        | 19.7                                    | 22.4  | 101                   | 20 0                                    | 2 1                                                |  |  |
| Eighth Plan (1992-97)  | 4341.0                       | 20.6                                    | 18.3  | 108                   | 187                                     | 2.4                                                |  |  |

Notes: 1 In Rs billion.

2 Includes agriculture and allied activities, rural development, irrigation and flood control

Includes rail and road transport, post and telegraph, and telecommunication

Source. Government of India (1995).

<sup>4</sup> The 'urban development' component was 1.1 per cent, 1.3 per cent, 1.2 per cent, and 1.2 per cent respectively for the Seventh Plan, the 1990-91 Annual Plan, the 1991-92 Annual Plan, and the Eighth Plan.



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service privies into sanitary latrines; (3) Nehru Rojgar Yojana with programmes for urban micro enterprises, urban wage employment, housing and shelter upgradation, and training in trades with employment potential; (4) Urban basic services for the poor, aimed at ameliorating the living conditions of the most vulnerable urban poor; (5) Slum improvement scheme in non-metropolitan urban areas under the Minimum Needs Programme [see Dutt 1991 for a review]; and (6) Prime minister's integrated urban poverty alleviation programme (still being finalised) applicable to urban areas between 50,000 and 1,00,000 population size:

Second, consider the pattern of urban growth between 1971 and 1991. Table 3 lists the populations of the 23 metropolises with over one million population in 1991. The 1981-91 growth figures are illuminating.4 Among the poorest growth performers in the preceding decade are two of the five Mega Cities - Calcutta is ranked 20th, and Madras ranked 18th among the listed 23 cities. In listing the 10 fastest growing metropolises, we find only the Mega Cities Hyderabad (ranked third) and Bombay (ranked eighth). Bangalore, which has been much publicised as India's 'silicon valley', and 'air-conditioned city', and according to general opinion has been the country's exploding metropolis, ranks 12th. The 1971-81 growth figures are similar, Bangalore (third) and Delhi (eighth) are the only Mega Cities featured in the top ten.

Additionally, there appears to be a spatial/ regional dimension to the growth pattern. The southern state of Tamil Nadu has three of the four consistently slowest growing cities (Madras, Madurai, and Coimbatore). This may partly be a result of proximity to some of the faster growing urban regions such as Hyderabad, Visakhapatnam and Bangalore. There are only two eastern cities in the list - Calcutta has generally grown very slowly, and Patna, which was the fastest growing city in the 1971-81 period, became the slowest growing city in 1981-91. The northern cities show mixed results -- Kanpur has grown at a slow pace, whereas Delhi, Jaipur, and Lucknow have grown at widely fluctuating rates in the 1970s and 1980s. The western and central zone cities (especially Surat and Bhopal) have generally grown at a brisk pace.

#### THE QUESTIONS

Too little, too late?. In the Eighth Plan (1992-97) the amount budgeted for urban development, the source of the MCP funds, is Rs 52.77 billion. This money is to be divided among the programmes listed above, the National Capital Region Programme, and the MCP. In 1993-94 and 1994-95 the GOI released Rs 850 million and 840 million,

respectively, for the programme. Assuming that this will be the level of investment over five years, the total GOI stake in the MCP is likely to be in the neighborhood of Rs 4.25 billion (or just over 8 per cent of the urban development budget), though the official total Eighth Plan allotment for the MCP is apparently closer to Rs 7 billion (Raina 1995). Since this amount is envisaged to be a quarter of the total MCP investments, it is possible that between Rs 17 billion and Rs 28 billion would be invested in Mega City infrastructure through this programme by the end of the Eighth Plan. (The figures are likely to be significantly smaller now that three years have passed, and institutional borrowing has not been utilised.)

The significance of these figures may be better understood by comparing them to an estimate of infrastructure needs in one Mega City. In 1990 the CMDA calculated that during the 25-year period 1990-2015 the total infrastructure need for the Calcutta urbanised area was in the order of Rs 45 billion (in constant 1990 tupees). This figure includes a lower percentage of investment in the 'cost recovery' sectors = 9.5 per cent in housing and 11.5 per cent in commercial facilities (as opposed to the 28 and 16 per cent budgeted under the Mega City programme; see Table 1). Using conservative assumptions, the infrastructure need in Calcutta during the Eighth Plan is about Rs 10 billion; Rs 6 billion was budgeted in the MCP, of which perhaps Rs 3-4 billion will actually be spent. That is, there will be a shortfall of Rs 6-7 billion, in addition to the infrastructure deficiencies that have accumulated over the years

This situation would not have been remarkable had other sources of financing been available for all five Mega Cities After all, the GOI was under no obligation to create the MCP. The Mega Cities could have continued past practices - obtaining state funds (through octror and sales tax receipts, for instance), selling bonds, etc. These funds, however, are the source of the respective state's 25 per cent commitment component of the MCP. In most cases (Calcutta is an example) there is virtually no other money except some World Bank loans/grants.5 Clearly, the amounts being invested are too little to cope with the staggering needs of these Mega Cities, and have probably come too late to turn the situation around.

In the wrong places?. The wisdom of attempting to shore up crumbling infrastructure and fill the gaps in the Mega Cities alone is even more questionable in the context of the growth performance data in Table 3 Calcutta city and metro, Madras city and metro, and even Bombay old city now experience net out-migration to some degree, Calcutta and Madras cities have been facing massive net out-migration for over two decades now. These urban areas are probably all well beyond the point of net agglomeration benefits. The recent slowdown in the growth of Bangalore (which was taster than the national average in the 1980s, but much slower than its own pace in the 1970s) indicates that it, too, may be reaching the point where negative externalities and congestion diseconomies outweigh the agglomeration benefits. Hyderabad grew speciacularly during the 1980s, it is sure to slow down in the 1990s.

TABLE 3. METROPOLITAN POPULATION, AND GROWTH, 1971-1991.

| 1991 Rank<br>Metropolis |               | 1991<br>Population | 1971-81<br>Growth | 1971-81<br>Growth | 1981-91<br>Growth | 1981-91<br>Growth |
|-------------------------|---------------|--------------------|-------------------|-------------------|-------------------|-------------------|
|                         |               | (2000s)            | (Per Cent)        | (Rank)            | (Per Cent)        | (Rank)            |
| 1                       | Bombay        | 12570              | 38.1              | 15                | 52.5              | 8                 |
| 2                       | Calcutta      | 11021              | 30.6              | 18                | 20 0              | 20                |
| 3                       | Delhi         | 8419               | 57 1              | 8                 | 46 9              | 11                |
| 4                       | Madras        | 5422               | 35.2              | 16                | 26 4              | 18                |
| 5                       | Hyderabad     | 4344               | 41.8              | 1 3               | 70.6              | 3                 |
| 6                       | Bangalore     | 4130               | <b>7</b> 6 7      | ţ                 | 41 3              | 12                |
| 7                       | Ahmedabad     | 3312               | 46 3              | 12                | 30 0              | 16                |
| 8                       | Pune          | 2494               | 48 6              | 10                | 47.0              | 10                |
| 9                       | Kanpur        | 2030               | 28.6              | 19                | 219               | 14.               |
| 10                      | Lucknow       | 1669               | 218               | 22                | 65.6              | 5                 |
| 11                      | Nagpur        | 1664               | 40.0              | 1-4               | 27 8              | 17                |
| 12                      | Surat         | 1519               | <b>85</b> ↓       | 2                 | 66.2              | 4                 |
| 13                      | Jaipui        | 1518               | 68-7              | 5                 | 41 2              | 13                |
| 14                      | Cochin        | 1141               | n a               | n a               | 65.4              | 6                 |
| 15                      | Vadodara      | 1127               | 59 5              | 7                 | 51.3              | 4                 |
| 16                      | Indore        | 1109               | 47 K              | 11                | 33.8              | 14                |
| 17                      | Coimbatore    | 1101               | 25.0              | 21                | 197               | 21                |
| 18                      | Patna         | 1100               | 87.2              | 1                 | 197               | 21                |
| 19                      | Madurai       | 1086               | 27.4              | 20                | 197               | 21                |
| 20                      | Bhopal        | 1063               | 74 3              | 4                 | 58.4              | 7                 |
| 21                      | Visakhapatnam | 1057               | 66.4              | ()                | 75 ()             | 1                 |
| 22                      | Ludhiana      | 1043               | 51 ()             | 9                 | 71 (1             | 2                 |
| 23                      | Varanasi      | 1031               | 31.0              | 17                | ₹() 5             | 15                |

Sources Government of India (1993), Bose (1994)

These facts should be considered in the context of two others: one, the pace of urbanisation in India slowed in the 1980s (the urban population grew by 46.2 per cent in the 1970s, and by 36.5 per cent in the 1980s) [Bose 1994], and two, some non Mega Cities have generally outperformed even the faster growing Mega Cities. An argument can be made that the slow-down in Indian urbanisation is a result of saturation (and despite that, continued centralisation) in the Mega Cities." The MCP is a belated attempt to improve the carrying capacity of the largest metropolitan areas, where it is obvious that the second tier of cities is more likely to absorb larger shares of the urban population increment. The inefficiency and short-sightedness of the urban development policy orientation is further underlined when one considers the situation that cities with populations between a half million and four million receive few incentives from New Delhi. Most of the urban programmes discussed earlier do not apply to this size class; international financing also is generally unavailable for infrastructure improvements. The MCP funds, which are too small to effectively make a difference in the Mega Cities, could, on the other hand, substantially impact a selected set of the second tier cities.

For the wrong people?: Investment in slum improvement is conspicuously absent or relegated to an afterthought in the individual MCP spending plans. In Bombay, Calcutta, and Madras, 35 per cent of the metropolitan population lives in slums. In Bangalore and Hyderabad the corresponding figures are about 20 and 30 per cent respectively [all data are estimates for 1990; see Gupta 1993]. An infrastructure improvement plan that effectively ignores such large proportions of the population can charitably be described as blind. It is possible that the relevant authorities in these Mega Cities expect that international agencies, known for their tendency to financially support slum improvement programmes, will step in; and, direct poverty alleviation programmes like the existing Nehru Rojgar Yojana (NRY) programme, will suffice. (The other programmes listed earlier, with the exception of the programme for the liberation of scavengers, do not apply to the Mega City size class.) In the state of West Bengal, all urban areas (including Calcutta) received a total of about Rs 136 million for all urban development programmes (including NRY) in 1993-94; between 1990 and 1994 the NRY programme contributed Rs 230 million (of which the subsidy or grant component varies between 25 and 40 per cent) in urban West Bengal [Government of West Bengal 1995]. It is difficult to argue that this spending pattern is equitable.

Apart from the problem of inequitable spending or investment patterns, the larger

question relates to the income distribution impacts of a rapid liberalisation programme. On the one hand there is the argument that there is "no strong evidence to suggest that external liberalisation increases income inequalities in developing countries" [Harris 1995:175]. On the other hand an "obvious fear (and expectation) is that the poor and poorly represented, together with large sections of the organised working class, will be made to bear the cost of an imperfect and expensive package of reforms" [Corbridge 1991:473]. If Latin America and China's experience with structural reform is any guide, there can be little doubt that the sudden opening up of an economy will lead to increased income inequality [Khan 1993]. There is a rich literature on the subject of uneven development, the economic prospects of 'backward' regions in a market economy, and the impact of technological change on the distribution of income. [The work of Myrdal, Kuznets, Hirschman, Kaldor, Amin, Friedmann, Stohr and others is summarised and updated in Williamson 1991, and Chakravorty 1994]. This literature suggests that when development begins, or there is a significant change in the economic structure, certain cities, regions and people are in better position to take advantage of the new conditions; in the short run, at least, national and regional inequality is likely to increase [see Cohen 1990; Gilbert 1993].

Less is known about the intra-urban distribution of income in developing countries [except for Mohan's work on Colombia; see Mohan 1994]. In developed nations there is considerable evidence that inequality levels are higher in large cities due to unequal ownership of land and other productive assets, unequal skill distribution, differential migration, industry with entry barriers, etc [see Nord 1984; Chakravorty 1996]. These conditions are likely to be accentuated with rapid structural reform. Therefore, an argument may be made that the intra-urban distribution of income will become, and perhaps has become, more unequal as a result of economic liberalisation. This will happen at the same time that the national distribution of income becomes less progressive, and regional inequalities are exacerbated; the potential negative consequences of liberalisation for income distribution in general, and backward regions in India has been recognised by even the most ardent supporters of the process [World Bank 1989].

The MCP is a drop in the bucket of the Indian budge. It is, however, the only national urban programme of consequence for the largest size class, and one that is clearly designed as a prototype. One of the likely repercussions of the programme will be increased investment in the already relatively well endowed parts of the nation, the chosen Mega Cities, and their higher

income population groups. While this may, in some cases, increase their productive potential, the distributive impacts are clearly regressive. Perhaps the most important lesson of urban planning and development in the west is that it must promote social justice [Healy 1992]. Right now the general population appears to be sceptical of and resistant to liberalisation, while the business and professional elite are in support. In order for liberalisation to be successful, however, support must come from the economically weaker sections of society. Clearly many politicians realise the distributive significance of liberalisation - in recent assembly elections (in Andhra Pradesh, for instance) a major plank has been the promise of rice at Rs 2 per kg. In increasingly chauvinistic and parochial times, risking fairness for infrastructure may be a dangerous gamble.

#### SUMMARY EVALUATION

The MCP, small as it is in comparison to the size of the Indian budget and economy, is an important first step in Indian urban policy. In the federal structure of the Indian Constitution, urban development is a state subject. The maximum money previously invested by New Delhi on a city was Rs 1 billion in Bombay for the Indian National Congress centenary celebration. This new policy direction is expected to achieve a number of goals: force fiscal discipline and accountability by tying money to specific projects, and not letting the money disappear into labyrinthine municipal or development authority budgets; create a rolling fund which will be available for infrastructure improvements continually; collect user charges at rates close to the marginal cost of service provision.

By using a one-size-fits-all approach, however, the impact of the programme is likely to be diluted. Instead of using population size alone as the criterion for selecting cities for the programme, variations in the rate and spatial pattern of urbanisation should be considered. First, the regional aspects of urban growth, particularly in the south and east zones, should be considered. For instance, Madras, Bangalore, and Hyderabad cannot and should not be dealt with in the same manner - the historical and locational particularities should be taken into account. Second, if efficiency is the goal - that is, the purpose is to help create the bases of capital accumulation - a more appropriate strategy may be to foster the development of emerging metropolises like Pune, Surat, Lucknow, Vadodara, Cochin, Bhopal, and Vishakhapatnam.7 Not only would some equity purpose be served (by decentralising to relatively lagging regions), but the cost of future urbanisation and resultant infrastructure provision is also likely to be significantly lower.

Finally, cost recovery should be more carefully implemented. Cost recovery as a goal is unquestionably important and necessary, but the manner of proposed implementation is worrying indeed. First, in all the Mega Cities, the primary form of cost recovery appears to be through the delivery of area development and housing projects, and commercial development complexes. User charges and tolls are mentioned in some cases, but clearly these do not constitute either a majority or a significant fraction of the costs to be recovered. That is, faced with a new economic reality, the urban planning and development system in the Indian Mega Cities is responding by avoiding difficult choices. Instead of instituting realistic user charges for basic services (water supply, garbage removal, etc), and providing cross subsidies for the economically weaker population, the development authorities are preparing to intensify their participation in an economic sphere best left to the private market. The provision of high and medium income housing, and commercial centres is done most profitably and efficiently by private developers; public agencies are simply continuing to use their leverage in land acquisition (often the most difficult part of urban real estate development) to become major players in the land market. Perhaps the MUAE will disallow such practices; their list of typical projects, however, does specifically mention housing and commercial and area development.

The issue of cost recovery from basic infrastructure goes to the heart of the question of equity; subsidies always benefit those who are able to use the subsidised items. Water costs are subsidised by 60 to 80 per cent in the Mega Cities, at the same time that upper income groups use four to five times more water than slum dwellers on a per capita basis [Kundu 1994]. Middle and upper income groups pay about Rs 6 to 12 per person per month for potable water delivered to individual residences; a bottle of cola, one of first products to come in with liberalisation, costs about Rs 7. Surely it is not technically and politically infeasible to extract the marginal cost of water supply from these income groups, and continue the subsidies for the slum population (who do not, in general, have residential delivery systems). As the Mega City implementation plans stand now, cost recovery from the provision of services is really not a goal, if it was, the question of equity would not have been as important.

#### **PROSPECTS**

The impact of globalisation of trade and production and economic liberalisation in many developing economies is initially likely to be felt most directly in the giant cities of the lagging nations. These metropolises, and

not the smaller cities, have the necessary skilled labour and minimum infrastructure needed to attract footloose capital [Behrman and Rondinelli 1992], and more than ever before these metropolises have to be in open competition with each other (see Cook and Hulme 1988]. In India this situation appears to be recognised tacitly rather than openly. In the four post-liberalisation years, several state governments (including Haryana, Kerala, Orissa, Punjab, Rajasthan, Bihar, West Bengal, and Maharashtra) have instituted industrial policy reforms that are clearly geared to investments in the urban sector. Many states have lowered environmental hurdles, promised project clearance in hours if not days, and have sent their chief ministers abroad to solicit investments. The Mega City Programme appears to have been designed in a political-economic vacuum where these larger forces are absent. The questions that need addressing go beyond tinkering at the margins with urban infrastructure - these questions should relate to urban system structure and intraurban reconfiguration, the desirability and management of Mega City hypergrowth, the costs of Mega City urbanisation, the population carrying capacity of medium sized agglomerations, the interpersonal and spatial distribution of benefits, and poverty alleviation.

Finally, how will the success or failure of the MCP be evaluated? Surely it will not be measured by how it affects the rate of migration to the Mega Cities. Rather, if a revolving fund can be generated that may be used for the long-term sustenance of these cities, the policy-makers can justifiably claim some success. If, in the process, some cost recovery mechanisms (in the delivery of basic services) are instituted, there will be further reason for cheer. I do not believe, however, that the national rate of urbanisation will be considered a factor in the measurement of success, nor will equity issues in general. For a true social cost benefit analysis, the programme should be evaluated using these criteria. It is not enough to simply be marketoriented; it is just as important to be aware of market failures - which, in the Indian case, may involve both inefficient urbanisation and inequitable distribution patterns.

#### Notes

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1 As of October 1995 the sanctioning committee had met for the first time in Bangalore, Bombay, and Madras, and some projects had been

- cleared The committees for Calcutta and Hyderabad had not me' yet
- 2 Note that the data shown in Table 1 are for the Eighth Plan period (1992-97), with the exception of Bangalore's single year plan. However, all the metros (but Bangalore) actually submitted spending plans running through the Ninth Plan (i.e., 2002), but I have elected not to show that data here, when the spending details spread over two plan periods are considered, the percentages allocated to the different sectors change, but not by large margins
- 3 This is particularly surprising in CPI(M) ruled Calcutta, more so because the most significant success of the CMDA has been in slum improvement (see Pugh 1989).
- 4 The growth figures in the following paragraphs should be considered in the context of India's overall population growth rate (23.9 per cent) and urban growth rate (36.5 per cent) in the decade 1981-91
- 5 In all five Mega Cities there currently are World Bank financed urban development projects – usually funds targeted to specific projects, particularly in the transportation and slum improvement sectors. In Calcutta the Bank aided CUDP-III ended officially in 1992, and has not been renewed, spillover projects are still being implemented.
- Within the Mega Cities themselves, the spatial pattern of investment is heavily skewed towards the older, most densely populated, overbuilt, slow growth central cities. In Calcutta it has been estimated that over 60 per cent of the MCP funds are targeted to the core city and its immediate surroundings. In Madras, the city corporation will get over 36 per cent of the funds directly (in addition to much of the investment by MMDA and Metro Water), while all other municipalities get less than 2 per cent combined In Bombay, where the old city actually lost population in the 1980s and Greater Bombay (smaller than Bombay inctropolis) grew by only 20 per cent, the spending plan is more balanced from a spatial perspective
- 7 The recent plague scare in Surat was a direct result of infrastructure and public health deficiencies in the face of massive population growth. These cities are growing rapidly without commensurate public investments, and could easily turn into 'dying cities' like Calcutta and Madras in two decades. It is unfortunate that even today the case for urban planning has to be made by raising the issue of public health, it is even more unfortunate that not a single programme to deal with the Surats has emerged, despite a narrowly averted disaster

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